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Business Executive's Handbook

Business Executive's Handbook

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FOURTH EDITION

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Preface

The *Business Executive's Handbook* is designed to provide, within the covers of one handy volume, direct and practical answers to the business man's questions and problems.

The information contained in the Handbook is specific and to the point. Forms, tables, short cuts, listings of facts, ideas, outlines of procedures—these will save the business man time, trouble, and expense. Whether the problem to be dealt with relates to *Selling, Advertising, Credit, Insurance, Direct Mail*—to mention only a few of the subjects included—the Handbook supplies reliable information in concise form.

This fourth edition is a complete revision, printed from entirely new type, just like a brand-new book. The sections have been rearranged into more compact units and presented in related groupings. Most of the sections have been expanded to bring in new ideas, procedures, and practices, and all of the tabular matter and statistics have been brought up to date. New subjects of interest to the business man have been added. Thus, two completely new sections, one on *Employee Benefit Plans* and one on *Raising Capital to Finance Current Needs*, have been included. Two new subsections—*What Every Business Man Should Know About Accounting* and *How to Use Accounting Results for Executive Control*—have been added to accounting material previously covered.

We are grateful to the scores of people who reviewed the parts of the book that describe the practices of their companies, and repeat our acknowledgment to the hundreds of business men throughout the country who contributed generously of their time and experience in the preparation of the original edition and previous revisions.

STANLEY M. BROWN
LILLIAN DORIS

Contents

(A detailed table of contents will be found at the beginning of each section.)

SECTION 1

Successful Selling by Direct Mail	I
---	---

SECTION 2

Profitable Advertising	129
----------------------------------	-----

SECTION 3

Sales Management	273
----------------------------	-----

SECTION 4

Office Management	377
-----------------------------	-----

SECTION 5

How to Write Effective Business Letters	517
---	-----

SECTION 6

Business Protection Through Insurance	671
---	-----

SECTION 7

Employee Benefit Plans	751
----------------------------------	-----

SECTION 8

Accounting for the Business Executive	827
---	-----

SECTION 9

Raising Capital to Finance Current Needs . . .	939
--	-----

SECTION 10

Credit and Collections	977
----------------------------------	-----

SECTION 11

Business Organizations—Individual Proprietorships, Partnerships, and Corporations . . .	1115
---	------

SECTION 12

Business Mathematics and Short Cuts	1267
---	------

SECTION I

Successful Selling By Direct Mail

I. HOW TO SELL BY DIRECT MAIL		Testimonials	21
What products can be sold by mail	5	Permission to publish a testimonial	22
Plans for direct-mail selling	6	Effective use of testimonials	22
Steps in planning direct-mail selling	6	2. TESTING DIRECT-MAIL ADVERTISING	
Know and use facts	7	Importance of direct-mail advertising	23
Select the lists	7	What shall be tested	23
Plan the advertising budget for direct mail	7	List of common tests of direct-mail advertising	23
Time the direct-mail advertising	8	Results of tests	25
Select the basic theme for the promotional activity	8	How large a test shall be made	25
Decide upon the form of advertising	9	Testing the variables	25
The sales letter	10	Mechanics of the test	27
Multigraphing	10	Recording results of direct-mail tests	27
Multilith—offset printing	10	3. COPY WRITING FOR DIRECT-MAIL SELLING	
Super-process—flat-bed process	10	Definition of copy	30
Printing	11	The headline sets the tone of the copy	30
Automatic typewriter	11	Fundamental principles of direct-mail copy writing	30
Personalizing the direct-mail sales letter	11	Distinguishing features of mail-order advertising	31
Four-page letters	11	Readability test	31
Postal cards and mailing cards	12	Final check of copy	31
Leaflets	12	4. COST OF DIRECT-MAIL SELLING	
Folders	13	High cost of direct-mail selling	32
Broadsides	13	Finding costs	32
Booklets	14	Items that affect cost	32
Self-mailers	14	Cost per order	33
Brochures	15	How to arrive at a quota	34
Catalogues	15	How cooperation with the printer can cut costs	34
House organs	15	How multigraph slugs cut envelope cost	35
Novelties	16		
Premiums	16		
Reply forms	17		
The envelope	18		
Letterheads	19		
Preparing the advertising piece	19		
Self-question chart on direct advertising	20		

How repeat sales affect direct-mail costs	35	Names supplied by list brokers	50
		Directories	51
5. SUCCESSFUL DIRECT-MAIL IDEAS		Membership lists from organizations	52
An entire campaign features "Promotional Preview" . . .	36	Using public records for mailing lists	52
A novelty campaign increases sales	36	Lists built through space or radio advertising	52
Campaign stressing engineering evidence boosts sales of staple item 65 per cent . . .	37	Names supplied by satisfied customers and prospects	53
One-week blotter campaign builds restaurant trade . . .	38	Building a list through salesmen	53
Good copy boosts business to dealers 35 per cent	39	Lists built through clippings	54
How Limericks helped dealers sell underwear	39	Special list-building plans	54
Humorous educational booklet promotes sales of quality merchandise	40	Checking names before adding to list	55
Change to humorous direct-mail pays	41	How to keep mailing lists	55
Montage of newspaper headlines drives home sales message . . .	41	Increasing the effectiveness of the mailing list	55
Informal memo calls attention to mailing enclosure	42	The checkup mailing	56
Empty gift boxes stimulate Christmas coat sales	42	Keeping a personal mailing list up to date	57
Tested direct-mail ideas for Christmas	43	Other ways of cleaning out a list	57
Simple mailing pieces increase telephone sales 40 per cent . . .	44	Master control system keeps mailing lists in order	58
Pre-test offer of new product brings results	45		
Envelope teasers catch attention and arouse curiosity	46	7. HOW TO WRITE SALES LETTERS	
Reply cards attract prospect's attention	47	The uninvited guest	58
Map give-aways promote public relations and attract prospects	48	Know your reader; know your product	60
		The ingredients of the successful sales letter	60
6. HOW TO GET AND BUILD MAILING LISTS		Getting the reader's interest in the opening	61
Where to get the list of prospects	49	Tell a story to get interest	63
Names of the firm's own customers as a mailing list source . .	49	Example of story beginning	63
Names rented from other firms	50	Using news as an attention-getter	64
Names exchanged with other firms	50	Stunt letters to get attention	65
		Example of stunt letter that meets the tests	65
		A stunt opening that worked	66
		Story opening combined with stunt	66
		Gadgets and stunts	67
		Tests to apply to an opening	68
		Create desire for the product	69
		A letter that disguises the appeal to reason	69
		What emotions can you appeal to?	70
		Determining which emotion to appeal to	70

"Make-and-save-money" appeal—specimen letter . . .	71	A sales letter to dealers that stresses the profit possibilities . . .	91
Durability is a strong appeal . . .	72	What to remember in writing to executives	92
Letter appealing to love, self-preservation, maternal instinct, and thrift	73	Successful letters to executives . .	92
Letter appealing to desire for knowledge and self-esteem . .	73	Hints on writing to men consumers	95
A letter appealing to beauty, exclusiveness, pleasure, and pride	74	A good letter to men consumers . .	95
Seasonal appeal—specimen letter . .	75	What to stress in letters to women . .	96
Exclusiveness appeal helps sell quality product	76	Example of sales letter to women . .	97
Appeal to reader's vanity useful in subscription letter	77	How to write to business women . .	97
Convince the reader that your product meets his needs or desires	78	A good letter to business women . .	98
Example of letter carrying conviction	79	Making a letter to professional people effective	98
The letter is the proof	80	A letter using the professional appeal	99
Trial offer brings in accounts . .	80	How to write a sales letter to farmers	99
Swatches attached to letter	82	Example of letter to farmers	100
Suggestions for expressing a guaranty	82	Where to mention price in a sales letter	100
How to offer trial use or free examination	83	Hints for proper handling of price . .	100
How to make the reader ask for a sample	84		
Examples of paragraphs asking the reader to make a test	84	8. SALES LETTER CAMPAIGNS	
An example of effective use of a test to convince	85	Follow-up letters break down sales resistance	102
Examples of facts and figures to convince the reader	85	How to determine length of campaign series	102
How to write the testimonial paragraphs	86	Test mailing list with wear-out series	103
Getting the reader to "act now" . .	87	Use continuous follow-up series to keep product or service before public	103
Make it easy for the reader to "act now"	88	Example of intensive campaign follow-up	104
Example of "limited-time" offer to get immediate action	88		
Immediate action urged because low price is experimental	89	9. DEVICES THAT MAKE SALES LETTERS WORK	
Examples of closings that stimulate action	90	Devices that make sales letters work	120
How to write to special classes of buyers	91	Extra-size letter	121
Hints that help sell dealers by mail	91	Form letter personalized by photos	122
		Devices to facilitate action by the reader	122
		Reply-O-Letter makes it easy for the reader to act	122
		Personalization and showmanship important	124
		Tie-up with premium	124
		Novel presentation of testimonials . .	127
		How to get the most out of successful sales letters	127

SECTION I

Successful Selling by Direct Mail

1. HOW TO SELL BY DIRECT MAIL

What products can be sold by mail. Sooner or later in the life of most business concerns, the question arises as to the advisability of using the mails for direct sales—that is, for soliciting actual orders as distinguished from using the mail to influence a sale that will be closed later by a salesman. If a product can be sold at all, it can be sold by mail. However, this fact is of academic interest only, inasmuch as businessmen are primarily interested in profitable methods of selling their products.

Judging by the type of product that has been sold profitably by mail, without the aid of a salesman, it can be concluded that products or services with the following characteristics are suitable for profitable mail-order sales:

1. The product or service has a high degree of uniqueness in that it is totally different from others or stands alone in some respect. Thus a product that could easily be picked up at any corner store would be difficult to sell by mail; whereas a proposition such as the Book-of-the-Month Club plan of selling books would, because of its high degree of uniqueness, make a good mail-order proposition. It does not follow, however, that everyday products cannot be sold by mail. The tremendous success of the Green Brothers, of Denver, Colorado, in selling quality food products by mail shows that a product which is ordinarily purchasable at any store can, through uniqueness of quality, combined with uniqueness of packaging, be profitably sold by mail.

2. The sales appeal is not so limited that lists of prospects to be solicited by mail cannot be compiled.

3. The product or service has a definite price and can be sold on open account, cash with order, C.O.D., by free trial, or on approval.

4. The product or service to be sold lends itself to easy description.

5. The price is not too low to absorb the cost of the mail-order campaign and delivery. Products that cost the consumer less than \$2 or \$3 generally are not suitable for mail-order sale. (See pages 32 *et seq.* for cost of direct-mail selling.)

6. The price is not so high that the prospect will refuse to make the expenditure without seeing what he is getting. Thus, houses, high-priced cars, certain machinery, and the like, are not suitable mail-order items.

Plans for direct-mail selling. One of three plans can be chosen for direct-mail selling: the continuous plan, the wear-out plan, or the campaign plan. The plan that should be selected depends upon the price of the product, whether it is an established or new product, whether it is used continuously, the size of the market, and similar factors.

Under the *continuous* plan, advertisements are mailed throughout the year without any particular continuity of message. Such plans are adopted particularly by retailers offering different products from time to time, or advertisers who, like parts dealers, have definite, comparatively small lists of customers, and who sell products that are used constantly.

The *wear-out* plan is used in the sale of a single product that can be sold to a number of lists. The advertiser mails to one list and continues his periodic mailings until the returns from any one list are insufficient to pay for the mailings. He has then "worn-out" the list, and turns to another to repeat the process.

The *campaign* plan comprises a number of related mailings all directed toward a final climactic mailing. Taken separately, they may only describe a feature of the product; taken together, the mailings tell the entire story. Advertisers with complicated products will usually prefer the campaign plan.

Steps in planning direct-mail selling. Each of the following steps must be considered in planning the direct-mail campaign:

1. Know and use the facts concerning the market for the product or service.
2. Select the lists.
3. Plan the advertising budget to be spent on direct mail.
4. Time the direct advertising to the individual marketing problem.

5. Select the basic theme for the promotional activity.
 6. Decide upon the form of piece that will best present the message.
 7. Prepare the advertising piece.
 8. Test the proposed mailing and, if results warrant continuation, proceed with the entire mailing.
- Each of these items is discussed below.

Know and use facts. In some phases of selling and advertising it is exceedingly important that the merchandiser discover the character of individuals and groups composing the market before a campaign is undertaken. In the field of direct-mail selling, however, a detailed investigation in advance is not absolutely essential. The reason for this difference is the fact that, at a comparatively low cost, a test mailing can be made, and the profitability of the venture proved. Similarly, while other types of marketing may require a thorough analysis of competitors' activities to discover strong and weak points in their products, in direct-mail selling the advertiser's general knowledge of his competitors' products is ordinarily sufficient to help him develop a distinctive basic selling idea for his product. His direct-mail tests will tell him whether the selling idea he has chosen to talk about in his letter is the correct one.

Once direct-mail selling has proved a profitable method of distributing a company's product, very little special study in the form of market surveys is necessary, provided, of course, that there is an alertness to the ever-changing moods and habits of buyers, and that testing is made a prerequisite of every large mailing.

Select the lists. The choice of lists is the most important factor in direct mail. The most expertly conceived and elaborately prepared direct-mail campaign will fail if the lists are not good, while even a poorly executed campaign may bring results if the lists are excellent.

The subject of the mailing list is too important for brief treatment. It is therefore given separate treatment, beginning at page 49.

Plan the advertising budget for direct mail. The usual methods of budgeting expenditures for space and other advertising are discussed on page 152. In the direct-mail field the only sound approach to the question of how much to spend on advertising is, first, to

have a thorough knowledge of the costs, and, second, to test constantly. The mail-order seller must have known facts regarding the results of his advertising. He buys, with a given advertisement or series of advertisements, a certain number of direct sales or direct sales leads. Thus there is a direct relation between the cost and the results obtained. While this cost is not constant, the advertiser can, over a period of time, find upper and lower limits between which he may expect to find his selling cost. He will then appropriate for advertising an amount set by multiplying the number of sales he believes necessary by the cost per sale—usually taking the upper figure.

Time the direct-mail advertising. Proper timing of the promotion effort is essential to obtaining the best results from direct-mail advertising. Such factors as seasonal variations of the particular business, customers' buying habits, and the like, must be considered. Notice how the intensive campaign of the Southern States Iron Roofing Co., described on page 104, was planned to reach the prospects at the most favorable time. It is interesting to observe that, in the original tests made before the most favorable buying period, the letter that was selected to be used in this campaign pulled 11 per cent inquiries. When it was mailed to the entire list four months later, at the most favorable time, the response was 14 per cent.

Aside from timing in relation to individual marketing problems, timing in relation to general marketing problems must be considered. Experience has proved that mailings should not be undertaken in times of national crisis, such as a stock crash or a declaration of war, when the public is absorbed in a presidential election, before a holiday, and immediately before or after important income tax payment dates.

Select the basic theme for the promotional activity. Some appeal must be selected to form the major theme of the advertisement. To arrive at the appeal, or theme, it is necessary to study: (1) the product itself, (2) the ways it has been or can be used, and (3) the users of the product. From the following examples of themes that have been used in successful direct-mail campaigns, it is evident that, in arriving at the theme, the creators of the advertising matter in each case had analyzed carefully each of the three basic

sources and had selected one that had a basic appeal and was capable of effective copy and art treatment.

<i>Purpose</i>	<i>Theme and Execution</i>
Selling wire fences	Your local dealer can give you a good tip. Acting on knowledge gained from a survey of the agricultural market, to the effect that farmers rely upon the advice of local dealers, Republic Steel Corporation built a campaign around the theme of taking a tip from a dealer. The direct-mail piece was a four-page broadside, carrying on the address side a photograph of the local dealer, with a caption, "Take a tip from (and the name of the dealer)." The first spread was a letter to the prospect signed by the dealer; the inside contained illustrations covering features of the product and a build-up for the dealer. The free offer of a booklet was used to bring the prospect to the dealer's store.
Selling advertising space in low-priced popular magazines	The magazines appeal to the average woman and therefore are a good advertising medium. A booklet, prepared by Fawcett Publications, Inc., told the story of "Myrtle," the average woman. The booklet, when folded, resembled a woman's handbag.
Selling accounting machines	Leading companies are using National machines. The National Cash Register Company used this testimonial theme, carrying the heading "Does it with Nationals." A series of folders, each one playing up the name of a well-known company that does its work with National machines, was sent to businessmen.
Selling fire insurance	The company is an old, established one whose prestige and reputation assure excellent service. Three letters offering a booklet entitled "You're in Good Company" were prepared by the Merrimack Mutual Fire Insurance Company and distributed to prospects by its agents.

Decide upon the form of advertising. In deciding upon the form that the direct-mail advertising will take to express the theme selected and carry the message effectively, the advertiser has a number of types upon which to draw. Broadly classified, they are: (1) letters, (2) cards, (3) leaflets, (4) folders, (5) broadsides, (6) book-

lets, (7) self-mailers, (8) brochures, (9) catalogues, (10) house organs, and (11) novelties.

Any one of these forms may be used also for the *follow-up*—the advertisement that is sent in response to an inquiry. Depending on the circumstances, a single piece (a letter), or a whole series of mailings may be used to give the desired information. Each form presents its particular problem of mailing, as well as of the reply form to be used with it. The various forms are discussed briefly below.

In addition to deciding upon the form the advertising piece shall take, the direct-mail advertiser must also decide whether a premium shall be offered as an inducement to the prospective customer.

The sales letter. Letters, of course, are the most common direct-mail medium because they come closest to personal selling. If the purpose of the mailing is to get immediate orders or inquiries, letters are generally used. The subject of "How to Write Sales Letters" is treated fully in a separate section, beginning at page 58.

In the preparation of letters for large-quantity distribution, one of the following processes may be used: (1) multigraph, (2) multilith, (3) super-process, (4) printing, or (5) automatic typewriter.

Multigraphing. Multigraphing is one of the common forms of producing letters for direct mail. In this process the letters are set in type similar to that used by a typewriter, and placed on a circular drum. The drum rotates and prints through a ribbon. The final effect is much like typewriting. Up to 6,000 copies can be produced per hour. Facsimile typewritten letters may be personalized on a typewriter, by the use of a matching ribbon, or may be filled in on the addressing machine. See also page 408.

Multilith—offset printing. The photo-offset process has come into prominence in recent years as a method of preparing direct-mail letters. For a description of this process, see page 212. Up to 5,800 reproductions can be made per hour. Fill-ins can be made as in the case of multigraphing.

Super-process—flat-bed process. The super-process, or flat-bed process, is produced on a flat-bed press through a ribbon with typewriter type. It produces a personalized letter at from one-third to one-half less cost than the automatic typewriter (Hooven or Autotypist), and at from 10 per cent to 20 per cent more cost than by

multigraph. The type simulates typewriter type exactly. Certain of the characters are deliberately uneven, and the periods punch through the paper exactly as with the typewriter. The fill-in is done on a typewriter having the same type and ribbon as the letter. While automatic typewriting requires first-class postage, multigraph, multilith, and flat-bed letters may be mailed at the third-class letter rates. See page 501.

Printing. Some firms selling by direct mail have their letters printed. This method has the advantage of lower cost, inasmuch as the letterhead may be printed at the same time as the body of the letter. In the long run, a considerable saving may be effected, but it is generally agreed that for best results the processed letter (multigraph, multilith, super-process) is advisable.

Automatic typewriter. The Hooven, Autotypist, Robotyper, and Flexowriter methods use automatic typewriters. For a description of the process, see page 409. Letters produced in this way are original typewritten letters with perfect fill-ins. The process is much slower and more costly than any of the other methods of duplication mentioned. As indicated above, such letters must be mailed at the first-class letter rate.

Personalizing the direct-mail sales letter. The object of personalizing sales letters is not to delude the reader into believing that the letter was produced solely for him, but rather to get the attention of the reader. These methods have been used successfully to personalize sales letters:

1. Fill-in of salutation on the typewriter or by stencils.
2. Insertion of the reader's name in the body of the letter. This step has been done perfectly by letter-service organizations, in processed letters.
3. Brush-scripting of the name of the prospect at the top of the letter, as in the illustration on page 125.

Four-page letters. The direct-mail advertiser who wishes to send a long message, without at the same time using enclosures such as folders, leaflets, circulars, and the like, may find the four-page letter suitable for the purpose.

The first page is usually devoted to the letter, which is no different from the single-sheet letter except that there must be some tie-up

between the letter and the inside pages. The copy and illustrations on the inside pages of the four-page letter generally contain the material that is to convince the reader and arouse in him the desire to do what the advertiser wants him to do. The fourth page of the letter may be blank, may be of the same nature as the second and third page, or may form the address section of a self-mailer. For organizations engaging in a considerable amount of institutional advertising—real estate companies, for example—the fourth page may be used for institutional advertising; that is, to keep the name of the advertiser before the public, to make known the qualities of the firm and the service offered by it, and the like.

Postal cards and mailing cards. The government postal card, carrying a message that is flashed to the prospect, has proved a useful medium, especially for retailers. Postal cards have been used extensively by local merchants to announce weekly sales and specials, seasonal items, new departments or services, and to keep the name of the firm before its customers. The wholesaler has also used postal cards for somewhat similar purposes. Private mailing cards have also been used to introduce more elaborate mailing pieces and to vary a campaign composed of more detailed selling messages. Copy and illustrations can be handled effectively even by smaller advertisers if they are equipped with proper machines for card reproduction. To be effective, solid type should be avoided on cards. Simple illustrations that catch the eye, headlines that tie in with the copy, and short sentences help to get the card read.

For postal information as to government cards and private mailing cards, see pages 511-513.

Leaflets. Any small-sized sheet, printed on one or both sides, and folded, is a leaflet. When used in direct-mail advertising, it must be designed to fit the size of the envelope into which it is to go. Because the leaflet is small, it must overcome the disadvantage of size by excellence of copy, good typography, and attractive layout. The leaflet, if used to supplement a letter, should support the sales message. Thus, a leaflet designed to supplement a letter offering the sale of stores and a garage was made up as follows: page 1, an attractive heading and indication of the nature of the property; page 2, a map showing the exact location of the property; page 3, text showing the details of location, the reasons why the location is

desirable, and other information as to size, construction, heating, rents obtainable, and the prospect for increase in value; and page 4, institutional copy.

The leaflet is used frequently in direct-mail advertising for announcements of special events. It is particularly suitable in selling an inexpensive item, since its cost is not great. Furthermore, it can be inserted easily in an envelope.

Folders. A folder is larger than a leaflet, printed usually on heavier stock, and folded more than once. Because of the variety of sizes that the folder may take, it can be used separately or as an envelope enclosure to supplement a letter. A complete story may be told in a folder. The reader should be able to open the folder naturally and follow the illustrations and copy without trouble. Three thoughts should be kept in mind in deciding upon the size of the folder and the arrangement of its folds: (1) keep the idea simple; (2) select a size that cuts economically from a standard-size sheet; and (3) consider the envelope into which it is to go.

Broadsides. An enlarged folder, about 19×25 inches in size or larger, is often called a "broadside." Usually it is designed as a self-mailing piece.

The broadside is used to give a smashing impression of a single idea or to tell a lengthy story in picture or type. Because of the variety of folds that are possible, and the combination of color and illustration that may be used, the broadside possesses a high degree of adaptability and variability. To carry out its purpose of a smashing impression, its text must be concise, its illustrations simple, and its copy not crowded. The broadside, nevertheless, must tell a complete sales story. It must attract the prospect's attention to the outside and maintain the interest with each step of the unfolding process.

It is necessary to keep in mind that the broadside must be suitable for the mailbag. If, when folded, the broadside is larger than the general run of mail, it may be delivered torn, folded again in half, or curled up. The following sizes are best suited for mailing: $9\frac{1}{2} \times 6\frac{1}{4}$ inches, or $9\frac{1}{2} \times 4\frac{1}{8}$ inches, folded from a sheet 19×25 inches or 25×38 inches; or $8 \times 5\frac{1}{2}$ inches, folded from a sheet 22×32 inches.

Booklets. A booklet is a small book whose pages are in multiples of four to permit binding as a book by stitching, stapling, or glue. The term, however, has been applied to a multitude of different kinds of advertising pieces from a small bound insert to a large handbook. The booklet is used to elaborate and impress a point that requires considerable space for its presentation. It tells a complete story of the product or service.

Booklets have been used for the following purposes:

1. As an aid to salesmen.
2. To create inquiries.
3. To answer inquiries.
4. To instruct customers on the use of a product.
5. For trade and consumer sales promotion.
6. To promote group interests.
7. General propaganda.

The size, kind of paper, quality of cover, and extent to which color and illustration will be employed vary with the purpose of the booklet and the amount of money available for its production. The person planning the booklet should keep in mind that too large a booklet may be wasteful; one that is too small may not offer enough information; one with too much copy may discourage the reader; and one with too many pictures may be interesting but, because of lack of copy, not persuasive enough to bring results.

Self-mailers. A self-mailer is prepared for mailing with a portion of the first page given over to the address. The mailing piece is held together at the open fold by a seal or a cancelled postage stamp. Leaflets, folders, broadsides, and booklets may take the form of a self-mailer. In designing self-mailers, care must be used to see that the two sides of the folder—that is, the address side and the back—are kept absolutely distinct to avoid confusion. The outside of the self-mailer must pique the prospect's curiosity so that he will break the seal and open the folder. An illustration and a tie-in phrase or a single word, or a photograph, will lead the prospect to open the folder. Testimonials, a list of the uses of the product, or directions for use, as, for example, recipes, frequently fill the back of the self-mailer. These mailing pieces may also carry enclosures, which should be fastened to the folder with a paster, not a stapler.

Brochures. Beautiful, de luxe booklets, prepared at considerable cost, are generally termed *brochures*. They are commonly used whenever it is necessary to make an impression on the reader. Business houses, advertising agencies, investment dealers, and others use them as a sort of window-dressing device.

Catalogues. Catalogues that are designed to sell products to wholesalers, retailers, or consumers make buying possible without a personal inspection of the goods. Along with the description of the merchandise, there are usually an illustration and text presentation of the benefits of the product, data on various methods of using the product, and convincing copy on consumer satisfaction that the product offers through its quality, construction, and the like. Thus the catalogue not only lists, describes, and illustrates the merchandise offered, but does a selling job as well. The catalogue may or may not show the price. Frequently prices are offered in a separate listing. To meet the problem of changes in items, prices, and other data that are included in the catalogue, some firms prefer to prepare less elaborate catalogues and issue them more frequently.

If the company has a diversified line of products, it may handle the catalogue problem in one of the following ways:

1. Issue a wide range of separate catalogues.
2. Issue departmentalized or sectionalized catalogues.
3. Provide loose-leaf catalogues with supplements showing changes.
4. Prepare a portfolio consisting of a folder or envelope in which loose sheets are conveniently filed.

Where catalogues are prepared at infrequent intervals, bulletins are generally issued from time to time to keep the catalogue up to date.

The catalogue may serve to aid the company's salesmen, develop inquiries and convert them into sales, sell special groups or interests, and sell the consumer direct.

House organs. A house organ is a publication issued periodically by a firm for the purpose of maintaining contacts, creating goodwill, and establishing a favorable attitude toward the organization so that the reader will give preference to the firm when he is in need

of its product or service. It is not designed to obtain direct, immediate action.

House organs fall into four main types:

1. Sales department house organs. These are prepared essentially for the salesmen. Information and ideas for increasing sales are passed on to the sales force through the house organ.

2. Dealer house organs. These aim at developing goodwill among dealers and maintaining communication between the manufacturer and the dealer.

3. Buyer house organs. These are designed to create a favorable attitude toward the house and to increase the use of its products.

4. Employee house organs. These are prepared to promote goodwill within the organization.

Dealer house organs and buyer house organs offer the advertiser an opportunity to aid the sale of goods by building goodwill among sales outlets and by passing on to the buyer information that will help keep him satisfied with his purchase and content to repeat or replace it in the future.

Novelties. In the field of direct advertising, novel forms are constantly being introduced. The pop-up, animated cards and models are only a few of the novelties that have been used.

The most common advertising novelties are the blotter and the calendar. Wherever possible, the advertising blotter should carry a message that will be remembered. Timely features increase the value of the blotter, for they give the advertiser an added excuse for mailing his sales message to his prospect. A calendar is often used, most commonly a one-month calendar plate, printed as part of the advertisement. As an envelope stuffer, a blotter travels "postage free," because the stamp that carries a letter or bill is usually sufficient for the blotter as well.

Calendar advertising is institutional advertising, and its purpose is to make the advertiser's name familiar to buyers. Proper presentation of calendars is highly important, because the manner of giving often determines whether the calendar will be hung in a prominent position or stowed away out of sight.

Premiums. Almost all people are interested in receiving something for nothing. That is why direct-mail advertisers make lavish

use of premiums, spending millions of dollars a year on them. Advertisers play upon the human trait of wanting something for nothing almost to the extent that they play upon the prospect's inherent curiosity. When premiums are offered in combination with the sale of an item, the customer is usually permitted to keep the premium even though he returns the item. These premiums should tie in closely with the product being offered for sale. Otherwise, a prospect who has no interest in the product might place an order only to get the premium, with no thought of keeping the product.

Premiums add considerably to the cost of direct-mail selling. A test, therefore, should be conducted to compare the pull of the product when offered with a premium with its pull when offered without a premium. Unless the test clearly indicates that the number of sales resulting from the premium offer more than justifies the additional expense, the premium should not be offered. It is frequently possible to cut the expense by reducing the cost of the premium without diminishing its appeal. For example, the pull of a 50-page premium booklet is substantially as strong as the pull of a 100-page booklet because the appeal is in the subject matter, not the size, of the booklet.

Reply forms. The selection of a reply form must be made in all cases where the objective of the mailing is to obtain orders or inquiries, or ascertain in some measure the success of the mailing. Here is a list of the ways in which the reply can be facilitated:

1. Enclose a separate business reply card.
2. Attach the business reply card to the booklet, folder, or mailing piece with a seal, or by means of slits like a picture in a photograph album.
3. Provide for a tear-off reply card on the letterhead, folder, or other mailing piece.
4. Use a business reply envelope.
5. Provide a card, coupon, blank, or order form to be returned in a business reply envelope.
6. Use a combination letter and return envelope, especially for letters requesting a remittance with order. Usually the combination letter and envelope is a patented device in which the letter and envelope are one piece, with the place at which the envelope is to be torn off indicated by markings.

The return card must tell the entire story of its purpose so that, if it becomes separated from the enclosure, it will be clearly understood. It should be attractive and simple, with plenty of room for signature and address.

The envelope. Without losing sight of the postal regulations with regard to envelopes, it is possible to make the envelope help in the selling job. A few examples will illustrate how this can be done. Nunn-Busch Shoe Company of Milwaukee used a cellophane envelope to enclose a four-color-process promotion broadside. While permitting full visibility of the enclosure, the envelope added to the general appearance and interest value of the broadside. Special permission to use this type of envelope had to be secured from Washington, D. C.

The National Sportsman, Inc., Boston publisher of sporting magazines, tested a plain envelope against one in which the entire back of the envelope was covered with an attractive photograph of a lake-and-woods scene printed in cool green. The pictured envelope pulled 3.386 per cent cash orders for subscriptions, while the plain envelope brought 2.976 per cent. The larger returns more than paid for the cost of the envelopes.

The Book-of-the-Month Club found that on a mailing to teachers the response was doubled, and on a mailing to golfers the response was almost trebled, by writing the prospect's name in brush script across the outside of the envelope.

Some advertisers have made third-class mail pay well by making type talk on the envelope. With an interesting flash or message on the envelope, they attract the attention of the reader and arouse his curiosity as to the contents of the envelope. Others have used a mailing with an outside window envelope to increase results. The enclosure, of course, contains the name of the person to whom it is addressed, and this fill-in, showing through the window, is what attracts the attention of the recipient. The letter, of course, must hold the attention once it has been attracted.

Where successive mailings are to be made, attention must be paid to varying the style of the envelope in order to give each mailing distinction, and to prevent prospects from recognizing the sender of the material before he opens the envelope. Variety can be

achieved by changing the color, shape, style, arrangement of name and return address, or by using a different flash or message.

Letterheads. If successive letters are to be sent to the same list, variety in the use of letterheads is as essential as variety in the use of envelopes. Changes in color, style, and size of the letterhead increase the likelihood that the copy will be read. Many firms experienced in direct-mail advertising find that occasionally it is worth while to dispense with the letterhead entirely; instead, they place the company name and address at the bottom of the letter, starting the letter with the selling message, with a flash, or with an illustration that ties up with the message.

Preparing the advertising piece. After the form that the advertising piece will take has been selected, the actual preparation is begun. The steps in putting together the direct-mail advertisement vary, of course, with the working processes of the individual, and with the facilities available in the advertising department. The usual steps are:

1. Make a trial dummy of the booklet, leaflet, or whatever form the advertisement is to take, mapping out the illustrations and indicating the headlines. In this step consideration should be given to the size of the mailing piece, its mailing weight, and the cost of mailing. For economy, the size of the sheet used should be standard or of a size that will cut from a standard sheet without waste. For information as to mailing methods and costs, see the "Postal Guide" at pages 485 et seq. For information as to paper stocks, see page 238.

2. Determine the size and face of type that will be used and the kind of illustration.

3. Select the paper stock suitable for the job.

4. Have the illustrations made.

5. Write the copy to fit the space.

6. Have plates made of the illustrations, if necessary.

7. Have type set for copy.

8. When proof of copy is returned, make paste-up dummy, allowing space for illustrations.

9. Submit dummy and corrected proof of copy to the printer for final revised proof.

10. Correct the page proofs and O.K. for printing.

This sketchy outline of the procedure for getting together the direct-mail advertisement makes the process appear considerably simpler than it is. The self-question chart on direct advertising, given below, gives a clearer idea of the many points that must receive attention in the preparation of direct-mail advertising.

SELF-QUESTION CHART ON DIRECT ADVERTISING *

What factors determine the selection of this medium?

What is the main purpose of the advertising effort?

Can direct advertising best accomplish this purpose?

What factors determine the form of the piece?

How much material must be presented?

Are illustrations and type matter relatively equal in sales importance? Is message mainly attention-getting, or mainly informative?

What kind of illustration best fits the purpose?

What kind of art work do the illustrative needs suggest?

What general form of piece will best present the message? (Leaflet, stuffer, package insert, blotter, calendar, circular, illustrated letter, booklet, book, catalogue, broadside?)

What factors determine production?

What kind of engraving and printing do illustrations require? (Letterpress, lithography, gravure, collotype, etc.) Is color a major factor?

What kind of paper does reproduction require? Is mailing weight important?

Is length of run suitable for economical use of printing process chosen?

What sheet or page size will cut to advantage from standard-size stock?

Will this cut of stock provide press sheets of proper size?

Will stock fold the required number of times without cracking?

Has grain direction been checked with direction of main folds?

Has number of folds been checked against weight of stock?

Is stock heavy enough to require scoring?

If piece is to be machine-folded, has dummy been checked with printer or binder to avoid waste of paper in imposition, and to allow possible economies in binding?

Is stock available in duplicate lots if needed?

Is piece a self-mailer? If not, will it fit standard-size envelope?

If a self-mailer, is sufficient space left for address?

* Excerpt from a larger chart in *The Technique of Advertising Production*, by Thomas Blaine Stanley, Prentice-Hall, Inc., New York.

Has complete dummy, including envelope, if any, been checked for mailing weight? (Allow for ink, stamps, stickers, etc.)

Lavout and general factors

If folder, circular, or broadside, have folds been planned to open consecutively with progress of message, and without obliging reader to turn piece in his hands as he reads?

Does the effort to achieve novelty and interest sacrifice legibility or ease of reading in any way? (Monotony in type treatment, and in size and shape of illustrations should be avoided, but not at the expense of a clear presentation of the message.)

Has care been taken to harmonize line and halftone illustrations appearing on the same page? (Tint blocks under line cuts, or line borders around halftones, will help to pull the two together. As a rule, the halftones should dominate such a combination showing.)

Is it possible to use a folding scheme in which one piece of display does double duty (*i.e.*, is seen on both of two spreads as they are opened consecutively)? Watch stock envelope size when planning unusual folds, and remember that grain of paper should run with major folds.

Is each pair of facing pages or set of facing areas designed as a unit?

If color is used, has piece been planned for maximum effect? Does color as planned accomplish more than merely attract attention?

Has proposed color treatment been considered from the point of view of appropriate suggestion (of qualities such as warmth, coolness, purity, etc.)?

Do important cost or time factors tend to change any decision suggested above?

Testimonials. The sincere testimonial of a user or an expert has a powerful pull in direct-mail selling. Testimonials are often secured without actual solicitation in the following ways:

1. Letters that build goodwill lead the user to express his appreciation of the product. A friendly letter written to a customer on any occasion may bring an acknowledgment that expresses appreciation of the product.

2. A letter that invites criticism may be answered with an expression of the merits of the product. The president of LaSalle Extension University writes each student a congratulatory letter at the end of his training and asks for criticisms and suggestions for improving the training. The letter brings many fine testimonials.

3. A company salesman always numbers among his customers

personal friends who will give him a testimonial letter in reciprocation of the salesman's cooperation.

4. A letter written to obtain information and orders may solicit comments. The American Bandage Corporation sent out 2,000 letters of this type and enclosed the following reply card:

I'M A GOOD SPORT—MR. BURKET:

HERE IS YOUR INFORMATION—

_____ "a.b.c. GAUZE BAND" is satisfactory

_____ We are sending an order today

_____ We have on hand stock to last
about _____ days

Other comments: _____

The last line secured 44 testimonials—more than 2 per cent of the whole list and more than 10 per cent of the replies.

Permission to publish a testimonial. It is always advisable to secure permission to publish a testimonial, whether or not it is legally necessary to have the sender's permission. The person who goes to the trouble to write a testimonial letter is usually willing to grant permission for its publication. A simple, straightforward request will get the desired permission.

Effective use of testimonials. There are various ways in which testimonials may be used effectively. Among the possibilities are the following:

1. Use excerpts of the testimonial in sales letters.
2. Reproduce testimonial letters separately as full-sized letters.
3. Reproduce two or more testimonials on one page in a smaller size than the originals. It is not advisable to put many on a page because if the type size is reduced too much the testimonials will be difficult to read.
4. Reproduce each testimonial separately in the form of a miniature letter.
5. Quote parts of a large number of testimonials in a circular.
6. Use a portrait of the endorser next to each testimonial. This is more effective in letters to dealers than to consumers.

2. TESTING DIRECT-MAIL ADVERTISING

Importance of testing direct-mail advertising. The key to success in direct-mail advertising is careful testing and careful checking of results of tests. By experience with small mailings, it is possible to determine in advance whether the complete mailing will be successful and to eliminate guesswork. So important is this step in direct-mail advertising that some large companies have set up a direct-mail laboratory for the purpose of testing and recording results of each proposed mailing.

The value of testing will stand or fall on these "musts": (1) The names chosen must be a fair sample of the list. (2) The mailings to be compared must be identical except for the point being tested. (3) Accurate records of replies must be kept. (4) The mailing or condition of mailing must not be altered once a test has proved satisfactory.

What shall be tested. Many advertisers test to determine only the value of several different mailing pieces. On the other hand, some large advertisers test to determine every possible element of the mailing. An exhaustive list of tests that have been made by direct-mail advertisers cannot be given because the number of variables that can be tested is countless. The following list, however, gives a clear picture of the kinds of tests frequently made.

LIST OF COMMON TESTS OF DIRECT-MAIL ADVERTISING

Proposition

Type of proposition
Unit of sale most suitable
Selling price
Terms of payment
Shall a premium be offered?

Mailing List

Responsiveness of different types of lists
Areas that can be circularized profitably

Timing

Frequent vs. infrequent mailings
Interval between mailings
Time of year, month, or day in which to mail to particular groups or localities

Type of Mailing Piece

Letters, broadsides, booklets, folders tested against each other
Various combinations of mailing pieces
A cheaper mailing piece vs. a more expensive one
Printed announcements vs. Government post cards

Letters

Different appeals
Automatic typewritten letters vs. processed letters
Personalized vs. nonpersonalized
Letters with fill-in vs. those without fill-in
Multigraphed fill-in vs. automatic typewritten
Two-page vs. both sides on one letterhead
One color vs. two colors
Style and size of letterheads
Engraved stationery and high-grade stock vs. less expensive grades

Enclosures

Number of enclosures
Types of enclosures
Inclusion of a "pass-along" card for a friend
One-color vs. two-color enclosures
Methods of affixing enclosures
Addition of card for another product

Envelopes

Color of envelope
Flash on the envelope
Hand-addressed vs. type-addressed vs. stencil-addressed
Style and size of envelope
Window envelopes vs. addressed envelopes
Testimonials on back of envelope

Stamps

Metered postal indicia vs. precanceled stamps
Commemorative vs. ordinary stamps
Stamped vs. metered postage
First-class vs. third-class postage

Reply Forms

Business reply cards vs. business reply envelopes
Business reply card vs. plain reply card
One-color vs. two-color reply card
Filled-in reply card vs. plain reply card
Air-mail business reply envelope vs. regular business reply envelope
Unstamped business reply card vs. stamped reply card vs. stamped, addressed envelope

Color of reply form

Tab on reply card

Order form as part of mailing piece vs. separate card order form

Results of tests. The National Research Bureau has compiled a chart (see Figure 1) of the overall results from testing hundreds of direct-mail pieces. However, companies that test constantly find that many of the results do not hold for all of the company's products, and the results at one time might not be the same as at another. For this reason, constant testing and retesting are essential.

How large a test shall be made. No hard-and-fast rules can be set as to how large a mailing should be used to test the list, the mailing piece, or any other variable. A good deal depends upon the type of list, the price of the product, the purpose of the test, and the quota necessary to make the mailing profitable. In figuring how much to mail on any test, it is advisable to think, not in terms of number of pieces mailed, but in terms of the quota set. Thus, if a mailing of 1,000 letters required a quota of 5 orders to prove it profitable, it would be unwise to make two tests of 1,000 each to determine which of two letters pulled better, because the results from the two tests would not be sufficiently different to warrant drawing any positive conclusion. If one mailing brought 7 orders and the other 5 orders, it is entirely possible that the extra 2 orders could be attributed to special cases that did not at all represent the rest of the list. If the test were increased in size, say to 5,000, and one letter brought 35 orders and the other 20 orders, there would be no doubt as to which was the better letter.

In some lines, especially if the product is low in price, a fair test of a 10,000 list is 1,000, provided the 1,000 names are geographically representative.

Testing the variables. Only one variable should be tested at a time, and care should be taken to eliminate all extraneous factors that might influence the returns. It would be fatal to the value of the test to change any detail of the mailing other than the item that is to be tested. Of course, several tests can be made at the same time, covering different variables. Thus, simultaneously with the test as to appeal, another split mailing can be made to test the reply form. The mailings testing the appeal would be identical with each

Reliable Direct Mail Data

This chart presents a composite picture of direct mail findings of The National Research Bureau. The data presented, is a compilation of overall results from testing hundreds of direct mail pieces.

Form of Mailing

The letter ranks first in importance. The most effective mailing unit consists of an outside envelope, a letter, and a reply form and business reply form.

Color

Two color letters outpull one color letters. An order form printed in colored ink on white stock outpulls one printed in black ink on white stock. A two colored circular proves more effective than a one colored circular. Colored inks on an envelope, order card, or letter outpull black ink. Colored inks to be effective must be used in correct proportions -- the predominant color being used sparingly. Color is totally ineffective unless used with proper discretion -- color can attract or repel.

Outside Envelopes

Illustrated envelopes increase returns if they are used. Variety in types and sizes of envelopes pays in a series of mailings.

Reply Envelopes

A reply envelope increases responses to a questionnaire mailing. A reply envelope produces a higher percentage of cash with order returns. A reply envelope increases responses to a collection letter.

Letters

Form letters using indented paragraphs will outpull those in which indented paragraphs are not used. A letter with one or two separate sheets of paper will ordinarily outpull a letter run on both sides of one sheet. A separate letter with a circular will generally do better than a combination letter. A form letter with an effective running headline will ordinarily do as well as a filled-in letter. Underlining pertinent sentences and phrases usually increases results slightly.

A time limit for replying, where practical, usually increases returns.

A two page letter ordinarily outpulls a one page letter.

The offer of a premium or special inducement ordinarily increases returns.

Authentic testimonials in a sales letter increase the pull.

Reply Cards

An air-mail reply card will outpull a standard reply card.

Postage-free business reply cards will bring more responses than the type to which the prospect must affix a postage stamp.

Reply cards with postage stamps affixed will not ordinarily increase the response sufficiently to warrant the additional cost over standard business reply cards.

Reply cards with "guaranteed stubs" attached will ordinarily increase response over reply cards not bearing stubs.

Reply cards with an illustration of the product or service being offered will ordinarily do better than those without an illustration.

Postage

Third class mail ordinarily pulls as well as first class mail.

Postage meter pulls better than postage stamps.

A "designed printed permit" does as well as a postage meter.

Air mail postage seldom warrants the extra cost over first class postage.

Follow-up

A well organized follow-up campaign consists of five letters.

The average direct mail promotion campaign is spaced over a 12 month period with one mailing every thirty days.

A test mailing, designed to be followed by a series of follow-up mailings, must consist of rapid succession. The time-lag should not exceed two weeks between mailings.

A direct sales letter that produces a satisfactory response should be followed by a test mailing can be re-piped 10 days later and produce an additional satisfactory return.

The basic findings tally with those of most direct mail users. There will be some variance, but by and large, these basic principles, applied consistently, will produce better than average results.

Letterheads

Specialty designed letterheads, tailored to fit the sales message, will often outpull a standard letterhead.

Changes in letterhead design and appearance will increase response in a series of mailings.

A 20¢ stock is usually satisfactory for sales letters. Special mailings to quality bond stockholders often warrant a 25¢ stock.

Two color letterheads are usually more effective than one color letterheads.

Mailing Lists

A company's own customer list is its best prospect list.

A list of known mail order buyers will ordinarily outpull a compiled list.

Listed names of individuals will outpull lists with firm names.

Mailing lists should be cleaned twice a year, on the average.

Telephone directories, used without discrimination, usually represent the poorest mailing lists.

A prospect list compiled with the assistance of a salesman often proves to be a "cream" list.

Circulars

A circular that deals specifically with the offer contained in the letter will prove more effective than a circular of an institutional nature.

The cost of a full-color circular is warranted in the sale of food and home furnishings.

A circular usually proves ineffective in the sale of news magazines and news services.

A type-set circular will outpull a type-written circular.

A reply coupon on a circular usually increases returns.

Addressing

Handwritten addressing reduces returns. Label addressing is as effective as typewritten or stencil addressing.

A "clean" stencil address is usually just as effective as type-written address.

Envelopes addressed to an individual in the plural are more likely to be opened by a mail clerk.

The NATIONAL RESEARCH BUREAU, INC., 415 N. Dearborn St., Chicago 10, Illinois

Figure 1. Direct Mail Data.

other except for the appeal; the mailings testing the reply form would be identical with each other except for the reply form.

If several lists are to be used in a mailing, more than one list should be used in testing a variable. The size of the list will, of course, influence the number of different tests that will be made. On a mailing list of 1,000, for example, it is hardly likely that more than one variable can be tested.

In order to be able to check results from comparative tests, the reply form must be so keyed that, when returns come in, they can be credited to the proper mailing. The most common method of keying is to use different key numbers on the reply cards, each representing a unit of the mailing, or different colored reply cards.

Mechanics of the test. If a specific test is being made to determine whether or not the campaign, complete in all its details, will bring a sufficient number of returns to indicate success of the entire mailing, the procedure is very simple. A certain percentage of the list to be used is circularized, and the returns are checked and tabulated.

If a comparative test is to be made to determine the relative value of one method or detail against another of the same general type, the procedure is more complicated. For instance, let us suppose that two entirely different folders, one elaborate and the other inexpensive, have been written, and that it is necessary to determine which will prove more profitable. Here is the procedure that is followed:

1. Determine a quota for each piece on the basis of the number of returns that must be received to make the mailing profitable.
2. Address all the envelopes to be used in both tests.
3. Alternate these envelopes into two groups.
4. Stuff, stamp, and seal each group, one with the first mailing, the other with the alternate.
5. Deliver both to the post office at the same time.

In this way all extraneous factors have been eliminated. Letters go out on the same day to the same territory, to the same quality names. Of course, they are keyed differently to make it possible to credit the correct mailing.

Recording results of direct-mail tests. A record of each mailing should be kept not only as a guide to the results of the particular

SCHEDULING INSTRUCTIONS (T)

CARD OR SLIP KEY				FOLD NO		ISSUED BY				ARTICLE			
MAILING PIECE	KEYS	PAGES	MULTI.	PRINTED NEW STOCK	FILLED IN	OUTSIDE	SCHEDULE OF			QUOTA-M.	QUOTA-TOT SCH'D	NO. SCHEDULED	
LETTER													
OUTLINE PAGES													
CIRCULAR													
BRIEF													
BOOKLET													
RETURN	FILL IN	TYPED	STENCIL	MULTI.	PRINTED	PERMIT	GOV T	PRIVATE					
CARD	SLIP												
RETURN ENVELOPE NUMBER	POSTAGE	OUTGOING ENVELOPE NUMBER											
ENVELOPES	1C METER	CHECKING AS SHOWN BELOW											
SLIPS	BULK	ENVELOPE SLUG											
CARDS	OUTSIDE												
LETTERS	OTHER												
LIST													
CHARGE - ADV.													
WORK DONE	BY	DATE											
ADDRESSED													
FILLED IN													
ADDRESSED ENTIRE LIST	NUMBER KILLED												
FIRST NAME													
ADDRESSED													
LAST NAME			PAGE NO.										
ADDRESSED													
FIRST NAME			PAGE NO.										
ADDRESSED													
LAST NAME			PAGE NO.										
ADDRESSED													
LAST NAME			PAGE NO.										
ADDRESSED													

8 SJF7 12-51 2M

Figure 2a. Advertising Department Mail Order Record.

[illegible]

Figure 2b. Record of Results of Mailing.
(Reverse side of Figure 2a.)

test but for future use. Figure 2a illustrates a record that is kept of each mailing—test as well as complete mailings. A record of the results is kept on the reverse side (Figure 2b).

If the article is sold on approval, a record is kept of the articles returned on the orders resulting from the test mailings as well as from the final mailings. The invoice returned with the article bears the key number of the mailing. These invoices are tabulated each week and the total is entered in the column provided for this purpose on the record card (Figure 2b).

3. COPYWRITING FOR DIRECT-MAIL SELLING

Definition of copy. Copy is the written selling-message of an advertisement, including mailing pieces and sales letters. Copy embodies the planning behind the advertisement, and involves layout and production as well. (See *Preparing the advertising piece*, page 19.) To be successful, copy must interest the reader. He must think it was written only for him; it must appeal to him. Experience shows that the appeal to self-interest is the most effective. These appeals are basic: desire for social recognition, for romance, for long life, to make money, to save money, to save time, to save energy, to obtain comfort.

The headline sets the tone of the copy. Copy is usually divided into the following progressive parts: the headline, amplification of the headline, explanation and proof of claims, advantages, and closing. The headline will set the tone of the copy. It may (1) be newsy: "New diesel tractors now in four sizes"; (2) contain advice and promise: "The Easy Way to Wax Floors," or "Your summer trips can be more fun"; (3) be dramatic: "Caught by rising tide in shark-filled waters"; (4) be provocative and surprising: "Which are worse—blowouts or skids"; (5) be selective: "For the one man in seven who shaves every day"; (6) command: "Use an Evinrude and get more fish." The body of the copy will follow the headline. Unusual claims may be proved by reports of special tests, tests the readers can make, trial offers, guaranty, samples, and testimonials.

Fundamental principles of direct-mail copy writing. Application of the following fundamental principles increases the pull of direct-mail copy:

1. Think as the prospect thinks. If you think the way the prospect thinks, you are going to write to him just the way he thinks and he will then behave the way you want him to behave. The ability to put yourself in the prospect's place is the secret of success in copy writing as well as in personal selling.

2. Use the word *new*, either directly or indirectly, whenever you reasonably and honestly can. The word *new*, or any connotation of the word, is a magic sales word.

3. Emphasize the positive. Anything you say, say in a positive way instead of a negative way.

4. Attract attention. How you attract attention is very important. Talk about something the prospect is interested in, not about something you are interested in.

Distinguishing features of mail-order advertising. Mail-order copy is the one form of copy that contains all the points of copy writing. These are its distinguishing features: (1) Usually has very strong news and promise headlines and uses subcaptions liberally; (2) presents descriptions and merits intensely, in as many different ways as space permits; (3) gives strong proof of claim; (4) gives precise descriptions to facilitate ordering; (5) stresses urgency of ordering at this time (sometimes offers bonus for prompt ordering); (6) gives very clear instruction for ordering.

Readability test. The text of the copy should be specific, concise, and vivid. Here is one readability test: (1) Did you use familiar words? (2) Are your sentences short? (3) Have you varied the sentence structure to relieve monotony? (4) Are the paragraphs short and unified? (5) Does everything contribute to the main idea? (6) Have you made the argument simple enough for the reader to remember the main points?

Final check of copy. As a final check, the copy should be examined for these points: (1) Is it interesting to the reader? (2) Is it clear? (3) Is anything in it likely to be misunderstood? (4) Is the most important point given the most prominence? (5) Is it adequate? (6) Is it accurate? (7) Can the story be told in fewer words? (8) Does it make the reader want to buy the product advertised?

4. COST OF DIRECT-MAIL SELLING

High cost of direct-mail selling. It is, of course, impossible to give an exact figure for the cost of selling by mail, but contrary to the general belief, the cost is high. The preparation and mailing of an ordinary one-page letter, with a one-page enclosure, multilithed in two colors, cost \$45 to \$50 per 1,000. The cost of a more elaborate mailing is proportionately higher. At present high production costs, you must be able to absorb a selling cost of approximately 40 per cent to sell profitably by direct mail, assuming you have normal manufacturing costs and overhead.

Finding costs. Estimate of costs will determine the appropriation for direct-mail advertising. But, before direct-mail costs can be estimated, certain points must be considered: the percentage of sales to allow for selling costs (advertising plus mailing), and the amount of business expected from a mailing. For articles costing less than \$10, orders amounting to 4 per cent of the mailing are considered excellent; 2 per cent for a new product is considered optimistic. The following example shows how to figure an appropriation:

Article sells for \$4.50.

Allowable selling cost is $33\frac{1}{3}$ or \$1.50.

Your list has 25,000 names.

You expect a 3 per cent return, or 750 orders.

At \$1.50 each, the selling cost on the 750 orders equals \$1,125.

Hence, you can spend $4\frac{1}{2}$ cents each for a simple mailing piece ($\$1,125 \div 25,000$).

Items that affect cost. Some or all of the following items enter into the cost of each mailing:

1. *Postage.* The cost of regular third-class metered or bulk mail per 1,000 is fixed. Mailings of other classes are mailed at the actual postage rate.

2. *Addressing.* The cost of stencilling and addressing envelopes is fixed. When outside lists are rented, the cost is the actual rental charge.

3. *Fill-ins.* A three- or four-line fill-in costs about \$1 more per 1,000 than a one-line fill-in. Pen and ink fill-ins are slightly more expensive than typed or stencilled ones.

4. *Envelopes, outgoing and reply.* The size and stock of the envelopes determine their cost. Slugging adds to the cost.

5. *Paper.* Colored paper is slightly more expensive than white. Coated paper is considerably more expensive than bond paper.

6. *Printed reply cards.* The size of the card and the stock affect the cost. Two-color cards are more expensive than one-color cards.

7. *Printed order forms.*

8. *Circulars.* The size, number of colors, whether printed on one or both sides, and the stock affect the cost of the circular.

9. *Multigraphing.* The cost depends on the size of the copy. Multigraphing in red and black is no more expensive than multigraphing in black only.

10. *Multilithing.* A two-color multilith job costs more than a one-color job.

11. *Collating and mailing.* Each operation necessary to collate and mail adds to the cost. These operations include collating, folding, nesting, inserting, sealing and metering, tying, sorting, and making delivery to the post office. The more enclosures, the higher the cost.

Although the creative and overhead costs are not included in the cost of a specific mailing, they affect decisively the cost of direct-mail selling. The salaries of the head of the department, his assistants, copywriters, and clerks are included in the cost of delivering the finished product. The department must also bear its share of the overhead. These costs thus affect the number of orders necessary to make direct-mail selling profitable.

Cost per order. The cost per order pulled by the mailing, rather than the cost per mailing, is the important consideration. The

Cost of Mailing 1,000 Letters	Orders Received (Percentage and Number of Items)	Mailing Cost per Order	Cost of Delivering Product (\$1 per Item)	Gross Sales (\$5 per Item)	Loss	Profit
\$50.00	1% (10)	\$5.00	\$10.00	\$50.00	\$10.00	
\$50.00	1½% (15)	\$3.33	\$15.00	\$75.00		\$10.00
\$50.00	2% (20)	\$2.50	\$20.00	\$100.00		\$30.00
\$50.00	2½% (25)	\$2.00	\$25.00	\$125.00		\$50.00

preceding table shows the cost per order of an item that costs \$1 and sells for \$5, and the profit on a mailing of 1,000, based on varying returns. The table also demonstrates that there is little chance of making a reasonable profit on items selling for less than \$2.50. These figures do not take into consideration returns and credit losses.

How to arrive at a quota. For a mailing to be profitable, it must pull a certain number of orders per thousand. That number is the quota. To arrive at a quota, the following formula is used:

$$\frac{\text{Cost of the Mailing}}{\text{Selling Cost per Unit}} = \text{Quota}$$

To find the selling cost per unit, start with the selling price and subtract all non-selling costs plus the required profit on the unit. For example, suppose the selling price of the product is \$6, the manufacturing cost is \$1.80, the overhead is \$1.20, and the required profit on the item is \$.60. The selling cost would be \$6 minus \$3.60, or \$2.40. If the cost of the mailing were \$60, the quota would be \$60 divided by \$2.40, or 25. If the product is sold on approval, and an allowance of 15% of sales must be made for returns of the product, the quota would be increased by 15% of 25, or 4, and the gross quota would be 29.

In a business that sells many products, the advertising department might not know the manufacturing cost, overhead, and profit per item. In that case, management might supply the advertising department with a figure that represents the selling cost per item. Thus, if manufacturing costs were 30%, overhead 20%, and the desired profit 10%, the cost of selling would be 40% (100% — 60%). The figure management would arrive at to be used in the formula would be the reciprocal of 40% or 2½. The formula would then be expressed as follows:

$$\frac{2\frac{1}{2} \times \$60}{\$6} = 25 \text{ quota}$$

How cooperation with the printer can cut costs. Close cooperation with the printer can sometimes reduce the cost of a mailing. The printer can analyze a layout and tell whether or not it can be executed without waste. Frequently a few minor changes in the planning will eliminate waste and substantially reduce the cost. Too

often, however, the printer is not consulted until it is too late to make the change.

How multigraph slugs cut envelope cost. Losses due to excessive estimates of the quantity of envelopes to be printed for a direct-mail effort can be eliminated by multigraphing the exact quantity of envelopes. A company that does a large volume of direct-mail advertising, using a great variety of corner cards and slogans on its envelopes, ran into losses because more envelopes would be printed with a particular corner card than could be used. The surplusage occurred, in many cases, because a particular mailing piece had stopped "pulling." The company now prints corner cards on its envelopes on the multigraph, using metal slugs prepared by an outside firm. By printing its own envelopes, the company can prepare the exact quantity for a particular mailing and rerun when necessary. Besides eliminating the loss due to wastage, it also saves time by avoiding outside printer's delays.

The plan is also applicable to postal permit imprints.

How repeat sales affect direct-mail costs. If you are selling a product that will give you a steady repeat business, you probably can afford a higher sales cost than the normal 40 per cent. Repeat orders provide a substantial profit beyond the cost of the first sale. Firms selling seeds by mail exemplify businesses that are able to pay heavily for their first sale. To cite one example, W. Atlee Burpee considers an approximate cost of 30 cents per inquiry from magazine advertising, which is followed up by mail, a good investment even though no money is made on a customer during the first year. In the industrial field it cost \$1 to obtain a \$2.25 trial order from industrial concerns, but repeat orders filled through the mail cost only 37 cents each, and the average repeat order amounts to \$12.

Each advertiser can determine the proper rate of follow-up for his own business by testing. Robert Stone, in *Profitable Direct Mail Methods*, published by Prentice-Hall, Inc., says that before making the test the advertiser must have these facts before him:

1. The natural rate of use or consumption for the commodity being sold.
2. The average number of annual purchases made by the average customer for his industry.

3. The average unit of sale.
4. Maximum annual potential sales that can be expected from a customer.

5. SUCCESSFUL DIRECT-MAIL IDEAS

An entire campaign features "Promotional Preview." Donahue Sales Corporation promotes the sale of Talon zippers in a direct-mail campaign featuring a promotional package. "Promotional Preview" is a continuing direct-by-mail service to the notions merchandising and buying personnel. Each mailing consists of an attractive cover with an inside pocket for inserts. The pocket avoids loss in handling and permits easy removal of the individual inserts. The format of each issue is basically unchanged except for color. The cover is made of heavy stock and is attractively designed, featuring a zipper and the trademark "Talon." When folded, the cover is $14\frac{1}{2} \times 11$ inches.

Individual inserts report on advance styles in color and fabric that directly affect the merchandising of zippers. The pockets also contain copies of consumer advertising on Talon zippers appearing in fashion magazines and pattern fashion books. The department store buyer thus sees how the manufacturer is promoting Talon zippers to the consumer. Two Order Blanks, in duplicate, are inserted in the pocket. One is the blank regularly used to order staple zipper items. Sometimes a special order blank is included to stimulate immediate orders.

"Promotional Preview" is mailed third or fourth class, depending on the weight of the issue, in a sealed envelope with a stiffener. The envelopes are individually addressed where possible. A slug informs the recipient that the envelope contains the latest issue of "Promotional Preview." The mailing schedule is one month in advance of the date when buying activities of particular events begin.

From an initial distribution of 1,200 copies, "Promotional Preview" is now mailed to a carefully selected list of 2,700 recipients. The mailing list is continually "tailored." From each issue, the more pertinent leaflets are sent with a covering letter as a continuing service to 4,000 smaller retailers.

A novelty campaign increases sales. Foote & Jenks, who sell vanilla to ice cream manufacturers, concentrate on the spectacular

in mailings. During a year's campaign, which won a Direct-Mail Advertising Association award, the firm sent out mailings at intervals of three weeks to 3,500 prospects. Every mailing was a novelty, with a slogan tying it in with a bid for business. On the theory that it is human nature to be inquisitive, Foote & Jenks send all mailings out in provocative containers—cardboard boxes, tubes, and the like—instead of envelopes.

One of the most spectacular mailings was a huge menu resembling that of a *de luxe* restaurant. It was labeled "Café de Vanille," and offered a menu of the finest vanillas under "Specialties of the House." A table d'hôte menu and Budget Selections offered the economy vanillas. A folder on which a plastic knife was attached to an illustration of a plate of vanilla ice cream, said, "Our Bid for a Slice of your Vanilla Business." A plastic hook, attached to a folder, had a sign hung on it, which read: "Our Bid Hangs on this Hook." A swatch of wool with a Hart Schaffner & Marx label was attached to a folder, which compared Foote & Jenks products with Hart Schaffner & Marx tailoring: "The material is the same—but the excellence of the finished product is the result of the maker's skill. So it is with vanilla. Like Hart Schaffner & Marx . . . we take pride in our work." A tiny bottle of real vanilla, a miniature pickaxe, and a tape measure were among the other novelty mailings. The firm's sales have risen 800 per cent since it emphasized spectacular techniques. It writes and prepares its own mailings.

Campaign stressing engineering evidence boosts sales of staple item 65 per cent. A 65 per cent increase in sales of a staple mechanical item that possessed no particular novelty appeal was achieved by the Wayne Pump Company of Fort Wayne, Indiana, in a campaign of four monthly mailings.

To increase the sale of Wayne Foot Valves, the campaign was directed to 4,000 large oil companies and jobbers. The valve had been marketed for eight years and was developed to eliminate the troubles caused by competitive valves. The campaign was theretofore built around this theme, showing how the use of the valve would increase customer satisfaction with Wayne pumps and reduce the number of service calls.

In each mailing the customer was asked to write for a sample valve

on approval. This sample was not given away but was billed subject to return. A further description of the four mailings follows.

Comparison with competitive products. Since the mailings were directed to men with engineering knowledge, the first mailing consisted entirely of an engineering test showing performance comparisons between Wayne valves, and other leading makes, labeled A, B, etc.

Protective and quality features stressed in 2nd and 3rd mailings. In the second mailing, a folder pointed out how a valve which did not contain the Wayne construction features could be ruined in installation. It also showed how rough treatment in installation could not harm Wayne valves. This idea was carried further in the third mailing folder. Titled "It Floats," the folder added further engineering evidence that would lead the engineer to investigate Wayne valves.

Price mentioned in last mailing. In the last mailing a folder, titled "Give those fine new pumps protection," contained a summation of the entire campaign and a final appeal for action. The price was mentioned in this last piece as a clinching argument for immediate adoption of Wayne Foot Valves.

The total cost of the campaign, including postage and mailing, was approximately \$1,250. The 65 per cent increase in sales due to the campaign proved a profitable return.

One-week blotter campaign builds restaurant trade. Given a product or a service that will, of itself, bring customers back in repeat trade, a good advertising campaign to draw the first customers may be sufficient to build up a permanent trade without any further advertising. Such was the experience of a Philadelphia cafeteria, which solved the problem of drawing customers for the first time by distributing, for one week, menus printed on blotters. The plan worked so well that no advertising has been needed since, because the excellent food did the work of bringing the customers back again.

The advertising attack was simple. A good grade of uncoated white (suggestive of cleanliness) blotting paper was selected and cut to menu size. An attractive menu was printed on the blotter by a company with experience in this line of work. As soon as business houses opened Monday morning, a crew of four telegraph messengers was employed to distribute 1,500 menus, one for each desk in

the locality. This was repeated for the rest of the week, until distribution had been made in one block in each direction from the cafeteria. By Friday, the cafeteria had a waiting line during the noon hours, and the trade has since been of a repeat variety.

The explanation is apparently simple. Businessmen were loath to throw out a perfectly good blotter, and as a result they were faced all morning with an attractive, tempting menu. Appetite appeal did the rest.

Good copy boosts business to dealers 35 per cent. Many wholesalers might take a tip from A. Bohrer, Inc., New York City, and advertise directly to dealers much as dealers do to consumers.

Bohrer, a fruit and vegetable wholesaler, periodically sends to prospective dealers an inexpensive 6¼ x 9 inch leaflet emphasizing one or another of its products—but only one in each leaflet. The secret of success (35 per cent increase in business in one year and 25 per cent more customers) is simply good copy. Here are samples:

Bohrer's Orange Aid!

If your customers dote on sweet and tangy orange juice . . . if you want minimum skin and maximum juice . . .

. . . talk to Bohrer's about oranges! Bohrer's can give you orange aid . . . (yes, and lemon aid) . . . that will mean more profit to you . . .

* * *

Don't Whip Bohrer's Potatoes!

Boil them . . . French-fry them . . . Lyonnaise them . . . but please . . . oh, please! don't whip them!

We love our potatoes . . . because they are the best money can buy. Specially selected . . . and superbly graded.

Of course, if you must serve them mashed . . . or whipped . . . we will have to say okay. But kindly whip them gently . . . because we're so fond of them. Thank you.

* * *

We Have Never Been Hit With A Ripe Tomato!

Nobody has ever thrown a ripe tomato at anyone in Bohrer's . . .

But Bohrer's have tomatoes that are hits!

How Limericks helped dealers sell underwear.* A combination cartoon and Limerick promoted sales of Jockey Underwear for Coopers, Inc., Kenosha, Wisconsin. Post cards were furnished to dealers at prices starting at \$3.50 for 600 cards. The back of each

* *The Reporter of Direct Mail Advertising.*

card carried a selling message and the dealer imprint. During the spring months, dealers bought 694,000 cards and reported an enthusiastic response from customers.

Thirty Limericks were included in each series used by Coopers, and the series were changed each Spring and Fall. Each Limerick and its accompanying cartoon were printed in black and white on colored stock. One of the cards showed a jovial gentleman eating an ice cream cone. The Limerick read:

A weather forecaster named Hawes
Lost his job at the bureau because
Jockey Longs kept him cozy
And so while it froze, he
Predicted warm days without pause.

Humorous educational booklet promotes sales of quality merchandise. Odd and interesting facts about its products, in an attention-getting booklet, promotes goodwill and stimulates sales for S. Stroock & Co., Inc., New York clothing manufacturer. Use of humorous cartoons and verses promotes the sales of its quality, high-priced merchandise. They can be readily used in space ads, letters and mailing cards. The idea is open to many applications.

The booklet is distributed by S. Stroock & Co., Inc. to department store executives, men's and women's wear buyers, specialty shops, garment manufacturers, and readers of institutional advertisements. It is a 24-page, 8 x 5½ inch booklet entitled "Stroock's Animal Kingdom" and shows through humorous verses and Thurber-like drawings the history and habitats of unusual animals whose fur is used in Stroock garments. The animals described in the booklet are the vicuna, kashmir goat, camel, llama, alpaca, misti, huarizo, suri, guanaco, and angora goat. Each verse occupies a two-page spread headed by a humorous drawing of the animal and illustrated by smaller drawings on the opposite page.

The verses, in addition to describing the animals, bring out the feature qualities of their fur and mention the care taken by Stroock in selection and manufacture. This is well illustrated in the following excerpt from the poem describing the llama.

They breed from Peru to Bolivia's Crest
And you can't pack them singly (that's not a jest).
They'll rebel and repel every effort you make
Until six are lined up for the trip that you take.

Stroock imports the down and weaves it like magic
Into a warm and luxurious fabric—
Even men make the most of its warmth and its beauty
And they buy it in coats both for style and for duty.
Like Vicuna and Camel it gives insulation.
For long wear choose Stroock Llama—the coating sensation.

Change to humorous direct mail pays.* Long users of conservative, serious, and technical mailing pieces, the Barrett Bindery Co., Chicago, Ill., decided to switch to direct mail in a lighter, humorous vein, with profitable results.

It switched to a series of humorous monthly desk calendars that featured the "Busy Barretts" in cartoon sketches. They are shown each month as comic little people performing various plant operations. The calendars are about seven inches high, on thick white cardboard.

For instance, one mailing, which promoted gummed seals, showed five Barretts busily working on seals. One doughty workman, on a ladder, squirts water on the labels; another Barrett, well entangled with tape wound around him, applies paste to the labels with a large brush; another examines the seals with a magnifying glass. A two-inch calendar is printed near the cartoon, and below is a concise advertising message. A different colored ink is used each month.

The company has found its switch to the humorous-type piece beneficial in terms of results. It is a change that might profitably be followed by other users of the more conservative, straightforward type of mailing pieces.

Montage of newspaper headlines drives home sales message.† An effective mailing piece that reproduced newspaper headlines of winter storms served as a reminder of bad-weather conditions and drove home the selling features of a heating apparatus. By collecting newspaper items or headlines pertinent to particular products or services others may easily adapt the same idea.

As an opening gun for selling stokers and other heating equipment in the South, C. A. McDade & Sons, Montgomery, Ala., sent to prospects a folder which served as a reminder that the past winter had been the coldest in 40 years. Headed "Remember Last Winter," the front cover of the folder showed a montage of weather

* *Geyer's Topics.*

† *Domestic Engineering.*

news from the front pages of various newspapers. Some of the headlines were as follows: "Below-Zero Wave Sweeps In On City," "Bitter Cold Grips D. C. And Sweeps Nation," "Atlanta Digs Out of Record Snow as Force of 800 Works on Streets," etc. Contents of the folder reminded prospects that it was best to prepare in advance for such unexpected weather conditions by immediately installing adequate heating equipment.

Informal memo calls attention to mailing enclosure. Short, informal memos enclosed with mailing pieces provide a saving in paper and catch the reader's attention more dramatically than the conventional letter of transmittal.

Attached to an advertising folder sent to prospects by Eastern Air Lines, Inc., New York City, was a 4 x 5 inch "memo" sheet signed by the vice-president of the company. Copy in typewriter type read as follows:

I believe you'll enjoy reading the enclosed folder—but you'll also find in it something more than enjoyment. Because it tells the story of "two little buyers"—one who used Eastern Air Lines, one who didn't—and what happened to some very bright ideas they had. One of these buyers could be you.

So take a minute to read the story, won't you? Because if you're not flying regularly to market with Eastern Air Lines, this message may point the way to extra benefits for yourself and for the store.

Empty gift boxes stimulate Christmas coat sales.* A Christmas promotion idea, easily adaptable by retailers, consisted of sending empty boxes in gift wrappings to representative businessmen. Cownie Furs, Inc., furrier in Des Moines, Iowa, wrapped three hundred coat boxes bearing the firm name and tied them with blue and silver ribbon. These were delivered to businessmen throughout the city by the firm's truck driver. Enclosed in the box was a letter which read in part:

Dear _____:

Disappointed to find this box empty?

Don't let that "certain one" be disappointed even more on Christmas. This box filled with Cownie Furs will make you an outstanding success as a Santa Claus.

Our gifts range from fur pups at ... cents, fur mitts at, fur

* *Dry Goods Journal.*

muffs from . . . and fur hats as low as, up to a fur jacket, or scarf, or a full-length fur coat from to as high as you want to go.

The boxes brought in numbers of telegrams and special delivery letters showing that the cleverness of the idea was appreciated.

Tested direct-mail ideas for Christmas.* The following direct-mail ideas used by three department stores were directly responsible for booming Christmas sales to out-of-town customers. A representative gift catalog or circular mailed early and accompanied by a letter emphasizing the comfort and convenience of shopping by mail should also prove profitable.

In place of a catalog, Wolf & Dessauer Co., Ft. Wayne, Ind. sent out a 11 x 10 inch holiday folder with a red cover containing a cut-out candle decoration. The center spread was devoted to a color illustration of the outside of the store building decorated for Christmas, and captioned "The Great Christmas Shop of All Northern Indiana." At either side, according to floor location, was a listing of the various items carried by the store. On the page facing the inside back cover, the customer's attention was directed to a bright green booklet placed in a pocket cut into the inside back of the double cover. This was entitled "Christmas Shopping Guide and Memorandum" and contained a suggested list of gifts for men, women, young men, boys, children aged two to six, girls aged seven to fourteen, baby, the home, and the boys in the camps. Opposite each listing was a blank page where the customer could make notes. No prices or detailed descriptions were included.

Benjamin's, Salisbury, Md. sent all customers a "Boxful of Christmas Ideas" which accomplished the same purpose as a circular or catalog. A lightweight cardboard box measuring $7\frac{1}{4} \times 4 \times 1\frac{1}{2}$ inch contained forty separate sheets featuring gift items selected from various departments of the store. Each sheet was illustrated by a pen sketch or actual photograph, and variety was introduced by using black and a roto brown ink.

Concentrating on business from men, Davidson Bros. Co. Inc., Sioux City, Iowa, sent a letter over the signature of Miss Kay Stephen, gift secretary, to a selected list of some 200 names, offering her services as gift counsellor and personal shopper. The response to this letter was extremely gratifying. The same store sent out a

* *Dry Goods Journal*.

mimeographed list of gift suggestions in the shape of a Christmas tree, with each item separated by leaders or dots. The base of the "tree" was formed by the slogan, "The Gift Store, Davidson Brothers Company."

Simple mailing pieces increase telephone sales 40 per cent. A 40 per cent increase in telephone sales resulted from the use of simple mailing pieces by Robert H. Bryson, a Montreal drugstore. The mailings, which can be easily adapted by any retail store or small business firm equipped to handle telephone sales, also increased the average size of such orders by 80 per cent.

Twelve mailing pieces were sent to a list of 2,000 customers over a nine-month period. Many of the pieces were one-fold cards measuring 6 x 4 inch in folded form (see Figure 3). Opened up, the cards had a short message tying in with the illustration on the face of the card and followed by a list of special bargains. For instance, the card shown in Figure 3, titled "A Good Rule," had the following copy:

The rule we use in measuring success, is not our sixty years in business—not the amount of sales—but the number of customers we satisfy.

Telephone orders from our Customers are steadily increasing—Proof of the confidence they have in our ability to serve them reliably, promptly, and economically. Always telephone us for your requirements, and as an added inducement, we offer these attractive values.

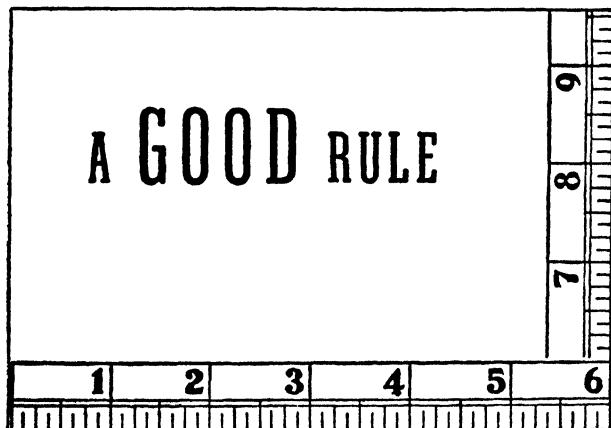


Figure 3. Mailing Card That Increased Telephone Sales.

This is followed by a list of special offers. This same folder was also sent out with a six-inch ruler attached to the front cover.

The card showing the location of the store (Figure 4) carried a similar theme in the copy:

In addition to serving so many Customers residing in St. Andrew and St. George Wards, every day we receive a great many telephone orders from residents of Westmount, Notre Dame de Grace, Hampstead and Montreal West.

We want our customers to telephone us, so whenever you are in need of anything, no matter how small it may be—don't hesitate to telephone MArquette 2391.

We hope these items may be the means of having you telephone us today.

This was followed by a list of specials.

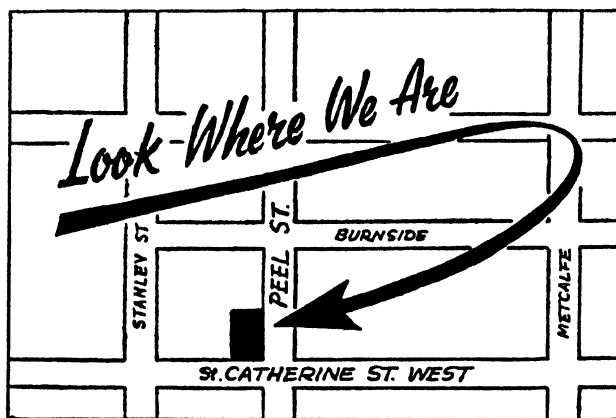


Figure 4. Another Mailing Card That Increased Telephone Sales.

Pre-test offer of new product brings results. A pre-test offer of a new product opened 2,320 new accounts in a mailing of 87,317 letters for The American Bandage Corp. of Chicago. The company directed its campaign to industrial concerns only, for the purpose of introducing "a.b.c. Gauzeband," a new type of bandage that adheres to itself but not to skin, hair or clothes.

Letters sent to prospects offered a dozen rolls of bandage to be used for 10 days under actual working conditions without any obligation to pay. After the trial period, if the product proved satisfac-

tory, the prospect returned the shipping memo to the manufacturer and was billed for the merchandise shipped. If the merchandise had not proved satisfactory, the unused portion was returned to the manufacturer and no charge was made for the quantity used.

All letters were accompanied by reply cards and descriptive literature. One of these pamphlets contained an attention-getting idea that can easily be adapted by other companies. The red cover was captioned: "Here's News!" Below this was reproduced part of a newspaper clipping headlined: "New Discovery Cuts First Aid Costs. Satisfies employees; pays big dividends." Below this was printed in white: "Read The Inside Story . . ." The pamphlet itself described various features, uses and users of the product.

Envelope teasers catch attention and arouse curiosity.* The use of a flash or teaser message on envelopes containing direct-mail advertising often proves effective in arousing the reader's curiosity and in persuading him to read sales literature that might otherwise have been consigned to the wastebasket.

One firm, publishing a small house organ that competed in reader interest with full-fledged publications, changed the color of the envelope each month, and used brief teasers such as "Please Open Me Up" and "Guess!" When mailings were sent during the prospects' rush season, this firm used the following suggestions on the envelopes: "Put this in your pocket and read it later," "Put this in the safe," "Your wastebasket will burn with rage if you throw this in without reading. File it for reference," "You can't afford to dump it. If too busy today, save it for tomorrow."

Another direct-mail advertiser placed the firm name and address at the upper left-hand corner of the envelope, followed by the words: "Present the Golden Dozen." Inside the envelope was a folder which described and illustrated twelve outstanding values.

A folder offering some seasonal special of interest to women was contained in an envelope which showed a line cut of a smartly dressed young woman. The picture caption, "Fortunate, indeed, is the woman who has waited until now," persuaded the average recipient to open the envelope.

A small-town advertiser ran the following copy on an envelope: "Did you Know . . . That you are regarded as a child or moron

* *Member's Bulletin*, D.M.M.A. Inc.

by some of the 'big shots' who write books, movie hits, and advertising?" The envelope contained a single sheet of paper headed: "Children Under 13 Should Not Try to Read This Ad." Copy went on to describe ads that are insults to reader intelligence, and contrasted them with his own policy of telling the intelligent truth about his wares.

Reply cards attract prospect's attention. Edward Stern & Company, Inc., inserted a reply card with a perforated stub in its 9 x 11½ inch, six-page illustrated booklet (Figure 5). When the booklet is first opened, the stub is visible immediately, thus calling attention to the reply card. The stub bears the following imprint on each side: "For a demonstration of STERN LETTERPRESS fill in

Figure 5. Reply Card Inserted in Booklet.

and mail card. Detach this stub before mailing." Each issue of "Printact," which is the house organ, encloses a reply card for a demonstration of a Stern product.

Foote & Jenks used a double reply card, titled, "Hot as a firecracker," to which a tiny firecracker was attached with Scotch tape. The inside of the card contained a printed message that ended, "From now on . . . your orders will be marked 'Hot as a Firecracker.'"

The Lederle Laboratories Division of American Cyanamid Company uses an intriguing device for a reply card. Lederle sends monthly newsletters to doctors and dentists. The newsletters have

a cardboard backing, which, when folded, forms a cover for mailing the newsletter. The edges of the cover are held together by a flap attached to the back edge of the cover by perforations and inserted in a slit on the front of the cover (see Figure 6). This flap is a reply card, the reply address being printed on the inside of the card. Each reply card is a request for a sample of a specific Lederle product. The device makes it impossible for the recipient to overlook or misplace the reply card because it is an integral part of the newsletter.



Figure 6. Reply Card Attached to Newsletter by Perforations.

Map give-aways promote public relations and attract prospects. A map of local territory proved a popular give-away folder for a Virginia secretarial school, and can be easily adapted as a mailing

piece by retailers, insurance companies, laundries, garages, hotels, and others.

A map of Arlington, Virginia, occupied the middle spread of a one-fold, 7 x 9¾ inch give-away designed by the Arlington Institute to publicize the school facilities and to attract new students. Distributed to local residents and transients, local stores and bus terminals, the cover of the folder was headed "New Map of Arlington County Showing New Streets and Bus Lines." A picture of the institute occupied the middle of the cover, followed by the name and address of the school. The back cover of the folder was headed: "Additional copies of this map may be secured FREE in:" This was followed by brief ads of shops and bus terminals who were distributing the folder. The only sales "plug" contained in the give-away was the spotting of Arlington Institute on the map, and a promotion message on the back cover.

6. HOW TO GET AND BUILD MAILING LISTS

Where to get the list of prospects. The sources of prospect lists are too numerous for complete enumeration. The most important include:

1. Customers of the firm.
2. Names rented from other firms.
3. Names exchanged with other firms.
4. Names supplied by list brokers.
5. Directories.
6. Rating books.
7. Membership lists from organizations.
8. Public records.
9. Lists built through space or radio advertising.
10. Names supplied by satisfied customers and prospects.
11. Salesmen's reports.
12. Press clippings.
13. Special list-building plans.

Names of the firm's own customers as a mailing list source. One of the most profitable sources for a good mailing list is the company's own records. Active customers, inactive customers, cash customers, C.O.D. purchasers may all be good prospects for further sales. In a department store, for example, a direct-mail piece on

hosiery can be sent to buyers of women's shoes. To use another example, a firm selling roofing material and paint uses its list of satisfied buyers of roofing material as prospects for paint sales.

Names rented from other firms. Most firms selling by mail are glad to rent their lists of prospects or customers to noncompeting firms. For example, many magazines will be glad to rent the names of their expired subscribers. Book publishers will often rent the names of those who have not recently purchased. Direct-mail sellers of general merchandise often allow noncompeting firms to mail to their names. The rentor agrees with the list owner to test a certain number of names, usually 1,000 or 2,000, at a normal renting rate of about \$15 per thousand. If the test proves successful, mailings are made to the entire list. Either of two procedures may be followed:

1. The rentor sends empty envelopes to the list owner, who addresses and returns them with the understanding that the rentor will mail the envelopes and not make a list of the names.

2. The rentor delivers stuffed, sealed envelopes to the list owner for addressing and mailing, together with a check to cover the cost of postage. The list owner addresses the envelopes, meters, and sorts if necessary, and delivers them to the post office. Post-office receipts give proof of mailing.

A large percentage of direct-mail sellers rely heavily on the lists of others to bring them their business. Lists of buyers of any one item are usually good direct-mail prospects for other items and are well worth the rental charge involved.

Names exchanged with other firms. Exchanges of lists are generally made between noncompetitive firms whose lists are more or less similar from the standpoint of type of prospect. For example, a book publisher might exchange lists with a publisher of a magazine, or with a publisher of an entirely different type of book. The procedure is similar to that outlined in the preceding paragraph, except that in place of a rental fee for the list, each firm addresses from its own list an equivalent amount of mailing matter delivered by the other for addressing. As in the case of rented lists, tests are usually made before large lists are exchanged.

Names supplied by list brokers. The function of the list broker is to suggest mailing lists of prospects for anyone interested in using

the mails for advertising. List brokers are found in every important city. They sometimes operate in connection with firms offering letter services, such as multigraphing, processing, addressing, and mailing. The broker may arrange for the rental of lists from other firms.

To obtain best results in dealing with a list broker, the most successful plan is to call him in and explain the entire plan of sales. He will know what good prospect lists are available and how much they will cost. More than one broker can be consulted, if desired.

Brokers work on a percentage basis, usually 20 per cent, which is paid by the list owner. Each broker has a few lists that he handles on an exclusive basis—that is, other brokers cannot handle except through him—and many other lists which are open to all brokers.

The advantage of working with a broker is that he has accumulated a great deal of information about various lists and can recommend those which have the best chance of bringing back a profit. He will know which lists are doing well for other houses, and which are not. He may discourage the use of a particular list and suggest new lists about which the mailer might not otherwise know. Experienced direct mailers avail themselves of the services of brokers constantly; new firms in direct mail would do well to lean heavily on the judgment of the better known brokers.

Directories. Hundreds of directories are published each year, many of which can be profitably utilized by firms selling by mail. The great advantage of these directories, of course, is that they are comparatively inexpensive. For instance, Polk's Bankers Encyclopedia, which contains a list of all the banks in the country, together with all the important executives of those banks, can be had for about \$27.50. Martindale-Hubbell Law Directory, containing the names and addresses of over 160,000 attorneys, can be had for about \$49. Obviously, if such lists can be used, they are much cheaper to obtain than rented lists.

The objection to the use of such directories is that, because of frequent usage, the names are not so responsive as are those on rented lists. Hence, it is necessary to analyze these directory lists carefully and to select the names that seem most logical. For example, it is possible to secure at a low price a book containing the names of many thousand corporation directors; but few direct-mail firms can

mail profitably to the entire list. As an illustration, it might happen that directors who are treasurers of corporations would be better prospects than those who are presidents; or that directors who are secretaries might buy more willingly than those who are treasurers. Where lists are large enough, it is worth while to study them to determine whether or not there is some logical breakdown that would make at least part of the list pay.

The most common directories are trade directories, telephone directories, street directories, city directories, blue books and credit-rating books.

Membership lists from organizations. Membership lists of clubs, social organizations, lodges, trade associations, professional groups, labor unions, and other organizations make good mailing lists for some types of propositions. The roster of membership is usually obtained from the secretary or president upon tactful request and satisfactory explanation of the use to which it is to be put. Sometimes some inducement must be offered for the use of the list.

A list of trade and commercial associations with the names and addresses of the secretaries is published annually by the United States Department of Commerce.

Using public records for mailing lists. Public records frequently make excellent mailing lists. These are obtainable from national sources and county, state, and municipal records. Thus, voting and tax lists, marriage licenses, building permits, automobile licenses, and the like, supply valuable names. Inquiry at the place in which the public record is filed should be made to determine whether the names may be copied from the source, or whether a list can be secured upon application. Sometimes a nominal fee is charged for the list.

Lists built through space or radio advertising. Some direct-mail firms obtain most efficient results from leads obtained from space advertising or through radio advertising. To build a list rapidly, the most successful procedure is to offer a premium, such as a booklet, an article of merchandise, or some other item.

The greatest advantage of building a list through advertising is that it is an exclusive list; no one other than the advertiser has access to it. It is also a selective list. The disadvantage is that such lists are expensive to build.

It is not unusual, for instance, for a list of names compiled from magazine advertising to cost 50 cents a name. Obviously, business obtained from these names must be substantially greater than that obtained from rented or directory lists before there will be any profit on the investment.

To eliminate curiosity seekers from the list a small charge may be made for the premium offered.

Names supplied by satisfied customers and prospects. Customers and other prospects may be willing to supply names of friends, relatives, or acquaintances who might be interested in the proposition. The following practices have been found useful in building mailing lists with the aid of satisfied customers:

1. Send letters to all customers at one time asking them to suggest names of friends who might be interested in the product or service. Supply a form for listing the names.

2. Send a letter, or a series of letters, to each new customer within a reasonable period after he has made his first purchase, and in the letter, or in one of the series, ask for a list of names.

3. Offer a premium in return for the favor of submitting names. If salesmen are used, they can deliver the premium.

4. Ask for a list of names and offer a substantial reward if actual sales are made to any of the prospects. For example, a profit-sharing plan was used by a fuel- and oil-burner dealer to get prospects' names from customers. Each customer for whom a job had been installed received an impressive folder, the cover of which resembled a bond. Upon opening the document, the customer found ten perforated coupons with ruled lines for the names and addresses of suggested prospects. If a sale were made within three months to one of the names filed the customer was given five dollars.

5. If distribution is through a dealer, wholesaler, or jobber, and names of customers are sought, enclose a return post card in the package, and offer a premium if the card is returned by the customer.

Building a list through salesmen. Various methods have been used to secure the co-operation of the sales force in building up a list of names that are good mail-order prospects. Among these are:

1. Have salesmen send in daily, weekly, or monthly reports of prospects upon whom they have called.

2. Supply salesmen with report forms, cards, or other equipment that simplifies the process of noting names of prospects.

3. Require salesmen to submit certain information about the prospect in addition to his name and address, to permit proper classification of the prospect.

4. Place a limit on the number of names to be submitted. This tactic assures a better grade of names.

5. Set up rules that must be met before names can be considered acceptable prospects.

6. Offer incentives to arouse interest in suggesting live-prospect names.

7. Educate salesmen in the importance of mailing-list work, and show them by means of booklets, sales meetings, and bulletins how to gather names of prospects.

Lists built through clippings. The list that is compiled by making press clippings of direct leads for sales is likely to be up to date and correct. For example, clippings of marriages may form the basis of circularization for furniture sales, and news items of fires may create a list of prospects for fireproof roofing. The clippings can be secured at a low cost from firms offering newspaper-clipping services. Careful instruction should be given as to the clippings desired and the areas to be covered.

Special list-building plans. Any number of miscellaneous ways can be mentioned for collecting names of prospects. For example, retail stores frequently undertake to build their lists through special services. The personal shopping bureau may keep a list of names of shoppers assisted; a special boys' broadcast as a store-promotion stunt may yield the names of all persons attending the broadcast and furnish an excellent list of prospects for junior clothing. One department store builds a mailing list by having a birthday registration book in the children's department. An inexpensive present is sent to each child on its birthday. This prompts customers to register their children and to notify the store of changed addresses.

Contests are a common method of building mailing lists. Employee contests with prizes offered for the person submitting the largest number of names resulting in sales have helped to build good lists. Contests in which the public participates is another

popular method, for the names and addresses of those who take part in the contest can thus be secured.

Checking names before adding to list. Some companies enhance the quality of their mailing lists and thus increase the percentage of returns from each mailing by checking all names before adding them to the list. The trouble and expense of this preliminary check are considered worth while if frequent and expensive mailings are made from the list. The checking is usually done by the sales or credit department.

How to keep mailing lists. Any organization that has invested time and money in building up mailing lists will want to keep a careful file of them. Since lists may be kept in the form of cards, a directory, a book, a printed list taken from a book, typewritten sheets, or in the form in which it is received from various sources, some system must be devised for locating the lists as they are needed. File boxes, drawers, and bookcases are generally used for housing the lists. In addition, a card record is made up for each individual list, indexed by field, subject, or title. A record of the number of times the list is used may be made directly on the index card.

The list of prospects, if made on 3 x 5 inch cards or stencils, should be grouped geographically by city or town and state, in alphabetical order. The names in each group should also be alphabetical, preferably with the last name first. This arrangement facilitates the weeding out of "undeliverables."

A number of concerns using stencils report that if a list is to be used ten to twelve times a year, it is more economical to have a stencil made for each name, to be used in addressing, than to have the list addressed by typewriter or by hand each time.

Increasing the effectiveness of the mailing list. If the mailing lists are broken down after use to segregate the names of those who have responded from those who have remained inactive, the effectiveness of the lists is increased.

Lists of individuals must be watched for errors in the spelling of names, incorrect addresses, wrong titles, and other mistakes. Corrections should be made, and names of persons who have moved and left no address or who have died should be removed. Lists of firm names must be watched for similar errors. Changes in names of

buyers, managers, presidents, secretaries, and other officers must be noted, and the names of bankrupt firms must be removed.

Keeping a list up to date requires not only constant vigilance to insure that the details are accurate but also breakdown of the list into special classifications that suit the purposes of the firm. Such classifications may be: (1) sources of the list; (2) type of list; (3) frequency of purchase; (4) profession of prospect; (5) volume of purchases; and the like.

Care must be exercised in deciding whether names should be removed entirely from the mailing list into an inactive list because no response has been received after repeated mailings. Such factors as the profit on a sale, repeat possibilities, and any other items showing how much can be spent on mailing to a prospect before it becomes unprofitable to do so must guide the firm in segregating inactive names from his lists.

Occasional checking of mailing lists by salesmen and dealers in particular territories may help to keep the list correct. An established procedure in the organization for getting information from various company departments to the mailing department, as to changes in names, addresses, and closings of accounts, will facilitate keeping the list correct.

The checkup mailing. The mailing list should be cleaned out at regular intervals to remove the names of persons not receiving the mail. To accomplish this step the statement "Return Postage Guaranteed" is included on the envelope under the sender's return address, in the upper left-hand corner of the envelope. All envelopes carrying this statement which cannot be delivered are returned to the sender (unless the Form 3547 statement is used), with the reasons for nondelivery.

When a list is several years old, it is usually worth while to obtain forwarding addresses of prospects. To secure such addresses, there can be printed or rubberstamped on the lower left-hand portion of the envelope or wrapper used to send third- or fourth-class mail: "If addressee has removed and new address is known, notify sender on Form 3547, postage for which is guaranteed." The post office will destroy the mail not delivered but will send a card with the new address. There is a charge for each card.

Keeping a personal mailing list up to date. When mailings are addressed to personnel instead of to the firm, a check of changes in names should be made at intervals. To verify the accuracy of the 5,000 retailers' names on the list, Durene Association of America sent the following letter to personnel managers of 701 department stores. It drew an immediate response of 84.5 per cent from these stores.

To The Personnel Manager

Dear Sir:

Please do us the favor of having one of your people check the enclosed list of executives, making necessary deletions and additions.

Your co-operation will enable us to provide full courtesy and ensure safe delivery of informative mailings concerning the consumer advantages of the merchandise from your regular resources which is made of Durene yarn.

A stamped addressed envelope is provided for return of the corrected list.

I shall much appreciate your help.

A. C. Layton Newsom
EXECUTIVE SECRETARY

ACLN:ch
ENC.

Other ways of cleaning out a list. Various other methods can be used for bringing a mailing list up to date. One way is to make a free offer in a letter that is sent to the entire list. This method was used, for example, by a printer who sent a mailing piece in the form of a French folder, on the back of which was an inspirational poem. Beneath the verse was a notice to the effect that copies of the poem printed on good stock and suitable for framing would be supplied to the reader without charge. Over 50 per cent of the firms on the mailing list responded to this offer.

It is sometimes profitable to clean out the entire list by frankly asking the prospect to make corrections and to indicate any suggestions he has with regard to his listing. *Parents' Magazine* checked its mailing list with a frank, inexpensive mailing piece sent to a list of 9,300 space buyers. The mailing piece consisted of a large envelope enclosing a Reply-O Form (see page 122) monarch-size letter. Three words, "Keep It Clean," comprised the only copy that appeared on the envelope, other than the third-class indicia, the return

postage guaranty, and the return address. The letter repeated the envelope copy on the letterhead with the question mark "Keep It Clean?" and then said:

We're trying to—our complimentary mailing list, that is. So—you will be a good fellow—and slide the card—out of the pocket—on the back of this sheet—and let us know—whether you've moved—died—changed your name—gotten a better job—or anything else—that may have happened to you—that makes our present stencil—incorrect . . .

This plan brought 46.1 per cent returns.

Master control system keeps mailing lists in order. Users of direct mail might benefit from the neat master customer control card system developed by the Broadway Department Store, Los Angeles, Calif.

The store's card system is primarily for mailings to increase buying by charge customers, but it can be used as easily for lists compiled from cash or C.O.D. customers to whom deliveries have been made. The system classifies purchasers according to the type of goods they have purchased—"shoe" purchasers, "dress" purchasers, "hat" purchasers, and the like.

Periodically, mailings are sent to the shoe purchasers telling them of sales of hats, dresses, coats, etc.; to hat purchasers telling them of sales of shoes, dresses, coats, and so forth. Of course, mailings about shoe bargains are not sent to the recent shoe purchasers, nor mailings about hat bargains to recent hat purchasers. By informing customers of other goods available, which they have not already purchased, the company secures a gratifying response. Results vary from 5 to 25 per cent. Mailings range from 2 to 10,000.

7. HOW TO WRITE SALES LETTERS

The uninvited guest. What is the person whose name is on your mailing list likely to be doing at the time your sales letter reaches him? The executive may be dictating a letter, figuring out estimates, interviewing a salesman, or talking over the telephone. The retailer may be serving a customer, taking stock, considering a new proposition, making up his books, or planning a sale. The housewife may be preparing breakfast, washing dishes or clothes, sweeping, cleaning carpets, or hanging pictures. Each of these and

the many other persons you are seeking to address may be doing one or another of a thousand things at the moment your sales letter is delivered. You have no way of knowing what their activities are, what their thoughts are; but you may be certain that they are doing and thinking something. No one is just waiting for your letter to arrive.

What this means for the sales letter writer is largely a matter of viewpoint. To one the situation may seem to be bristling with obstacles, like a barbed-wire section of No Man's Land. To another it may be alive with opportunities.

No one is just waiting for your letter to arrive. But the opportunities in the situation arise from the fact that everyone is waiting for something—waiting in the sense of working toward, aiming at, or hoping for it. To the executive it may be a method of reducing costs; to the retailer a means of increasing sales; to the housewife a new way of lessening the drudgery of her daily routine. Then, into the mind of the name on your mailing list, preoccupied as it is with such problems, hopes, ambitions, and fears, walks the uninvited guest—your sales letter.

No uninvited guest is at once welcomed with open arms. He has to make his way in the face of indifference and suspicion. So also does your sales letter.

The reader is constantly thinking of himself, is mulling over in his conscious or subconscious mind ways and means of achieving certain things that mean a great deal to him. If the sales letter tries merely to distract his attention by clamoring about itself and about what it wants, there is a conflict of which the reader can readily rid himself by simply reaching toward the wastebasket. If, however, the letter talks about the reader—tells the executive that it can show him a method of reducing his costs, or the retailer a means of increasing his sales, or the housewife a new way of lessening the drudgery of her work—the *me* interest is stirred, and the reader is prepared to "listen."

What is it that makes a letter sell? The letter wants and asks the reader to do something—to "mail the enclosed card today," to "ride in the new Standard," to "examine this book for five days without obligation." The reader, however, already has his own wants. He is not interested in what you are wanting and asking him to do. He is not interested, that is, until you show him that what you are

wanting and asking him to do is so closely connected with what he himself wants, that by doing as you ask he will be taking a step nearer one of his own hopes and desires or a step further away from an old fear or anxiety. In a word, the letter that sells is the letter that succeeds in tying up what it has to offer with the reader's wants.

Know your reader; know your product. To tie up what you have to offer with the reader's wants, study your reader and study your product—imaginatively. By putting yourself in the reader's place, find out what his interests are. Then study your product to discover how it can be made to tie up with those interests. Above all, cultivate the habit of visualizing clearly and simply. Eliminate from your mind the preconceived notions as to human nature and the technical knowledge of your product that prevent you from seeing the wood for the trees.

The ingredients of the successful sales letter. For the successful sales letter there can be no formula. Sales letter writing places a premium upon originality—upon keeping one step ahead of the times. What pulls today because it is new, is old tomorrow and has to be thrown into the discard. If, however, a formula were to be stated, the ingredients of the successful sales letter might be listed as follows:

1. *The opening*—which gains the reader's attention by tying in with his thoughts and emotions concerning himself, thus exciting his curiosity and tempting him to read further.

2. *The explanation or description*—which pictures for the reader the main features of your product or service.

3. *The motive*—which creates in the reader the *want* for what you are selling by describing what your product or service will do for him; how it will contribute to his pleasure, comfort, security, or gain.

4. *The evidence*—which establishes in the reader's mind conviction as to the truth of your statements and the value of your product to him.

5. *The penalty or inducement*—which gets the reader to act at once.

6. *The close*—which tells the reader exactly what to do, how to do it, and makes action easy.

These are the essential ingredients. The method of their combination, however, varies when different hands do the mixing.

Getting the reader's interest in the opening. The opening must flag the reader's attention. It can do this best by speaking to him of himself—his problems, hopes, ambitions, and fears. Then, his interest excited, the reader is led into a description of the product or service offered and is made to want it and to act in order to get it, *for what it will do for him*. Notice how the following openings tie up with the particular reader's wants.

TO AN EXECUTIVE

Dear Mr. Simpson:

Do you ship by Parcel Post?

If you do, you can't afford to miss knowing about a new and very efficient method of handling C.O.D. and insured shipments. It will speed up your shipments—and cut your labor and error costs by 30%.

This remarkable and simple system is fully described and illustrated in a little booklet entitled, "If You Ship by Parcel Post."

TO A RETAILER

Dear Mr. Beckman:

Do the companies that furnish you with the fountain pens you now sell ever think about your turnover problems?

For example, how often does their advertising demand that you handle a new color?

Here's Sheaffer's way—our new Grey Pearl, one of the most beautiful colors we've ever introduced, was announced to our dealers nearly four months ago. Shipment of this color wasn't promised until October, and we won't begin to advertise it until June of next year.

What does it mean?

It means that Sheaffer dealers are given an opportunity to move out the oldest color in their stock to prepare for the new color, which will be shown to customers

only when the dealers are ready for it.

The selfish way is suddenly to flood the country with advertising

TO A DOCTOR

Dear Doctor Blake:

Doctor, what shall I do for my cold?

At this season of the year your patients ask you that troublesome question many times.

The local symptoms of colds in the head are quickly relieved by the use of EfeDroN Hart Nasal Jelly.

EfeDroN promptly relieves the nasal congestion by contracting capillaries, reducing turbinates, and diminishing hyperemia. It quickly opens the nasal air passages

TO A YOUNG MAN

Dear Mr. Williams:

Step into your employer's office tomorrow and demand a 100 per cent increase in your salary. Will you get it?

Could you step out to some other firm and get a job paying twice your present salary? Probably not, or you would do it, of course.

Yet this is exactly what LaSalle-trained men are doing every day.

TO A WHITE-COLLAR WORKER

Dear Mr. Burnett:

On pay day—does your money go around? Or does it fail to stop all the gaps made by last month's bills?

Just yesterday we helped a family solve a problem that threatened to cause the head of the house to lose his job. It was the same old story—pay reduced, and unexpected extra expenses had thrown the family budget out of gear. Creditors were pressing. Bills had to be paid to save his credit—and to save his job.

This problem was solved through our Personal Loan Department

TO A MOTHER

Dear Mrs. Ferguson:

After baby's food and baby's clothes, the most important thing you have to decide upon is the little cart baby is going to ride in—is going to be seen in—is going to be admired in.

Never a child came into the world but was worthy of as good a cart.

TO A FARMER

Dear Mr. Jensen:

You're interested in better hay? You want to increase the value of your hay crop, and at the same time put up that crop with less expense?

The John Deere Way of Making Hay will do both these things. The method is built around the John Deere-Dain System Rake. Do not confuse this rake with the common side-delivery rake. It is different, because it has—

curved teeth
inclined front frame
wheels of adjustable width

—all of which are absolutely necessary to make a light, fluffy windrow.
It is a left-hand rake.

Whether you are selling a fountain pen or an automobile, a lipstick or a piece of real estate, the principle is the same. Discover what the reader is most interested in, and play to that interest as a baseball pitcher pitches to the batter's weakness. Forget yourself, and tell the reader what your product or service *will do for him*.

Tell a story to get interest. One of the fundamental interests of all human nature is the interest in a story. The most sophisticated person can be attracted by an anecdote or a short narrative. The story should have a close application to the subject and purpose of the letter and, of course, should be very skillfully written.

Example of story beginning. The following paragraphs illustrate a story opening that immediately enlists the interest of the reader. The letter begins with a narrative that is full of warm human interest. In the very first sentence it begins to sell fish. The first paragraph leads the reader on to the next. Notice how its third paragraph starts with a query, often an effective device for waking up the reader when the letter comes to a point where the indifferent reader is likely to doze. Paragraph four introduces the offer in a pleasantly offhand manner: "You won't mind, will you, if I ship some of my fish direct to your home?" The clauses, "It won't cost you anything unless . . ." and "Try the fish at my expense, and judge for yourself whether . . ." are effective in the direct-mail selling of many products.

Dear Friend:

Way back in 1623, a small group of Pilgrims gathered in their small fish huts to name this fishing port Gloucester. They were a hardy lot of folks, living mostly on game and salt water fish. They built small boats and braved the treacherous waters off Gloucester to get fish for their families. In those times women folks helped too—for every hand meant more food for the cold winter months to come.

I remember, as a small boy, my father telling me about being lashed to the mainmast in a stiff blow, when his father's schooner was half buried in the plunging sea. It was a hard life. But still, Gloucester boys follow

it year after year. It's in our blood. It's our way of Livin'. Nature has located us close to the richest waters there are.

Have you ever wondered why Gloucester is one of the greatest fishing ports in the world? You see, we have many varieties of delicious fish landed here daily. More good fish come right in here to Gloucester than any other port in the world. That's why you can never say you've tasted fish at its perfect prime unless you get it direct from Gloucester.

So you won't mind, will you, if I ship some of my fish direct to your home? It won't cost you anything, unless you feel like keeping it. All I ask is that you try the fish at my expense, and judge for yourself whether it isn't exactly what you have always wanted.

This letter of the Frank E. Davis Fish Company contained five more paragraphs and an enclosure.

Using news as an attention-getter. News in a sales letter will usually supply the attention value necessary to enlist and carry the reader's interest, but it should always lead to and tie up with the selling message. Here are two letters that make good use of the news opening.

Dear Sir:

Last week the XYZ Company checked over its stock of our ice-cream cans, and sent us 500 cans for re-tinning. They feel that putting their cans in condition now will save them money next spring and summer. They know that in the busy season, no one has time to wait for a can to be re-tinned—it is quicker and easier to order a new one.

Of course, you know we make more money by selling you new cans than by re-tinning your old ones. But we want to be selling you cans a good many years, and we know that if we can save you money on your annual expenditure for cans, you are going to think mighty well of us and of our cans.

Now, won't you please go over your stock and send us every one of our cans you have that needs re-tinning? You know our charge for this re-tinning is only one-fourth the price of a new can.

And if you don't use our cans, you may feel that our low re-tinning charge is another good reason for using our cans next year.

Dear Sir:

We all sympathize with our neighbor, Mr. J. P. Jones, whose home burned to the ground last Thursday.

And we all hope we shall never have a similar disaster affect our own homes. There is one sure way to eliminate this ever-present menace of Fire. That's to be certain the roof, where most residential fires start, is of fire-resistant material.

Flintkote Mineral Surfaced Shingles give you this fire resistance. Every

package carries the approved label of the Fire Underwriters' Laboratory. Insurance companies recognize, in most communities, the fire-safety of Flintkote Mineral Surfaced Roofs by giving lower insurance rates.

Let us talk with you about your home. Give us a ring today . . . we shall be pleased to call at your convenience.

Cordially yours,

Stunt letters to get attention. Stunts are used in letter writing to get attention. They have been used in sales letters, promotion letters, and collection letters principally. If the stunt meets the following tests, the letter may be effective:

1. Is it in good taste? You can't risk offending the reader.
2. Does it tie up with the subject of the letter?
3. Is it original? You don't want the reader to say "old stuff" and stop there.
4. Does its cleverness distract from the message? A stunt may be so clever that the reader forgets about what he is being asked to do.

Example of stunt letter that meets the tests. The following letter gets right down to brass tacks with its stunt. The two brass-headed paper staples inserted on the first line cannot offend anyone, and cannot hurt anyone. The stunt is original in its approach and is not so clever that the reader forgets what the writer wants.

Mr. Tag Buyer:

Getting down to brass tacks . . . [Here the two brass heads appeared] . . . it's your tag business we're after.

Will you meet us half way and let us show you what we can offer on your tag requirements?

It won't take but a few minutes of time to take samples of your tags, mark on them the quantities that you buy, drop them in the postage prepaid envelope attached—and mail.

Will you do it? You can bet the favor will be most welcome and that prices and samples will reach you by return mail.

Thanks a lot.

Yours very truly,

WURZBURG BROTHERS

We are ready to supply all sizes of good tags . . . plain . . . printed . . . numbered . . . perforated . . . scored . . . all weight stocks . . . metal eyelets . . . plain eyelets . . . with deadlocks, wires or strings . . . in gangs . . . in fact almost any type of tag you want.

A stunt opening that worked. The stunt used in the following letter not only attracted attention but tied up immediately with the quality of the product that was offered. The letter, sent to 300 carefully selected prospects, brought 40 replies and resulted in sales of 56 units.

You can really
treat 'em rough!

(Here was attached a
pearl)

(Here was a drawing of
a hammer, poised ready
to strike the pearl)

HoTaY Pearls will take an awful beating. Even hammering doesn't faze them. Not that you are likely to hammer your necklace, but this shows you that they are all that I claim.

HoTaY Pearls are not the ordinary simulated pearls. Their beauty is inherent. They are to all intents unbreakable. They will not scale or crack. They will wear and wear and WEAR and retain their original luster.

I'll send you postpaid a graduated necklace 18 inches long with a non-tarnish safety clasp of white metal in an attractive box for only \$3.00. These are identical with those I formerly sold at \$10.00 and up.

This chance comes to you just when you are beginning to think of the perplexing Christmas problem. Then there are birthdays to remember all through the year—graduation presents for next spring or maybe a really different and breath-taking bridge prize.

This 18 inch graduated necklace will nestle alluringly at your throat. It is the season's most popular length. The beads are perfectly matched and evenly graduated to the size knowing buyers are choosing. At only \$3.00 it is a real bargain.

Those who bought HoTaY Pearls years ago still prize and praise them and ask for more. Those in the business have valued them at much more than the price I charge.

I haven't a great many, so it's best to act without delay. Mail the convenient card TODAY, so that you'll not be disappointed.

Very truly yours,
J. D. Oakley

Story opening combined with stunt. A mail advertising agency reported unusually good results from the following letter, which combines a story opening with a stunt. An opened oyster was faintly imprinted at the top of the sheet. Half an imitation pearl was tipped in at the correct spot in the outline of the oyster. The regular letterhead form appeared at the bottom of the sheet, while the statement "You Have to Open Oysters to Get Pearls" headed the top

of the sheet. The pearl, of course, provided the lead for the story that follows.

Mr. Jones:

In the South Sea Islands deep-chested natives dive time after time, bringing up great handfuls of oysters in the hope that some of them may contain pearls.

There is no way of telling which oysters *do* bear pearls, and the oysters themselves are strangely reticent about the whole matter. A diver may work for hours without acquiring more than the basis for a stew. But the law of averages dictates that every so often he *will* find a pearl . . . and the more oysters he brings up the more pearls he will find.

Your business, like ours, is based on that old law of averages.

Your oysters are your prospects; your pearls, the orders you sell. Not all of those prospects can be sold, but the law of averages says that if you call on enough of them . . . tell enough of them your story . . . keep the mailman placing your literature on their desks . . . you will get the orders you need to keep growing and prospering. And if you concentrate on a list of *known* prospects, you are bound to increase the number of orders you get from the calls you make.

Before you start your Fall selling, it will pay you to scrutinize your lists of prospects carefully . . . make sure that you have enough "oysters" to keep the pearls rolling in during the months ahead. If your lists are old or incomplete, we can supply you with new ones that are up-to-the-minute in the information they contain and double-checked for accuracy.

Our list service covers more than 8,000 local and national markets. A copy of our 19— list catalog, giving estimated counts and prices of these markets, is yours for the asking. It doesn't cost you a penny to call AT 4457, or to drop the enclosed card in the mail, but it may pave the way to more sales and more profitable sales in the future. Call us, or use the postage-free card, today.

Yours very truly,

BURGESS-BECKWITH, INC.

Gadgets and stunts. A broadcasting company has made effective use of gadgets attached to colored cards to call attention to the selling message on the cards. For example, a red card measuring $7\frac{1}{2}'' \times 5''$ has a tiny hatchet slipped into an opening on the card, with the following heading and message:

WHY NOT BURY THE HATCHET?

Are you at war with that vicious monster, Increasing Selling Costs? If so, there's probably nothing you'd like better than to bury the hatchet.

Retailers, wholesalers, service organizations—large and small alike—

have found that KSO-KRNT advertising keeps their selling costs down and sales up. Call 3-2111 today and ask a KSO-KRNT representative to show you "case histories" of Des Moines advertisers who are selling more economically on KSO or KRNT.

Iowa Broadcasting Company
Craig Lawrence
Commercial Manager

Tests to apply to an opening. Don't be satisfied with an opening until you have tested it with the following questions:

1. Is it timorous? An opening that is lacking in vitality or is hackneyed will not impress the reader. Avoid such weak expressions as, "It gives us pleasure to inform you"; "You will be interested to know that"; "I am offering something that may interest you."

2. Is it negative? An opening that contains an unpleasant suggestion or an apology does not attract the reader. For example, avoid suggesting trouble, or that you are taking the reader's valuable time. Of course, if the principal purpose of the article is to protect the reader from trouble or disagreeable experience, the negative suggestion may be effective.

3. Is it relevant? If the opening is not relevant, no matter how interesting and clever it is, it will fail in its purpose of holding the reader's attention. The opening must tie up with the sales message of the letter.

4. Is it indirect and vague? A colorless generalization cannot excite the curiosity of the reader and make him feel inclined to read further. If the opening seems vague, make it direct and specific and notice how it gains strength. For example, compare the following openings:

Vague: It does not cost much to run an Electrolux.

Specific: A few pennies a day—25 to 70 cents a week—that is all it costs to run an Electrolux.

5. Is it too smart? Mere smartness will deprive the letter of character and may offend the reader. The following is effective as an attention-getter, but so is stepping on a person's toes.

I hope I am wrong
in addressing you as
Dear Ostrich:

But you should not avoid facing facts, etc.

Create desire for the product. After favorable attention has been obtained, the next step is to create a desire in the reader for the product that is offered. To achieve this end, the reader should be told what your product or service will do for him. The central selling point should be selected and fitted to a need or desire of the prospect. The prospect must be made aware of that need or desire by appeal to his intellect or his emotions. *Appeal to emotions* is the more important of the two in a sales letter. Fundamentally, people act on the rather simple notion of desiring to have pleasant things and to avoid unpleasant things. This does not mean that the writer of a sales letter can afford to neglect to give facts and logical arguments that will convince the reader of the superiority of the product in satisfying his needs. It merely means that in the appeal to reason the importance of emotional appeal should not be overlooked.

A letter that disguises the appeal to reason. As an illustration of the above principle, take the case of an automobile agency trying to interest a banker in the purchase of a low-priced car. A low-priced car? A banker? Impossible, you may say, to make any contact with an individual of this class—a man whose everyday experience teaches him to think slowly and cautiously and to act only after careful check and double-check—impossible to make contact with this man by any means other than mere cold logic and reasoning. But consider how persuasively the emotional appeal is put forward in the following letter:

Dear Mr. Spencer:

At a meeting of bankers at the Missouri Athletic Club last month, there was only one bank president who did not own a Ford.

He asked the others,

“Why do you fellows ride around in Fords when you can afford the best?”

One answer was,

“I made my money through sound investments and careful management, and there is more value dollar for dollar in a Ford than in any other car made.”

Another answer was,

“In the first place, my investment is very small. I can afford to let my car stand on the street in all kinds of weather, can park it in a small space, and then at the end of the year can trade it in and get greater value in proportion than with any other car I ever owned.”

We offer the best investment in the automotive world.

Come in and see us. Our showrooms are attractively arranged for your comfort. You are under no obligation to buy.

Sincerely yours,

This letter is a skillful sales message, for two reasons. First, it opens by speaking to the banker of himself and his own interests—"At a meeting of bankers . . ."—and thus stimulates him to read further. Second, although at first glance it may appear to be an appeal to reason, on closer analysis it shows itself to be really an emotional appeal cleverly disguised. It addresses itself to the emotion to which, above all others, a banker would probably be most susceptible—the desire to make even his minor purchases sound and dividend-paying investments. Furthermore, it conveys its message the more effectively by refraining from arguments regarding body style, gasoline consumption, easy-riding qualities, etc., etc., and, instead, merely quoting the opinions of those to whom a banker would be most willing to listen—his own colleagues. If the emotional appeal can be used to sell a low-priced automobile to a banker, it can be adapted even more readily to other products and to other classes of people.

What emotions can you appeal to? The emotional appeals are numerous, but basically they simmer down to these six: love, duty, pride, gain, self-indulgence, and self-preservation or fear. These are also the primary buying motives.

In a sales letter, the more motives you can appeal to, the more effective may be your sales letter. Thus, if you are attempting to interest a married man in the purchase of insurance, you can appeal to some or all of the following emotions: (1) his *love* for his wife and family; (2) his sense of *duty* in providing for his dependents; (3) his *pride* in meeting his responsibilities; (4) his sense of *gain* in purchasing a form of insurance that is an investment as well as a protection; and (5) his *fear* either that his dependents will be left destitute in the event of his death or that he will be without a source of income in his old age.

Determining which emotion to appeal to. Determining which emotion or emotions to stir is, once again, a matter of knowing your reader, knowing your product, and tying a Gordian knot between

the two. If you are selling a business magazine to an executive, you may stress gain (the magazine will prove a valuable source of new ideas), and/or fear (by not subscribing the executive may miss something and, as a result, may fall behind in the competitive race).

In selling to a retailer you may choose to play up to his pride in the quality of the merchandise that he sells; his sense of gain if price is a feature of your product; or his fear that, if he fails to stock your goods, he may lose business to those of his competitors who do.

In selling furniture to a housewife you may aim to stir her pride in her home; cosmetics, her personal pride or vanity; a luxury, her self-indulgence; a baby carriage, her love for her child.

If you are to make your reader *want* your product for what it will do for him and *act* in order to get it (and not merely eye it from afar with mild approval), it is to the appropriate emotion or buying motive in him that your sales letter must be addressed. After you have stirred in the reader the feeling of wanting what you have to offer, it is a relatively easy matter to prove to him that he should have it.

The following sales letters, each of proved effectiveness in its particular field, illustrate how in actual practice the emotional appeal has been used in the selling of different types of goods and services to various classes of people.

"Make-and-save-money" appeal—specimen letter. The most powerful sales letters are those that offer the recipient the probability of making money, or of saving it. The following letter is in the "make-and-save-money" class:

Dear Sir:

If we offered you one hundred dollars a month, would you accept it? Besides saving you that much money monthly, the following offer simplifies the buying and cutting of your trimmings.

To make pockets for the normal monthly output of one thousand dozen suits requires one thousand ninety-one yards of "Indian Head" or "Fruit of the Loom" muslin, the price of either of which is eighteen cents a yard. The thousand dozen pockets cost you—not including the cost of laying out and cutting—\$196.38.

We can supply you with seven by eight pockets (the standard size), at ten cents a dozen, or one hundred dollars for the thousand dozen—a genuine saving to you of about one hundred dollars a month.

In addition to this saving, you have the benefit of another service. In order to get the advantageous price of eighteen cents a yard on the

muslin, you have to buy at least a case of it. From us you can buy just as much as you need. Our large stock and quick delivery enable you to receive your goods just a few hours after the order reaches us.

The pockets are neatly wrapped in packages of fifty dozen, each of which contains ten folds of five dozen. This arrangement enables you to give your contractor just the number he needs. Our cutting machine not only insures neat and clean cutting, but also makes the pockets perfect in size and shape.

You cannot afford to neglect this opportunity. The more quickly you act, the sooner your saving begins.

We shall gladly send you a fifty-dozen package on approval if you mail the enclosed card immediately.

Yours truly,

Durability is a strong appeal. If durability of your product is the selling point that will stimulate the buyer, the following letter may be adapted.

Dear Mr. Bascom:

Getting 58 years of average service out of a McCormick-Deering Ball-Bearing separator in about 4 years is unusual—but read the letter from Anton J. Johnson, Manager, Macomb Dairy Company, Macomb, Illinois.

“Our No. 6 McCormick-Deering cream separator, purchased from you in December, 19—, is still in daily service. A conservative estimate of the amount of milk put through this separator in four years is 425,000 gallons. At 60 degrees Fahrenheit our butterfat loss is less than 1/100 of 1 per cent. The remarkable thing, however, is that without special attention this separator has never been out of service a single day in four years. If this separator ever wears out (which seems doubtful) we certainly would put in another McCormick-Deering.”

With an average production of 5,188 pounds of milk per cow, per year, it would take 12 cows a total of 58 years to produce 425,000 gallons of milk. In other words, Mr. Johnson's McCormick-Deering cream separator has done in four years the work that would be required in 58 years on a 12-cow dairy farm. Space does not permit us to list all the many desirable features of this cream separator, but the enclosed folder includes practical information that will be of special interest.

Farming today and in the future holds the greatest promise for the man who takes advantage of every possible means of lowering his production costs. The McCormick-Deering line of farm operating equipment offers many opportunities for reducing crop production costs. In addition, it presents possibilities for making the difficult farm tasks easier and speeding up the seasonal operations that frequently have an influence on

crop yield and quality, thus bringing proportionately greater returns from both equipment and labor.

There is no expense involved in becoming posted on what is latest and best in equipment. You can do this at "Farm Machine Headquarters"—the above-named McCormick-Deering dealer's store. You and your family are always welcome. You can secure practical information and see the machines best adapted to your needs. Make it a point to come in and get better acquainted and look over the facilities available for McCormick-Deering service.

Very truly yours,

A letter appealing to love, self-preservation, maternal instinct, and thrift. The following letter deals with opening a bank account for a baby:

Dear Baby:

We have just learned of your arrival in our city and want to congratulate you—and mother and daddy and everybody—on the happy event.

For a little while you will not bother your head about the big world outside. You'll just delight in mother's smile, and learn to wiggle your toes and with great frequency ask as best you can with a limited vocabulary, "When do I eat?"

But it is not far, my dear, from the cradle to college, from swaddling clothes to wedding gown; today's babe is tomorrow's bride. Now, mother will stand watch over you while a doting dad fights life's battles the harder on your account. But after a while you, too, will be grown up—a beautiful American girl, ready to step into a home of your own.

Wouldn't it be a fine thing for you to begin to build a bank account now? Then, by the time you are big, it, too, will have grown until you will have enough money to do any number of things—to pay your way through college—to buy that lovely trousseau—to buy for yourself the many, many pretty things that mother, perhaps, longed for.

We like the plan so well that we have already placed a dollar in a brand-new bank account for you. If daddy or mother will put a dollar with the one we have given you and will add another each month, your bank account will grow so fast that by the time you are a grown-up lady you'll have a lot of money.

Tell daddy or mother to come in soon and sign a signature card so that they can take care of your account for you until you are big enough to come to the bank yourself.

Affectionately yours,

A letter appealing to desire for knowledge and self-esteem. A magazine for the general public is offered in the following letter:

Dear Mr. Owens:

If you think the world is larger than your parish, this letter has reached the right man.

If you would keep up with the newest plays in Paris, the literary gossip of London, the talk of the Continent. . . .

If you want to know the difference between rumor and fact about Russia and Germany, the truth about France and England. . . .

If you care for news from China and Japan, from India and the Argentine. . . .

If, in short, you want to talk intelligently or to listen with discretion. . . .

Then, here is the magazine for you.

From every large city in every civilized country the leading newspapers and magazines come to the offices of the *LIVING AGE*. There the editors select, translate, and reprint the finest material they can find—political articles, short stories, poems, and book reviews.

With the *LIVING AGE* on your table, you will keep up to the mark on foreign affairs every week in the year.

Here we wish to make only one point more—that it is of an extremely practical nature.

At the bottom of this page there is a coupon. It quotes you the generous rate of *Three Months for One Dollar*—the regular price is *Six Dollars* a year. Fill out and send it to us with your remittance, and you will find yourself looking at the world with a more understanding, a more interested eye.

Sincerely yours,

A letter appealing to beauty, exclusiveness, pleasure, and pride.

A SAGA IN WOOL *

A short time ago, in one of the locked rooms of the Metropolitan Museum, I saw a rug, and I want to tell you about it.

It was an old rug, of a motif that predates Christianity; an example of a handicraft born before history and which lives on, owing nothing to modern science or invention.

This rug had been cast over a group of chairs, obscuring them under its negligent folds.

Within the room there was a stillness, faintly accented by the staccato voice of a distant Elevator. Outside, just beyond the huge expanse of plate-glass window, a gusty wind had arisen and was chasing rubbish up and down the street.

I straddled a chair, folded my arms on its back, and stared at the rug. It was at one and the same time the most subdued and the most vivid object I had ever beheld. The longer I looked, the more did I wish to

* Reproduced by permission of Mr. Jules Livingston, of the Livingston Company, Binghamton, N. Y.

look. Here was the immortal germ of artistic creation, woven by mortal and unknowing hands—the sole perpetuation of a vision, dreamed long ago and far away.

I gave myself up unconsciously to a long journey. I saw a blistered hillside; against it the sunbaked wall of a flat-roofed hut; and against the wall, beneath a crude scaffold, a rude loom. Below, a rough roller; above it, a dull cotton warp, golden brown by reason of the dazzling glare, and suggesting a foundation as basic as the earth itself. High up, the bales of yarn, a rare gaudy blob here and there, but most of them soft as the blossoms in a rose garden.

Most fascinating of all to my gaze, however, were the thin-fingered hands that plied against the cumbersome skeleton.

I saw no bodies, only hands. I saw these hands change from youth to old age; one moment smooth with the oil of youth, and next wrinkled and dry in old age—changing hands, but always the same rug, making light of a lifetime though itself not yet completely born.

With the passing of a decade, the weft shot from left to right; another ten years of brown-fingered painting of still music on a harp, and back went the weft, locking beauty in its cage. And always, just beneath the level of the hands, the pattern developed resplendently, until finally this vibrant, enduring fabric—with its strange power of remaining unsullied, of smiling across the centuries—was completed.

Pressed by lips, knees, and feet, long since decayed, familiar of shrine and prayer, of castle and orgy; background for the changing web of soiled humanity; victim of the mart, bought and sold, sold and bought—and yet retaining within itself that indestructible essence of purity which dwells forever within the trampled soul of beauty.

How many rugs of this kind are there in existence today? Not very many to be sure—that is, if one demands AGE as well as enduring beauty. But there ARE hundreds of masterpieces today possessing all the subtle charm, romance, beauty, and that indefinable something we in the Oriental Rug business call “soul.”

Yes, we have them right here in Binghamton.

If you demand something MORE than just so many square feet of floor covering, come over to Clinton Street and see these creations of the weavers' art. Look at them. Look through them and see the artist's soul caught up in a web of wool.

You will not be importuned to buy, but should you perchance be interested in possessing one or more of them for your very own, you will find the prices most reasonable.

We consider it a pleasure to display these treasures, and we hope you will come.

Sincerely yours,

Seasonal appeal—specimen letter. Sales letters can often be advantageously based on a seasonal appeal—spring, summer, fall,

winter, and most of the holidays. Here is a before-Christmas successful letter that was sent to silver-fox ranchers:

Mr. E. S. Carson
McCammon, Idaho.

The Mrs. expects something.

You know how the fair sex are on Christmas. So give her, with all your love. . . .

A beautiful silver-fox scarf. One of your own fox skins can be transformed into a lovely neckpiece. That's a gift that continues to give pleasure for many years.

Such a gift bears eloquent evidence that you still care. Pays an appreciative tribute to heaven's best gift to any man—a good wife.

Let us convert one of your fox skins into an Elliott custom scarf. In style, workmanship and wear, an Elliott custom scarf has every refinement of a Fifth Avenue creation.

How much does it cost? You'll be pleased when you hear it—only \$14. Surely that's cheap for the smile in her eyes on Christmas morn when she says: "It's perfectly gorgeous—you *are* a dear!"

Obey that good impulse. Send on one of your best pelts immediately. It's the human thing to do.

Yours—for a real Christmas for her,

Exclusiveness appeal helps sell quality product. What made the following letter that was sent to 140 grocers bring 12 per cent returns—17 orders within 2 days, with more orders following? First, attention is gained by placing the recipient in an exclusive group. Second, the benefit for the buyer is clearly shown. Third, confidence in the product is established by the guaranty. Fourth, protection of the buyer is offered in refusing to sell to price cutters. Fifth, action is stimulated in the closing and facilitated by an enclosed reply card. Note also the short paragraphs that make the letter easy to read.

We understand you are among the "400" of the highest class establishments in the United States serving a clientele that appreciates the *superlative* in foods.

Being not only up to the minute but ahead of it, you have heard of Those Green Bros. Denver Pascal Celery, The World's Finest—unequalled anywhere at any price—Nutty, Crisp, Sweet, Delicious, Waxy white.

When you buy our Pascal celery—three of us have a treat coming, you, your customer, and ourselves. Your high class trade will be delighted to know that they can get our *Pascal, The National Delicacy* from you regularly.

You take no chances. We guarantee perfect delivery by fast railway express.

Our Pascal is so popular that many thousands of individuals in every state in the Union have ordered it as Thanksgiving, Christmas and goodwill gifts—costing \$1.70 per DeLuxe Box of 12 stalks. Our celery has a National reputation; you can reap the benefits, charging a price that will show you from 50% to 75% profit, and your customers will want it. You get the benefit of our wholesale price, because we can eliminate* the cost of the individual DeLuxe Gift Box and “fixings.”

We don't sell to price cutters. Please read the enclosed circular. Our price to you, delivered to your door—

Pascalettes (celery hearts), 4 to 6 stalks to bunch, per bunch

Country Club Brand, 12 stalks to bunch, per bunch

Shouldn't you start *right now* by writing an initial order on the enclosed postpaid card? Then, after you receive the trial shipment, place a standing order to arrive certain days of EVERY WEEK.

As Go Getters and “Profit Makers,” do it now.

Ac-celery-atingly yours,

THOSE GREEN BROTHERS

Appeal to reader's vanity useful in subscription letter. Attention-getting approaches are particularly effective when tied in closely with the subject matter of the letter. In the following example, a medical publisher appeals directly to personal vanity and professional pride. The ingenious first sentences impel further reading.

Dear Doctor:

Will you sit on a jury?

As a dermatologist, you naturally are a good judge of literature on the venereal infections. Will you examine the AMERICAN JOURNAL OF SYPHILIS, GONORRHEA AND VENEREAL DISEASES and give us your opinion of its worth to the average dermatologist?

Your examination of the Journal may help us solve a perplexing problem—how to find those dermatologists who want to keep themselves fully informed on venerology—and it may reveal to you an unsuspected source of great assistance in meeting some of your difficulties.

We don't know the answer to our difficulty—but we suspect it is simply to acquaint the non-subscribing dermatologists with the Journal. We, therefore, are considering sending the Journal on a free trial basis to a representative group—a jury—of them. And we should like you to be one of that jury!

Here's what we propose: To send the Journal to you for three months at our expense. We won't ask you to pay a penny for it—not even for postage! Our only request will be that you read it and analyze its worth to you.

We should desire you to judge the Journal as a juror—and bring in your verdict in the same manner! If your decision is that you cannot

use the Journal—simply write us a note requesting us to stop sending it—if you like it and want us to continue it, you need do nothing further. We will then enter a subscription for you for a full year—we will not count the three months—and we will bill you at the regular rate of \$7.50.

You can't lose—you will be doing us a favor—and you may gain immeasurably! Accept our invitation, on the form below, today!

Cordially yours,

Yes, I will serve on the jury! I will consider the Journal on your offer. At the expiration of the trial period, enter my subscription for one year at \$7.50 unless I request service of the Journal discontinued.

Dr.
DS-55 Street & Number City & State

Convince the reader that your product meets his needs or desires. You have secured the reader's attention with a good beginning and have made him aware of his need or desire for the product. Your next job is to convince him that your statements are true and that the product meets his needs or desires.

The methods by which you can carry conviction are illustrated in the following pages. These methods are:

1. *Guaranty of the product.* To be convincing, a guaranty must be expressed in simple language and with few, if any, reservations.

2. *Trial use or free examination.* This is an old stand-by and will always be one of the most effective forms of evidence. It appeals to the reader's common sense—seeing is believing—and to his cautious desire to avoid taking any risks or spending any money until he has had the opportunity to “show himself.” Readers of sales letters, in fact, have become so accustomed to being offered free trial or examination of certain articles—books, for example—that in many cases they will not respond to a letter which does not contain such an offer.

3. *Samples.* The sample method is convenient for a wide variety of products—soap, tooth paste, perfume, hair tonic, shaving cream, cosmetics, breakfast foods, coffee, milk chocolate, wall plaster and wallpaper, paints and varnishes, beaver board, and so forth.

4. *Tests.* Tests as a form of evidence may be of two kinds: (a) tests that you, the seller, have made; and (b) tests that the reader can conduct himself.

5. *Facts and figures* Facts and figures must be specific and must

be presented in a form that will enable the reader readily to grasp their significance. For the general public, dramatization and graphic description are the best media; the reader can then visualize the data as a part of the story.

6. *Testimonials.* The reader is more likely to accept statements from a third person than from you. While it is true that in these days many people have come to feel, as far as testimonials are concerned, that "the devil can cite Scripture for his purpose," nevertheless there probably never will be a time when a letter with testimonials will not be stronger than one without. Outwardly the reader may scoff, but inwardly he is impressed in spite of himself. For this reason it is usually advisable to include testimonials either in the body of the letter or in the enclosures.

Example of letter carrying conviction. Almost every paragraph of the following letter selling a cockroach powder carries a conviction that is contagious.

Dear Mr. Ashton:

*Every cockroach on your premises
is there with your full permission.*

I will undertake to prove this to you—if you will give two minutes to the reading of this letter.

I will rid your premises of every last trace of roaches without one penny of your money being produced. I mean every syllable of that statement. I can't make it too strong. So, I am going to repeat it and emphasize it.

Tell me how many floors or rooms you have, and what size they are.

I'll send you enough of MURRAY'S ROACH DOOM to exterminate every roach. And they'll stay exterminated for one year by Shrewsbury clock—one year.

Now let me tell you what MURRAY'S ROACH DOOM is.

It's a powder that isn't poisonous. It is practically odorless.

It is distributed, first, by means of the Murray powder "Gun," which a ten-year-old child can use. Get it where the roaches are. Then the fun begins.

Roaches can't keep away from this powder. They love it. But the minute they touch it they actually go crazy. They race through every nook and cranny of their hiding places. They carry it with them. They distribute it where no human agency could reach. The young roaches, which very rarely appear in public, come in contact with it, and they're gone.

The strength of MURRAY'S ROACH DOOM doesn't abate for one

year. As the eggs, which are deposited in the runway, hatch out, the young encounter the powder. And they're gone.

And I prove all these things to you by standing behind my 24-year guarantee of "No riddance—no pay."

You send me no money until the roaches are gone.

I'm even enclosing a Special Trial Offer slip which lets you in on a special price when you do remit—because you will it never misses.

If you can name any fairer offer than that I'll gladly sign it—but, remember, you're responsible for the presence of roaches on your premises after this.

Very sincerely yours,

The letter is the proof. A letter-service concern sold its direct-mail service through the sales letter that is reproduced in Figure 7. The attractive appearance, the perfect matching of the fill-ins, and the clever use of testimonials—all were proof of the quality of the service the concern was prepared to offer.

Trial offer brings in accounts. The following letter, sent to several manufacturers of men's shirts, was directly responsible for three excellent accounts that buy several thousand dollars' worth of the firm's pins a year. The letter carries conviction through its offer to send a quantity of the pins, without charge, to the prospect.

Mr. Anthony Jones, please

Why have so many firms like yours switched to De Long Shirt Pins?

Because they have found, most of them by testing the pins before adopting them, that De Long Shirt Pins are the best kind for their purpose.

Would you care to test these distinctive pins? It's easy to do so—and it costs you nothing. Simply tell us which of the accompanying sizes is best suited to your needs and we'll send you a pound gratis. Ask one of your star operators to put them to a thorough test.

She'll like them because, thanks to their extra large, slightly dome-shaped, smooth heads, they won't irritate her fingers. Operators can pin garments with them hour after hour without suffering finger irritation.

As they have strong, smooth, needle-sharp points, De Long Shirt Pins glide smoothly through thick fabrics, and they don't make ugly marks on fine fabrics like silk.

Made of solid brass wire, *they never rust.* You'll agree that such pins are preferable to quick-rusting steel or adamantite pins which, by making unsightly rust spots on garments, cause no end of headaches, customer dissatisfaction and unnecessary expense.

D. H. Ahrend Co. Inc.

April 2, 1940
Ahrend's 48th Year

Dear Mr. Harmon:

You are the man who ultimately decides every important move made in your organization. That is why we have addressed this letter to you. When your firm prepares a mail advertising campaign, you O. K. the plans . . . you, as President, have the final word.

Isn't it a mighty pleasant feeling when your judgment proves to be correct, and at last you write "it worked" across a letter that pulled business for you? Hundreds of letters that worked are in our files . . . Ahrend Process letters that brought in extra business even where it was believed no extra business existed. Each Ahrend letter succeeds because it closely resembles an individually dictated letter . . . carrying a personal message from you to your customer.

To show his appreciation of the Ahrend Process, one of our friendly clients recently sent us a clipping from THE REPORTER, of an article by the Sales Manager of a firm which mails six million letters annually. He asked us to note especially these facts:

"As a result of these tests, we have come to the conclusion that as a general rule the multigraphed filled-in letter fools no one.

"The super process letter costs less than half as much as the Hoover letter and may be mailed under third class postage. We are finding today that the super process letter produces about as well as the Hoover letter and at a lower cost."

You are reading an Ahrend Process letter, Mr. Harmon. Have you noticed that your name appears twice? This is one of the Ahrend "matching" processes that help to individualize the letters you send. Ahrend services range from copy and art work, if desired, to addressing and mailing.

Let us adapt our forty-eight years of experience to the preparation of your campaign. Simply return the post paid card.

DEA. 25

Officially yours,

D. H. Ahrend
D. H. Ahrend

Figure 7. The Letter Is the Proof.

(On the original the black border was a royal blue. "It worked" appeared in red.)

Why not put De Long Shirt Pins to a rigorous test? Remember—it costs you nothing. Just tell us which size you desire and we'll send you a pound—about 4500 pins—without charge.

If you agree, as so many others do, that they are the best pins for your purpose, we'll gladly quote prices—prices which we're confident will please you.

May we hear from you in the enclosed no-postage-required envelope?

DE LONG COMPANY

Swatches attached to letter. Swatches attached to sales letters provide tangible evidence of the quality of the product that the letter aims to sell. Here is a letter that carries a suggestive inducement in the last sentence and an action-motivating postscript.

Dear Mrs. Bruce:

They're here! We mean our new Quadriga cloth prints in dozens of most attractive designs and color combinations. Of course we don't need to tell you that the name Quadriga stands for high quality in prints just as the name Packard does for cars or sterling for silverware.

This nationally known print is the first piece goods line to be endorsed by the American Institute of Laundering. And remember, Quadriga is the 80-square print with a special needleized finish for easy sewing.

We are enclosing a few sample swatches to show you just how lovely the new Spring designs are. Vivid new florals in multi-colors, clever juvenile patterns, new geometrics and the always popular polka dots and plaids. 36-inches wide; guaranteed color fast. Priced only 19 cents a yard.

Don't they make you eager to start making dresses, a smock or a housecoat?

Very truly yours,

P.S. Mail orders filled on any of these prints. Designate first and second choice. We will pay postage on mail orders.

Suggestions for expressing a guaranty. Tested letters have shown that the following guaranties are convincing:

(1) AND HERE'S OUR GUARANTEE:

If, after you've read the first issue, you don't think the magazine is the most exciting, entertaining and VALUABLE you ever saw—or if you don't think you're getting back HUNDREDS OF DOLLARS worth of value for the one dollar you are spending—just drop us a line. WE'LL LET YOU KEEP THE COPY WE SENT YOU WITHOUT CHARGE. AND WE'LL CANCEL THE BILL ALTOGETHER—OR, IF YOU'VE ALREADY SENT US YOUR DOLLAR, WE'LL SEND IT BACK TO YOU AT ONCE—NO QUESTIONS ASKED!

Repeated as follows in a P.S.

MONEY BACK GUARANTEE. We'll send your dollar back at once and you can keep the issue we sent, if you are not 100% satisfied with **YOUR LIFE**.

(2) All **SHEAFFER** pens are guaranteed for life, and the **SHEAFFER LIFETIME** is guaranteed unconditionally against everything except loss, for the life of the owner.

(3) In fairness to yourself—check the above questions before you buy. Only **FRIGIDAIRE** answers all of them in the way you want them answered. And only **FRIGIDAIRE** is backed by a three-year General Motors guarantee.

(4) The moment this booklet reaches you, turn to the back cover and read carefully the remarkable **PAPEC** guarantee, which has been printed for years and which no other cutter has been able to meet.

How to offer trial use or free examination. When you have reached that part of the sales letter in which you are ready to offer the product for trial or for free examination, compare your paragraphs with the following for strength, directness, and tone.

(1) I am enclosing a postage paid card, marked for my attention. As soon as you return it, I will arrange to have a machine delivered to you so you can try it, and if you don't believe it will save you time and money, I will take it back—**NO OBLIGATION ON YOUR PART AT ALL**. Just use the card. Put it in the mail tonight with your name and date you want to try the machine.

(2) The book costs \$4. And remember, after you have looked it over you are free to return it within five days—if you can part with it! Under these conditions, since you risk nothing, isn't it just good business to at least *see* the book, and then decide? The enclosed card brings it to you.

(3) The enclosed card requires not even a stamp to bring you a **LONGWEAR GLADSTONE BAG**, postpaid and free of charge. Compare it with any fine bag. Keep it for a week. Take it on a trip. Then. . .

If you are convinced that there are more miles of travel-satisfaction per dollar in the **LONGWEAR** than in any other bag you've ever seen, mail your check for \$14.85. Otherwise, return the bag at my expense.

(4) Simply fill out the enclosed **FREE EXAMINATION CARD**. Mail it (no postage necessary), and I'll ship you one of these beautiful Bathroom Showers for you to look at and examine and use. Then, at the end of five days, if you don't think it's worth \$12.95 instead of the \$7.95 I am asking for it. . . if you feel that you can part with it . . . return it at my expense. But if you like it—and I know you will—just keep it and send me only \$7.95.

How to make the reader ask for a sample. Is your offer of a sample inviting? That is the test after you have written the paragraph. The following paragraphs show by example how to make the offer of a sample irresistible:

(1) We want you to try HEINZ RICE FLAKES at our expense. So we'll send you a generous free trial package—enough for three delicious servings—free. Just fill in your name and address on the enclosed card, and drop it in the mail—no postage required.

(2) Let us send you samples of these sturdy, laboratory-proved COLUMBIAN CLASP envelopes for your heavier-than-letter mail. Just fill in and return the enclosed card—no stamp required—and the samples will come to you by return mail.

(3) This sample of INGRAM'S SHAVING CREAM brings you seven of the *coolest* shaves you've ever had in your life!

INGRAM'S is the first shaving cream primarily planned to take the nicking sting out of the morning shave and to leave a clear cheek and a cool skin when the job is finished. Its three special ingredients cool and soothe your face the moment you put on the lather.

You'll find that INGRAM lather is luxurious and extra-heavy—and that it lies close to the bristles and retains its moisture and thus keeps the skin surface wet. You can shave closer, or more often, without discomfort.

A week from today, after you've enjoyed seven cool INGRAM shaves, get the economical regular size of INGRAM'S—more than enough for 100 shaves. It's waiting for you at the nearest drug store now.

Examples of paragraphs asking the reader to make a test. The directions given to the reader for making the test must be simple, clear, and explicit to insure favorable results. The following illustrations are suggestive of ways to express the invitation to try the test:

(1) Try this dissolving test. Put one of the new curly IVORY FLAKES in your hand. Pour a teaspoonful of warm water over it. Then another. Notice how the flake melts away first at the curly edges—then completely! In the wash basin, one swish dissolves the new IVORY FLAKES instantly, even in lukewarm water—they can't flatten down on the fabric. No danger of soap spots.

(2) Here is the way to put SUNBRITE double-action to a real test. Cut an onion with a knife. Wash the knife in soapsuds. Then cut a lemon. The knife *looks* clean! But the onion odor still persists. Now sprinkle the knife with SUNBRITE CLEANSER. Rub, rinse, and dry. Not a trace of onion remains. That's the way double-action SUNBRITE ALWAYS WORKS.

(3) Will you try this experiment?

Ask your jeweler to show you a perfect deep-sea pearl. Put the enclosed DELTAH manufactured pearl alongside it. Then try to tell them apart!

The jeweler can do it—with the aid of his magnifying glass. But neither you nor any other person not an expert in precious stones can distinguish the natural from the manufactured pearl.

In luster, in weight, in iridescence, in color, the little pearl we are sending you will measure up to all the requirements of the genuine deep-sea pearl. Step on it! It will stand the weight of an ordinary-size man. Boil it in hot water! It will come out lustrous, with the soft opalescence that only a pearl can give. Weigh it! You will find it heavy, firm, indistinguishable in any way from the natural pearl, except to the expert with his magnifying glass.

An example of effective use of a test to convince. If the seller has tested his product and wishes the reader to know about that test, the description of the test must be interesting as well as convincing. Notice how in the following example the narrative form of telling about the test keeps the reader interested and at the same time brings out the merit of the product:

Behind the footlights of Boston's Jordan Hall, four famed performers awaited the curtain . . . four famous radio sets, hidden by a silken screen . . . ready for the tone-test.

And just beyond the orchestra pit—what an audience! Fifty-four members of the noted New England Conservatory of Music. *Teachers* of music—connoisseurs of tone—ready to listen.

The master of ceremonies was talking, "Each set will perform anonymously. Not by name, but by number. And to insure fairness, five senior classmen from the Massachusetts Institute of Technology will handle the sets."

Half an hour later a GENERAL ELECTRIC RADIO—known only as "Number 3"—had sung its way to a new tone triumph! Pitted against three *higher-priced* sets, it won the *best tone* vote of Boston's best-trained ears. Won *three times* as many votes as all the other radios combined . . . 41 out of 54 votes!

In some instances it may be better to present the material showing the tests made by the manufacturer in an illustrated enclosure.

Examples of facts and figures to convince the reader. To be convincing, the facts and figures must be verifiable. Notice how the following examples present verifiable facts:

(1) Fabrication economies possible with EVERDUR not only absorbed the difference in the cost between the two metals, but, in addition, provided an average saving in the cost of the finished bolts of 14.75 per cent for a thousand pieces.

(2) For with one motion, Addressograph does the work of 50 to 100 motions—10 to 50 times faster—and absolutely without error.

(3) Detroit's large department stores just recently made 672 sales from 2 small advertisements in the *Free Press*. One advertisement of 143 lines, single column, featuring a \$1.95 dress, produced 511 customers. The other advertisement of 165 lines, single column, featuring a suit at \$16.50, produced 161 customers. Here is a high rate of production . . . low cost of selling . . . \$3,652.95 worth of sales from 308 lines.

Good selling knows neither seasons nor "situations." Here is proof . . . outstanding . . . that business is being done in Detroit . . . that *Free Press* readers have the dollars and are spending them with those advertisers who make a bid for their business.

How to write the testimonial paragraphs. If testimonials are to be mentioned in the letter, they must be brief. The following short paragraphs can be adapted easily to any product:

(1) Over in Springfield, Ohio, the Armstrong Manufacturing Company has been making tubs and pails for 15 years. They used to make them from galvanized steel, but last year they changed to ARMCO INGOT IRON.

Why? Let Mr. Armstrong tell you in his own words:

"We now use ARMCO INGOT IRON GALVANIZED SHEETS after having given them a thorough test to determine the workability and welding qualities of the metal. The iron forms easily, and the coating does not peel. Our loss, caused by the poor working qualities of steel, has decreased 10% since we changed to ARMCO. In addition, our tubs and pails find a more ready market, because ARMCO is so well and favorably known."

You, too, will find that the use of ARMCO will reduce your costs and at the same time increase your sales.

(2) The other day someone asked Judge Ben Lindsay, of Juvenile Court fame, if he wouldn't name his favorite O. Henry story.

"My favorite O. Henry story," said the judge, "is *all of them*. No writer ever had greater knowledge of human nature, and the charm of his stories makes it possible to read them over and over again."

Have you got your set yet? Almost everybody else in this country seems to have. More than four million volumes of these inimitable stories have been sold to American readers in the past few years.

Getting the reader to "act now." In the opening of your sales letter you have excited the reader's interest. With this interest as a basis you have proceeded to build up, by imaginative word-pictures or vital language, a description of what your product or service will do for the reader. You have cited facts and figures, tests, testimonials, or some other form of evidence. The reader now wants your product; and he is convinced of its value to him. But how are you to overcome his natural human tendency to procrastinate—to put off until "tomorrow" what you want him to do today?

The answer is, by imposing a penalty upon delay. Hold out an inducement to immediate action—perhaps a premium of some sort. Or, impress upon the reader the fact that circumstances over which you have no control have compelled you to limit the quantity of the goods that you are selling or the period over which you can sell them at their present price.

This idea has been applied in a great variety of ways to different types of goods and services. In the sale of books there is the "free volume as a premium," the "damaged book sale," the low price that can be given only for a short period because of "rapidly rising production costs." In the sale of magazines there is the "special introductory offer for new subscribers." In the sale of insurance there is the offer of a premium in the shape of a diary, a fountain pen, a wallet, and so forth, only a limited number of which are available for distribution. In the sale of jewelry and other merchandise, the "gift certificate that is worth \$5 to you if you buy before March 1" has proved effective, as has the "special birthday-dividend check which can be cashed with us only if it is mailed on or before midnight October 31."

These are only a few examples from among many, but they serve to illustrate the point. To interest the reader, to make him want your goods, to convince him of their worth—these are essentials of sales letter writing. In themselves, however, they are not sufficient to induce the reader to "act and act now." To get him to do this you have to stir in him a definite fear of the consequences of delay on his part. Moreover, you have to give him a reasonable and specific explanation of the facts of the situation, so that he will know in his own mind that you are not bluffing but mean exactly what you say—that if he fails to act at once, he will miss an opportunity that may never return.

Make it easy for the reader to “act now.” Again, getting immediate action depends a good deal upon your ingenuity in *making action easy*. This may involve temporarily catering to the reader's weakness for putting things off. You need not try to get him to decide upon your main proposition immediately—he would probably balk at that. Besides, you can afford to bide your time. Instead, lead him off on the right foot by merely asking him to take the first and minor step—to mail your card for further particulars, for a free trial or examination of the goods, for a sample, for a salesman's call. Then, after he has taken this first step, it should not be difficult to keep him from turning back. Be sure, however, that you make plain exactly what you want him to do. Leave as little as possible to his own decision or volition. Do not offer him a choice of alternatives. Make the action to be taken clear, simple, and “without obligation.”

Example of “limited-time” offer to get immediate action. The entire letter reproduced below stimulates the reader to action. It contains an inducement to immediate action and shows how easy it is to obtain the product offered. Furthermore, its tone is adapted to people who are likely to want to understand accounting.

Dear Sir:

May we send you, with our compliments, HOW TO UNDERSTAND ACCOUNTING, by H. C. Greer?

Will you accept with our compliments, in return for doing us a small favor, a copy of H. C. Greer's HOW TO UNDERSTAND ACCOUNTING—a new, 250-page book which every man in business ought to have?

The favor is simple, and may in itself be highly profitable to you. Briefly, we want you to make a test for us.

In the COMPLETE ACCOUNTING COURSE described in the enclosed circular, we have something which we do not hesitate to call one of the outstanding developments of the day in accounting training. So marked are its advantages that we feel that, if once the material can be placed in the right hands, further urging on our part will be unnecessary.

This course has been developed by Northwestern University and is now used. . . .

And now here is the courtesy we should like you to render: Will you look through this course, go over some of the lectures, putting the material to any test you desire, and see if this isn't just the training you want to make the plans you have made for your business future come true?

If you will do this, we will include with your course, without charge, a copy of HOW TO UNDERSTAND ACCOUNTING. But whether or not you keep the course, *this book is yours in return for your courtesy.*

Just fill in and mail the attached reply card, and both the COMPLETE ACCOUNTING COURSE and the book HOW TO UNDERSTAND ACCOUNTING will come to you immediately. Then, after you have examined the course, if for any reason whatever you decide that it isn't exactly the thing to help you get ahead, merely send it back at our expense—and keep the book HOW TO UNDERSTAND ACCOUNTING.

But we must have your reply at once. THIS OFFER IS GOOD FOR A LIMITED TIME ONLY. So fill in and mail the reply card now.

Very truly yours,

Immediate action urged because low price is experimental. Here is a letter that overcomes the reader's tendency to put off action by showing him that it is to his advantage to act now. The device used is to fix a new low price and to try it out for a month. The reductions in prices are explained by the seller's desire to make more sales.

Dear Sir:

I want to introduce to you, as an experienced traveler, a Gladstone Bag so handsome that you will be proud to carry it into the most exclusive hotel lobby.

I want to send you this fine bag entirely at my own expense—and you're to be under no obligation whatever.

I want to give you just a hint about the many features of this Gladstone that will appeal to you—and tell you how I can make a very low price this month to a selected group of men.

My LONGWEAR Gladstone Bag is genuine. . . .

You'll Like the Bag—You'll Marvel at My Low Price

I've studied the luggage business for a long time. I've actually sold a *half million* of my bags. And, as the largest distributor of luggage in the world, I can afford to sell for less.

Just a short time ago I sold my genuine Cowhide Gladstones for \$19.85 each—and *that* was a bargain! Thousands of discriminating travelers bought them, many saying the bags were worth \$30. I dropped the price to \$17.50—and sold *more* bags—then to \$16.50.

There's one further tumble—\$14.85—and that I can justify only if it will boost my sales way up. I think it will—but I'm going to find out this month by trying this price to a selected group of men. So \$14.85 is my price to you *if you act promptly.*

Buy or not—but at least *see* this great bag free!

The enclosed card requires not even a stamp to bring you a LONGWEAR Gladstone Bag, postpaid and free of charge. Compare it with *any* fine bag. Keep it a week. Take it on a trip. Then. . . .

If you are convinced that there are more miles of travel-satisfaction in the LONGWEAR than in *any* other bag you've ever seen, mail your check for my low price. Otherwise, return the bag *at my expense*.

But remember, this is an experiment to see if the \$14.85 price will sell more bags. So, if you're thinking of getting a bag—even a little bit—you'll want to hurry your card along.

Cordially yours,

Examples of closings that stimulate action. The examples of complete letters given in this section contain suggestions for strong closings that make action easy. Below are several more examples taken from letters that have worked.

(1) Don't let the heating plant dominate your home life. Find out now—before another day has passed—how little it really costs to enjoy Oil-O-Matic heat without work or worry. Telephone today for a FREE Heating Survey. This will prove an accurate estimate of how much Oil-O-Matic heating will cost in your home. Installed in your present heating plant in but a few hours' time. Act now while present prices are in effect.

(2) This offer expires on December 1. If you are not prepared to order at once on the inclosed order blank, send me the attached post card, and I shall reserve a set for you for ten days.

(3) Five cents a week is the average cost to you for an intelligent view of Public Affairs if you take advantage of our special introductory offer of \$1.00 for twenty issues. This offer is good for ten days. Write your name and address on the enclosed postage paid card and mail it now. We will bill you later.

(4) RIGHT NOW, not later, is the time for you to begin to watch sub-surface Washington developments, so that you may know what is in prospect, and be prepared to shift your plans and operations as the necessity arises. Use the enclosed order card to start the Letters coming to you AT ONCE.

(5) BUT LET ME WARN YOU . . . this offer is such a sensational bargain that it has never been offered to anyone before. We will never offer it to anyone again, and it is only open for a limited time. You can cash this special birthday-dividend check with us only if it is mailed on or before midnight, October 31, 19 . . .

. . . so don't delay. All you have to do now is to pick up your pen and endorse the check on the back. Then mail it today in the postage paid envelope. NOTHING ELSE. We'll do the rest.

How to write to special classes of buyers. A sales letter to a special class of buyers is constructed in the same way as any other sales letter. That is, it must attract favorable attention, create desire, carry conviction, and stimulate to action. The fundamental appeals mentioned on page 70 apply to sales letters to a special class of buyers as strongly as they do to sales letters generally. However, the structure, substance, and appeals must be adjusted to the class of buyers. In the following paragraphs selected letters are presented that are addressed to particular classes of buyers. These letters have proved successful because they recognize the habits, tastes, desires, and needs of the class in question.

Hints that help sell dealers by mail. A sales letter must take into account the following characteristics of this group of buyers:

1. The dealer's principal concern is to make profits and turn the product over quickly.

2. He is attracted by offers of help and service. The assistance may be in the form of aids in advertising, form letters that can be sent to his prospects, aids in window displays, offers of more customers, selling tools, instruction manuals for sales clerks, and the like.

3. The dealer wants convincing proof that the product will sell readily and that sales will be profitable. Offers of samples, trial orders, and enclosures of folders and booklets help to get the order.

4. The dealer, as a businessman, requires a short letter, written in crisp, colloquial language, and one that is attractive, colorful, and businesslike.

A sales letter to dealers that stresses the profit possibilities. The following letter to clothing dealers stresses the money-making appeal and strongly urges the dealer to inspect the line with no obligations to buy:

Dear Mr. Smith:

If yours is the problem of getting more customers into your store, we know that we can interest you.

We are after more business and want part of yours by deserving it.

Frankly, the "Club Clothes" line is a profit-maker and in its price ranges it is second to none, for it compares on every point of fabric, tailoring, and style with the more costly nationally advertised makes. Repeat orders prove our profit claims, and today over 1,400 shrewd,

progressive retailers throughout the country favor and feature "Club Clothes."

Why not let us prove what we say? Let us send you, for your examination, a set of suits which we wholesale at \$19.50 to retail at \$30, or a group at \$22 retailing at \$35.

The mere effort of returning the post card will bring these suits to you without the slightest obligation. Look them over carefully, giving them the most critical inspection, and we feel certain that you will quickly see the turnover and profit possibilities of the line.

Drop the card in the mail today.

Very truly yours,

What to remember in writing to executives. In writing to executives it is necessary to keep in mind the following characteristics of this group:

1. An executive is usually busy. However, this does not mean, as many people believe, that letters to executives must be limited to less than a page in length. A number of companies, including successful mail-order houses, have used letters as long as seven pages, with good results. Of course, the long letter must use devices for making the letter physically easy to read that may not be necessary in a short one. Such devices as frequent and interesting captions, different colored inks, illustrations, examples, and tabulations help to break up the letter.

2. He is on the lookout for ideas and products that will increase profits, promote efficiency, cut costs, and build goodwill. He must be shown with convincing evidence that the product has merit and that the price is fair. Facts, figures, and testimonials are effective.

3. He reads quickly. Present the letter in language that is easy to read. Clarity and language that appeal to the imagination are much more important than superficial dignity and restraint in the letter.

Successful letters to executives. The two letters reproduced below together brought the TelAutograph Corporation over 36 per cent response, much of which can be attributed to the high degree of personalization, proper attention to the mechanics of fill-in matter, prompt follow-up, and attention to the interests of executives. The first letter drew a 25 per cent response—for the most part requests for the folders offered via an enclosed requisition form. The first line of the fourth paragraph was filled in with the reader's name and

reference to his specific products, such as "Mr. Jones, other manufacturers of equipment such as yours have." . . . The second letter was sent out three weeks later to those who did not reply to the first. This follow-up letter drew a 15 per cent response. Enclosure of the requisition form, printed on a different color paper, enabled the sender to distinguish replies to the follow-up letter from belated replies to the first letter.

ORIGINAL MAILING PIECE

We have just completed a job for you. We are now ready to submit in folder form the results of our experience in working with basic systems and procedures of a sizeable cross section of manufacturing companies. We invite you to accept copies without charge and without feeling obligated in any way.

These folders will prove valuable to you as a check on your own plant's operations. They offer you a means of comparing your own systems with those of other plants. You'll find much helpful information in them that may enable you to cut corners in time and cost.

Our facts are based on actual in-the-plant surveys made by specially trained engineers—aided in many companies by executives like yourself. They represent our experience in a cross section of plants, both small and large, differing widely in physical layouts, nature of products and in volume of business.

Mr. Jones, other manufacturers of equipment such as yours have basically similar procedures. Of course, they vary in terminology and in scope for different types of business and for different plant sizes—simple in small plants and complex in large ones.

We present six basic systems: SALES ORDER . . . PRODUCTION PLANNING AND SCHEDULING . . . INSPECTION AND QUALITY CONTROL . . . WAREHOUSING AND SHIPPING . . . JOB COST ANALYSIS . . . OFFICE RECORDS-CREDITS-AND-CASHIERING. Each of these systems is discussed fully in an easy-to-read, graphically illustrated four-page folder. Three such folders are now ready to be placed in your hands:

SALES ORDER—Answers such questions as: What is the crucial test of an efficient sales order procedure? What are other companies doing to keep their hard-won customers from slipping through their fingers—by insuring fast, errorless service on orders . . . avoiding slip-ups on delivery promises . . . handling unexpected delays and order changes easily and quickly.

PRODUCTION PLANNING AND SCHEDULING—Gives you a quick picture of a typical planning and scheduling system. Tells how companies have developed systems that enable them to plan production on quick-turnover basis . . . how they get action on schedule changes

instantly . . . stop production on not-so-urgent stock items . . . make way for rush orders . . . and keep inventories at a minimum. Discusses management's problem of correlating the responsibilities of the production and sales departments.

INSPECTION AND QUALITY CONTROL—Shows what other companies are doing to reduce their scrap losses, lower salvaging costs, hold down "off-standard" products, or "seconds," and eliminate production hold-ups due to late reports from laboratories. Cites specific examples in six different types of industries.

Experiences summarized in folder form, analyzing the last three of the six procedures, are now "in work." These will be available to you in a short time. All have this single purpose—to help executives like yourself compare their present mode of operation with systems now in use in other companies.

Since we are sending these folders without charge or obligation, it occurs to us that you may want copies sent to several of your department heads or systems men—in addition to your own copies. Please feel free to requisition as many as you need.

To avoid unnecessary delays in getting them to you, we are enclosing a convenient requisition form. Please check which of the folders you desire for yourself, and which ones we should send to other men in your company. Slip this form into the stamped envelope attached and drop it into your out-going mail.

Cordially yours,

W. F. Vieh

President

FOLLOW-UP LETTER

A short time ago I wrote you in regard to several new folders we've prepared for free distribution to the management of a cross section of manufacturing companies. As mentioned in my previous letter, these folders summarize our company's experience during many years past in working with basic manufacturing systems and procedures.

I firmly believe that you'll find these folders, as described in the leaflet enclosed, of great value. Each one presents a system common to your plant, to ours, and to the majority of all plants.

These folders not only offer you a means of comparing your own operating procedures with those in other plants, but included in each folder is a considerable amount of helpful information designed to help you cut corners in time and cost in your operations.

Since I wrote you, we've received requests from many hundreds of executives like yourself, manifesting great interest in our presentation of systems. We've supplied these men with copies, as well as their various department heads and systems men.

May I repeat my invitation to you to obtain copies of these folders. They will be sent you without charge or obligation. We want you to

feel perfectly free to request as many copies as you need—for yourself and for other men in your company responsible for basic operations.

A requisition form and stamped addressed envelope are enclosed for your convenience in requesting copies. Please check which of the folders you desire and which ones we should send to other men in your company. It'll be a pleasure to see that they're sent without delay.

Very truly yours,

W. F. Vieh

President

Hints on writing to men consumers. In writing to a business-man concerning an article or service for use in his business, the hints given in the preceding paragraphs on writing to executives should be considered. In writing to men consumers about an article or service for personal or domestic use, the following points should be remembered:

1. Men look upon expenditures as investments. A purchase of a home is an investment in comfort and security; a purchase of a radio is an investment in wholesome recreation; a purchase of good clothes is an investment in appearance.

2. They want to be shown why the product offered should be given preference. Therefore the reason-why appeal should be used.

3. They respond to the following appeals: ambition and desire for success, power, responsibility, recognition or honor, and greater income.

A good letter to men consumers.

Dear Mr. Smith:

When you build your home, it will pay you to remember that cheap materials are not necessarily economical materials. Low first cost seldom buys durability, but often leads to expensive upkeep or replacement.

This is particularly true when metals that rust are used for service where water and moisture are encountered. Anaconda metals cannot rust and are by far the most economical to use. Copper sheet metal work, brass pipe plumbing, copper or Everdur hot water tanks, bronze screens, and solid brass or bronze hardware pay for their slightly higher first cost many times over by the repair and replacement expense they save.

The attached sheet points out those instances in which economy dictates the use of rust-proof metals. For further information, send the enclosed card for the booklet described at the left.

Very truly yours,

THE AMERICAN BRASS COMPANY

What to stress in letters to women. The following summary of the characteristics of women in the home will aid the letter writer in striking the correct tone and appeal of a sales letter to that class of buyers.

1. Women respond to descriptions that envision satisfaction from the use of the article. Sell them "dreams of leisure hours, of rest, and of happy, contented homes, and simplified housework," says Marion Hertha Clarke.

2. They are not impressed by technical descriptions of the construction of the product.

3. They want to receive good value for their money. They are practical as well as visionary.

4. They are influenced by the physical make-up of the copy. It should be attractive and personal. Social stationery may be more effective than the usual business sheet.

5. The dominant appeals are: mother love, instinct for the beautiful, thrift, and the instinct to save labor.

Other helpful hints in preparing direct mail for women are contained in the following summary of a survey made by Miss Helen Slator, Director of the Consumer Division of Francis H. Leggett & Co., New York: *

- (1) Women are fundamentally curious. They do not throw direct mail away. They want to find out what is in it.

- (2) The morning mail seems to get the best reaction from most women. Women are more relaxed after getting the family off to work or to school, and can read the morning mail with fewer interruptions.

- (3) Each woman who reads direct mail wants to know that *she* is *important*. Make her think you are talking to her as an individual.

- (4) Women like "gilding the lily." They like to have appeals "dressed up."

- (5) Women are confused by complex ideas. Make your presentations simple. Avoid wild colors, trick folds, die-cuts.

- (6) Women like an unselfish approach to a sales explanation. That is, women want to know what the product will do for them, not why the manufacturer wants to sell it.

- (7) Women are fundamentally honest and can understand or see through dishonesty or "white lies" better than men. So make your direct mail truthful.

* The Reporter of Direct Mail Advertising, Oct. 1940, p. 8.

(8) Women object to the words that men ad-writers put into hypothetical conversations.

Example of sales letter to women. The following letter was sent out by a firm of New York resident buyers:

My dear Mrs. Babthorne:

Have you ever had some friend in the dress business take you around to a manufacturer's, and let you pick the exact model you wanted, at the wholesale price?

Remember what a bargain it was—how far below the regular retail store figure it was priced?

Well, that is the service we offer you on all your dresses and coats. We do not take you to one manufacturer. We bring the best from the stocks of a hundred manufacturers here, for you to choose from, at wholesale prices.

Now, here is the point. As resident buyers for a number of out-of-town stores, we are making the rounds of the manufacturers every day. You know yourself what bargains you can pick up even in the stores just by shopping around. Imagine, then, what we can do when we are daily shopping among the manufacturers themselves. Whenever they bring out some "Special," or whenever they have only a few of a style left, or whenever they finish copying their designer's model gowns, we get them.

At such a time the manufacturers, who cannot afford to bother with such small lots, are willing to let us have them at our own price. The result is that we can offer you many of the season's loveliest and most distinctive models, in all sizes, in the most fashionable colors and materials, at actually less than their regular wholesale prices.

Come and see for yourself. It costs nothing to be shown. And if you can save half on all your dresses, you wish to know it. Be sure to look here before you buy your next dress.

Sincerely yours,

How to write to business women. The habits and needs of the business woman are different in some respects from those of women in the home. A letter to business women should take into account the following characteristics:

1. The business woman is in the habit of receiving business letters. The letter should therefore be businesslike in appearance. Ordinary business letterheads may be more suitable than social stationery.

2. She has learned how to be efficient and practical and looks for efficiency and practicality in the products offered her.

3. She remains ever the woman, and therefore the appeals mentioned on page 96 apply.

A good letter to business women. The following letter, which was written on a business letterhead, appeals to the business woman's desire to appear energetic and pleasant and to her need to be comfortable. It also takes into account her taste for attractive clothes.

My dear Miss Jones:

Wouldn't you say that of the three or four top requisites for any woman's business success the one about second on the list is:

"Boundless energy and a pleasant face, free from nervous frowns." Wrong, uncomfortable shoes can affect everything from her posture to the expression in her face as well as the state of mind and nerves at the end of her busy day.

Some women seem to swing along so buoyantly—yet are always in the lead with the newest, daintiest, most frivolous new shoe fashions. They know that glorious extra support doesn't have to mean extra weight in shoes—when they walk on weightless Rhythm Treads.

You can prove all this for yourself in less time than it takes to put on your lipstick. Visit Stern Brothers third floor Shoe Salon—they have the exclusive on Rhythm Steps for New York City. Try on any of their gorgeous new spring Rhythm Step styles—then take three steps. You'll notice the difference quickly, we think—for so many women have.

Now is the ideal time to make this 3 Step Test. Stern's glorious new array of Rhythm Step styles is so complete you can easily find the perfect footwear companions to the newest fashions in your wardrobe—and with that extra comfort too, which is so important to the business girl.

We promise you—there's a real walking thrill waiting for you—in the newest, smartest Rhythm Step shoes.

Cordially yours,

Making a letter to professional people effective. Among the professionals are lawyers, doctors, dentists, teachers, ministers, musicians, artists, actors, writers, and architects. They have in common the following characteristics that must be considered in writing sales letters to them:

1. Professionals are accustomed to weighing evidence and arriving at conclusions independently. The letter should therefore be phrased in a manner that seems to allow full independence of decision.

2. They are accustomed to dealing with individuals and being

treated with great respect. The letter, to receive attention, must appear absolutely individual. Care must therefore be taken in making fill-ins match. The tone of the letter should be dignified and seldom familiar. The language should be conventionally correct.

3. The letter should be confined to one page in length. Enclosures can be used to convey the evidence.

4. Professionals possess an instinct for orderliness and beauty. The appeal to this quality may be used if combined with substantiated facts. If the article or service offered is designed to satisfy professional needs, the professional appeal can be used; if intended for personal needs, the appeal is the same as that of letters addressed to educated and cultured people in general.

A letter using the professional appeal. Here we have a letter to architects reminding them of a certain product and the readiness of the company to be of service. The letter is really a sales-promotion letter. Notice its dignity, briefness, and tone.

Dear Sir:

Many architects are already familiar with the Westinghouse Magnalux lighting unit from experience. However, because it is such a popular unit and because it has so many fine points, I am reminding you about it by means of the enclosed descriptive sheet.

But, as you know, differing requirements of application, style, and price call for different units to meet those conditions. Westinghouse has a wide variety of lighting units to meet every sort of need.

The services of lighting specialists, who devote their full time to application and layout, are available to you for whatever assistance you may feel they can give you on your lighting jobs—at no cost or obligation, of course.

Whenever you want complete information on our units, or want the help of a lighting specialist, let me know. I'll see that you get it.

Yours very truly,

How to write a sales letter to farmers. Before you can write effectively to farmers, you must know the general characteristics of this class of buyers and adapt your letter to their traits. Whatever the product, the following characteristics of the reader cannot be lost sight of:

1. The farmer is concerned with utility and must have complete facts. He cannot be sold with generalizations; he is quick to detect

insincere statements. Price, quality, and service are important considerations.

2. He has more time, except during the planting and harvesting seasons, than city dwellers to spend on his mail. Therefore letters can be two pages long and can contain numerous enclosures.

3. He is not impressed with fancy language. Nor is it necessary to try to use the farmer's language. The risk of making the letter sound artificial and forced is too great. Simple, standard English is the best.

4. Guaranties and free trials convince the farmer, as do testimonials, carefully substantiated facts, and figures.

Example of letter to farmers. The J. I. Case Company letter entitled "A Story of Lower Farm Power Costs," reproduced in Figure 8, dramatizes the reduction in power costs made possible by the tractor. The letter was printed on buff paper. Requests for catalogues showed that the letter was effective.

The letters used by the Southern State Roofing Co. in its direct-mail campaign, described on pages 104-120, are excellent examples of letters to farmers. They illustrate perfectly the four principles of writing to farmers, listed above.

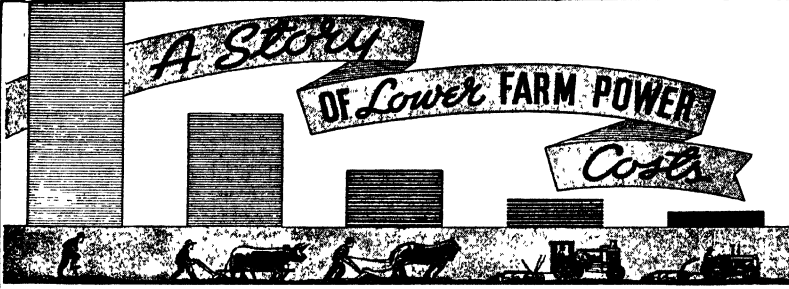
Where to mention price in a sales letter. The traditional treatment of price in a sales letter is to have it follow the sales talk. However, the price can appear in any part of the letter if it is handled properly. In the letter on page 123 it is referred to in the first paragraph; in the letter on page 66 it is mentioned in the third paragraph; in the letter on page 74 it appears at the end.

Hints for proper handling of price. The following hints for proper handling of price have been offered by experienced sales letter writers:

1. Don't appear to apologize for the price. Avoid getting into the frame of mind where you think your price is high, and you will avoid unconsciously apologizing for the price.

2. Don't use such expressions as "and the price is amazingly little," or, "the price is only \$350," to minimize the price.

3. Give the price the appearance of being small by presenting it in understandable terms of how little it is for the value received, as, for example, the price per day if the item is a service for a year; the



The cost of farm power was vastly reduced when man tossed aside crude hand tools and pulled heavier and bigger capacity implements with animals. Then came the tractor with a further reduction in power costs.

PRESENT day improvements in tractors are almost as striking in reduction of power costs as the change from hand tools to animals. For example -- a new Case tractor as compared with one of fifteen to twenty years ago of equal power costs half as much, weighs half as much, costs less than half as much to operate, is vastly easier to operate, and travels many times faster. All this means a great reduction in power costs and a greater opportunity for profit from the farm business.

Your problem today is a matter of selecting the right tractor and using it to best advantage. I hope, therefore, for your own best interests that you will read carefully the booklet enclosed. Written largely by present Case users, it gives

FORTY REASONS WHY CASE POWER IS THE LOWEST COST FARM POWER

Inquire about the performance of Case tractors near you. Ask about fuels burned and the amount consumed, ask about wearing qualities, repairs, and other upkeep expense, ask about ease of starting and steering under load, ask about the resale value of used Case tractors, and you'll be surprised. After four to five years of hard use Case tractors are selling for two-thirds the original purchase price. People are just beginning to learn of the performance and long life built into them.

Detailed catalogs tell just why Case tractors burn a variety of fuels from gasoline to furnace oil economically, require but little upkeep expense, reduce farm power costs and are the choice of discriminating buyers. These catalogs can be secured free of charge and without obligation. The enclosed card is for your convenience. Merely sign and drop in your mail box.

Yours for a larger farm income
thru lower power costs,

J. I. CASE COMPANY,



J. I. CASE COMPANY
444-454 N. Front Street
COLUMBUS, OHIO

J. F. Allen
Branch Manager

Figure 8. A Letter That Dramatizes Reduction in Farm Power Costs.

cost per year if the product has a long life, and the like. The advertising salesmen of the *Saturday Evening Post* make the \$8,000 page rate appear small by quoting it at \$3 a page to reach 1,000 readers.

4. Quote the price clearly; don't make it necessary for the reader to figure out how much the product will cost; don't leave room for misunderstanding.

5. When the selling appeal is based exclusively on the greatly reduced or lower-than-average price, state convincingly why the reduction has been made; otherwise the prospect will doubt the quality of the product. Various reasons might be given for a reduction in price. For example, the letter might state that the seller eliminates the profit taken by distributors and dealers by selling directly to the consumer, or by selling only for cash.

8. SALES LETTER CAMPAIGNS

Follow-up letters break down sales resistance. When a sale depends upon the cumulative effect of repeated arguments and appeals, or the presentation of new ones, follow-up letters help to increase orders. By a repetition of appeals and a variety of arguments, a series of sales letters tends to break down sales resistance and build up the desire to buy. This is a task that a single sales letter might not be able to accomplish.

Three types of follow-up letters are used: (1) the campaign series, (2) the wear-out series, (3) the continuous series.

How to determine length of campaign series. A campaign series must be planned in advance. Six major factors help to determine the number of letters and enclosures, the length of each letter, and the time interval between letters. They are:

1. *The cost of the campaign.* Printing, paper, and mailing costs must be predetermined.

2. *The article or service to be sold.* If the price is high or the article is new, a long series might be required to develop confidence or wear down resistance.

3. *The price of the article or service.* The higher the price, the greater the sales resistance. This in turn influences the number of letters necessary in a series.

4. *Margin of profit.* It is important to know in advance if the margin of profit justifies the campaign.

5. *The type of prospect.* The prospect's age, intelligence, education, wealth, occupation, gullibility, or skepticism help to determine the number of units and the length of the series.

6. *Ultimate purpose of the campaign.* If the purpose is to introduce a new product, the series should be long enough to educate the prospect and create desire. If the purpose is to prepare for a salesman's call, a few one-page letters might arouse sufficient interest and curiosity to accomplish this purpose. If the purpose is to stimulate inquiries, then each letter should be written with this aim in view.

In a follow-up campaign, each letter is definitely related to the others in the series. Taken in its entirety, a series should perform the same functions as are found in a single sales letter—namely, attract attention, create interest and desire, stimulate conviction, and induce action. Letter No. 3 in a series, for instance, presupposes letters No. 1 and No. 2, and paves the way for subsequent letters.

Test mailing list with wear-out series. The wear-out series is used principally to test the effectiveness of a mailing list. The length and number of letters in a series are not planned in advance, and subsequent letters are not sent out until returns from the previous mailing have been checked—and then only to those prospects who did not respond. Although all letters are prepared to sell the same product or service, each letter is separate and distinct from preceding or following letters.

Use continuous follow-up series to keep product or service before public. The continuous follow-up series is sent out at intervals year after year and is intended to keep a product or service before the buying public. This system does not restrict itself to the sale of one article or service; each unit is distinct from others in the series. A department store used the following series in which most of the mailing pieces were in the form of printed circulars:

- January Announcement of after-Christmas sales and reductions in all departments.
- February Announcement of fashion show and sale of famous-make shoes.
- March Three printed folders showing spring merchandise for Easter wear.

- April Letter announcing new credit plan for customers.
 May Sale of women's spring coats and men's suits.
 June Folders for bridal gowns and trousseaus; folder of summer camp equipment.
 July Announcement of special purchases in misses' dresses for week end of July 4.
 August Folders on August furniture sales and household furnishings.
 September Announcement of back-to-school sales and fall millinery.
 October Letter advertising wraps and evening gowns for the social season.
 November Announcement and booklets of Christmas sales throughout the store.
 December Special letter to persons who have bought books, announcing a book-of-the-month club, and soliciting membership.

Example of intensive campaign follow-up. The following campaign letters used by Southern States Iron Roofing Co. illustrate a campaign by a company that has found direct mail the most effective medium for reaching its rather scattered market. The campaign was planned to cover the first half of a year. Its purpose was simple: to secure orders for steel roofing from farm owners. It had a secondary purpose of establishing a favorable impression for the company and its products in the mind of the Southern farmer, whether or not he bought immediately. The campaign consisted of two parts: (1) A mailing to a large list for inquiries (this was a one-shot effort); and (2) a concentrated follow-up of the inquiries from this big mailing.

For the first part, the company used two lists, one of farm owners and the other of former buyers. The list of farm property owners was compiled from the tax records of individual counties. The list to which the campaign was directed consisted of 479,232 farm owners throughout an eleven-state territory. The list of former buyers consisted of 26,921 names. Inquiries from either list received practically the same set of follow-up letters. The schedule of mailing follows:

<i>Quantity</i>	<i>Title</i>	<i>Date</i>
506,153	(1) Original mailing for inquiry	January 7 to 21
71,757	(2) Answer to inquiry	As inquiries were received
72,321	(3) 1st follow-up	February 12
75,841	(4) 2nd follow-up	March 15
77,126	(5) 3rd follow-up	April 17

The third follow-up letter contained a card on which the inquirer could request further information about a "Summer Special" combination offer on roofing and paint. The middle of April generally marks the end of the company's good season as farmers swing into their summer work. Rather than mail to the complete list of inquirers all through the summer, the list was cut down materially by asking for the second inquiry; then only those who showed their interest were sent the second set of follow-up letters. The following schedule was used for those who responded to the third follow-up:

<i>Quantity</i>	<i>Title</i>	<i>Date</i>
3,721 (6)	Answer to inquiry	As cards were received
3,853 (7)	1st follow-up to that	May 13
3,919 (8)	2nd follow-up to that	June 5

The series of eight letters are reproduced with an explanatory comment preceding each letter.

LETTER 1

(Soliciting inquiries for "Roofing Book." Enclosure: Card)

Will you accept a
valuable Book FREE?

For the 4:32 mail train

In a few days I am going to send you an interesting Book that shows how to SAVE MONEY on Roofing. I'll tell you more about this in just a minute—but first, listen to an interesting story.

T. C. Kormat needed a Roof. He got one from a small Roofing Company (which has since gone out of business).

Ed Wilson also needed a Roof. He ordered an EVERWEAR Roof direct from the Southern States Iron Roofing Company.

Less than five years later Kormat had to do the whole job over again because the Roof he bought didn't last.

But Ed Wilson, who ordered the Genuine EVERWEAR Roof, still has it on his building. It looks just as good as it did when he put it on 18 years ago. Ed Wilson made a mighty wise deal when he got that EVERWEAR Roof.

By now you are probably wondering who I am and how I happened to write to you. My name is Charlie Foster. I am General Manager of the Southern States Iron Roofing Company, one of the oldest and best known Steel Roofing Manufacturers in the country. We manufacture Genuine EVERWEAR Roofing. I'm not bragging when I say that but I will admit that I'm mighty proud of the Roofing we make.

For over a quarter of a century now we've been making Zinc Galvanized Steel Roofs for all types of buildings—Steel Roofs *that have to*

be good because they have the fine character and reputation of this Company built right into them—Steel Roofs that have covered more than a half million buildings in the South and **SAVED MONEY** for the owners.

Of course, I don't know whether you need any Roofing right now for any of your buildings or not, but I do want you to know more about **EVERWEAR** so that you can **SAVE MONEY** when you do need to cover some of your buildings.

EVERWEAR Roofing is made of **PRIME**, Full-weight, Grade "A" Steel, heavily coated on both sides with Galvanizing that is 98 and 44 1/100% Pure Zinc. And Zinc, as you know, is the best metallic coating for the rust-proofing of Steel. Therefore, **EVERWEAR** gives you long-lasting, water-tight Roofs for your home, barns, and other buildings—Roofs that **SAVE YOU MONEY** in the long run. It is Fire-proof, Lightning-proof, Rust-resisting. That's the kind of Roofing you want on your buildings, isn't it?

I'd like to go on and on—telling you more about **EVERWEAR** Guaranteed Roofing but this letter just isn't big enough. That's why I want to send you the Book I told you about in the first part of this letter. It tells you the whole story about Genuine **EVERWEAR** Roofing.

This book contains much valuable Roofing information. It shows pictures and descriptions of the many styles of Genuine **EVERWEAR** Roofing. Also letters from folks who have **SAVED MONEY** by using it on their buildings. The Book shows how you, too, can **SAVE MONEY** by ordering **DIRECT-FROM-THE-FACTORY**—and keeping all the extra profits right in your own pocket.

It shows the same kinds of Roofing that Mr. Phillips, Mr. Merdith, and Mr. Brantley have on their buildings. And,—

Mr. Phillips ordered his **EVERWEAR** Roofing **TEN YEARS** ago. Mr. Merdith got his **FIFTEEN YEARS** ago. Mr. Brantley put on his first **EVERWEAR** Roof about **TWENTY YEARS** ago. And they all say, "*It's fine Roofing, it hasn't leaked a drop.*"

These folks are just a few of the many thousands who have **SAVED MONEY** and have gotten better Roofs by using **EVERWEAR**. Let me prove that we can do the same for you. You be the judge as to whether or not you think **EVERWEAR** Roofing can save you money and also give you a better Roof. Just read our Book—see our **LOW PRICES** for this high grade Roofing—and then decide for yourself.

I've got your Roofing Book all packed up—ready to go. But I want to make sure that it's going to reach you **PERSONALLY**.

Therefore, to make absolutely sure that I've got your address right—and that you will get this Book without delay—just fill out the enclosed card and drop it in the mail. No postage is necessary—I take care of that when your card gets here.

Sincerely yours,

Charlie Foster

CF:AFT

P.S. When you order Roofing from us we pay all the Freight Charges.

LETTER 2

(Answers to inquiries. Built around the "Roofing Book" (catalogue) that the prospect wrote for. On the envelope the company emphasizes that this is something the prospect has asked for. The letter plays up interesting points in the catalogue and tries to sell the prospect on the company and its roofing. A special effort is made to persuade the prospect to write about his roofing problems or to ask for quotations. Correspondence is invited by enclosing a "letter sheet" on which the prospect can write about his roofing needs. The mailing carries all the information necessary for ordering: specifications of roofing, prices, order blank, reply envelope.)

Serving the Roofing Needs
of the South for 26 Years

From the
ROOFING HEADQUARTERS
of the South!

. . . . Here's the Roofing Book you asked for.

When you have looked this over, you will see why 569,700 wise property owners have ordered EVERWEAR Galvanized "PRIME" Steel Roofing from us during the past twenty-six years. Some of your very own neighbors probably have EVERWEAR Roofing on their homes or other buildings; and they can tell you better than I can what satisfactory roofing it is.

But I'm not going to take up your time, telling you why over half-a-million well-informed property owners think EVERWEAR Roofing is so good. You are much more interested in what EVERWEAR Roofing will do for you when it's on your own buildings—how strong and tough it is—how it will keep out rain and moisture—how it is fireproof—lightning-proof—will not curl, crack, or dry out, and how it will increase the value of your property.

You're interested in the low price and the fact that you don't have to paint this roofing every year to make it last. These are the things you are interested in—so that's what I want to tell you about:

- EVERWEAR ROOFING IS PRICED VERY LOW. Our roofing is priced low because we manufacture it in large quantities, and sell it direct to you. Look at the low prices in the Roofing Book I am sending you. You don't have to add any freight to these prices. *We pay all the freight charges right to you.*
- LASTS MUCH LONGER than ordinary roofing. When you put Genuine EVERWEAR Roofing on your home or other buildings you KNOW IT is there to stay for many, many years. Because it is made of "PRIME" steel, galvanized on both sides with a heavy coating that is 98 and 44/100% pure zinc. And zinc is one of the most

rust-resisting metals known. This is why genuine EVERWEAR Roofing will last so much longer than ordinary light-weight galvanized roofing. In fact your EVERWEAR Roof should last as long as the building you put it on.

—EVERWEAR Steel Roofing is GUARANTEED. Every sheet of galvanized steel used in making Genuine EVERWEAR Roofing is marked "PRIME" before it leaves the steel mill. We insist that every sheet be marked "PRIME" so that we can guarantee the roofing to you. You may examine your roofing before accepting it. If you find that it is not as represented by us, or if you are not satisfied with it in every way, just send it right back to us, and we will pay the freight both ways. And of course, we will return all your money to you. You will not be out of pocket a single penny.

You Get These Patented End-Lock Cleats . . . FREE
(U.S. Patent Office Number 1880318)

You'll find the patented End-Lock Cleats, which we give you FREE with your order for Lock-Tight, Improved 5 V-Crimp, and Scal-Tight Roofing, are fully described in your EVERWEAR Roofing Book. Property owners find these patented cleats very valuable for holding down the end of the sheets where they lap.

There is a special EVERWEAR Galvanized Steel Roofing and Siding for every purpose. When looking through your Book, notice that you can now get DRAIN-type roofing as low as corrugated. See the safety drain in the Scal-Tight sheets. And see the tall sharp V-Crimps and wide gutter space in the Improved EVERWEAR 5 V-Crimp Roofing. And, above all, be sure to read—and study—the page on Genuine EVERWEAR Lock-Tight Roofing.

Notice how the side edges "lock-tight" together and form a water-tight seam, and how all the nail-heads are covered with the solid sheet of steel. Having all the nail-heads covered, this way, saves you a lot of time and trouble—and money, too. The sun can't draw out the nails. You won't have to go up on your roof every few years "to tighten the nails."

Now just in case you want to hear what some of the property owners who use our roofing have to say about it, here are just a few of their letters:

"I'm well pleased with my roofing. My fire insurance agent changed (lowered) the rate, without my saying anything about it. I hope to send you another order this year."

C. H. Arendall,
Adamsville, Tenn.

"Your (EVERWEAR) Roof is the best I know of. Every sheet cut square made to fit. I got my first roofing from you

7 years ago, it still looks like new; and 4 years ago I got some more. My father uses your Lock-tight and he's well pleased with it."

Erwin L. Carmley,
Brewton, Ala.

"I received the roofing OK, in good condition. I saved at least \$27 on my order. When I need some more roofing I'm going to order from you."

B. T. Meetze,
Lexington, S. C.

These good folks and a half-a-million others are enjoying the money-saving and trouble-free service of EVERWEAR Roofing and Siding. You, too, can save money and end your roofing troubles by ordering your roofing direct from our factory.

It is very easy to order from us at our low, freight-paid prices. Read how easy it is on page 16 of our Roofing Book. Ordering by mail from us is just as simple as driving up to our factory and picking out what you want. Here's all you do. . . .

. . . . Just look through the EVERWEAR Roofing Book and select the kind of roofing you want. Then measure your building (see page 16 of the book), fill out the order blank for what you want, and mail it to us in the enclosed envelope that needs no stamp.

Or, if you don't want to bother with figuring how much roofing you'll need, just put the measurements of your building on the enclosed Correspondence Sheet and send us these measurements. We'll give you, absolutely FREE, an estimate of just what your roofing will cost.

Send your order or the measurements of your building. Get the roofing and siding that you've been wanting. Don't let your buildings deteriorate. Don't put up with leaks and unsafe roofs. Protect your home, your family and property during storms of all kinds. And don't delay. There's nothing to be gained by waiting, as the freight-paid prices of EVERWEAR Roofing are now very low.

Sincerely yours,
Charlie Foster

CF:AFV

P.S. Guaranteed EVERWEAR Galvanized Steel Shingles come in 7 different styles and 4 beautiful colors. Write for FREE Shingle Book showing styles and colors.

LETTER 3

(First follow-up. A price hook with a time limit features this letter. It also contains all the essential information for ordering.

Letterhead showed someone speaking into a microphone, and carried this message: Flash! Here are more roofing savings for property owners who act now. New . . . Lower Prices on EVERWEAR Roofing. Company's name and address were at the bottom of the letterhead.)

This Offer Good Until March 2

February 12, 19. .

"Now I can save you still
more money on your roofing. . . ."

EVERWEAR Roofing is already priced so low that only once in a blue moon am I able to write you a letter like this. However, this is an emergency, so we must tell you that . . .

. . . . for a limited time we are slashing prices on
all styles of EVERWEAR Roofing and Shingles.

This reduction will be in effect from February 12 to March 2. During that time you can get any quantity of genuine EVERWEAR Roofing and Siding at 16¢ a square below our regular prices. Steel shingles are 20¢ a square lower. The price list I am enclosing gives you the new, reduced prices, which may save you as much as several dollars on your order. Compare the reduced prices on this list with the prices in the Roofing Book we sent you not long ago, and see just what you save.

This offer applies only to orders mailed before Midnight, March 2. You would be wise to send your order at once to get the advantage of these low prices.

The Facts Behind This Unusual Offer

You may wonder what emergency would cause us to cut the already-low price of EVERWEAR Roofing. Well, the emergency was caused by the long cold spell throughout the Southern States during January. Remember those freezing days? You did not feel much like working outside and neither did the other property owners who ordinarily would have bought and applied roofing in January. They put off ordering until the end of the cold spell.

That left us in a "hole" because most of the steel we had planned to make into roofing and ship during January is still sitting in our factories. That would be all right except for the fact that 'way last fall we placed orders for 153 carloads of steel to be delivered now. The steel mills are starting to ship these orders, and we have no room to pile the steel.

When I called the managers together the other day, they said, "Charlie, we either have to rent additional warehouse space or sell a lot of roofing in a hurry. We must make room for the big lots of steel that are coming in now. The railroad is already starting to run the cars on our sidings."

Well, rather than pay out rent for storage space, we decided to pass this money along to our customers by temporarily reducing our prices. Naturally we would rather let you pocket an extra saving than let the storage man pocket rent money. Either way costs us money, but the first way saves for you, so of course that is what we want to do.

Why This Offer Must End March 2

Although we would like to continue this price reduction after March 2, it must end on that date. All possible space in our factories has to be cleared by then to make room for the shipments from the steel mills. This chance to save extra dollars on the roofing you need will not last long, so why not order today.

The price list I have enclosed gives all prices and other information necessary for ordering. Once you have figured out how much roofing or shingles you need, you can sit down in an easy chair and fill out the order form. We even pay the postage on the enclosed reply envelope.

SEND NO MONEY—unless you want to

We are glad to ship your roofing without a penny's deposit. When it arrives at the freight station, you may examine it to make sure it is just as good as we say it is. If you think it is not, just tell the freight agent to ship it right back at our expense. It will not cost you a penny. If you like it—and I believe you will—you can keep it and just pay the freight agent the reduced price that appears on the price list I'm sending with this letter. You don't have to pay him for the freight because we pay that.

We are not asking you to buy anything you don't see first. EVER-WEAR Roofing must satisfy you, or you do not have to accept it. It is just like having our store right in your town, except that we offer you anything in our complete stock at direct-from-factory prices rather than high local prices.

Take advantage now of these "February Sale" bargains. Prices may not be as low as this again for a long time. Make out your order and mail it today.

Hurriedly,

Charlie Foster
General Manager

P.S.—Even if you do not want your roofing or shingles shipped yet, you still can take advantage of these low prices. Fill out your order and send it NOW—no deposit necessary. Add a note saying that you do not want the roofing to reach you until . . . (and fill in the date). We allow you to reserve roofing for shipment at "February Sale" prices as far ahead as March 31. The only requirement is that you mail your order by Midnight, March 2, and that shipment is made not later than March 31, 19...

LETTER 4

(Second follow-up. This was the most effective single piece used in the campaign. The certificate was filled in with the prospect's name. The two-page letter was run on the front and back of the letterhead. The envelope flash, the cover of the folder, and the first paragraph of the letter all emphasized the idea of the certificate and its value. The mailing contains all necessary information for ordering.)

This offer good
only until April 13, 19—

Now—save 50¢ a square on
guaranteed EVERWEAR Lock-Tight Roofing . . .

Your name on the enclosed certificate makes it possible for you to save as much as \$8.00 or \$10.00 on your next roof . . . **IF YOU ACT NOW.**

Until April 13, this certificate entitles you to a special allowance of 50¢ a square on EVERWEAR Lock-Tight Roofing . . . the roofing that covers every nail head with a solid sheet of steel. Until that same date, it also entitles you to an allowance of 24¢ a square on EVERWEAR Seal-Tight Roofing.

This special offer is being made only to a selected group of property owners—to just 7 out of every 100 Southern Farm owners. We make it at this time not because we expect to make money on any roofing we sell at such a reduction but because experience has proved that one new EVERWEAR Lock-Tight Roof leads to another . . . particularly when the first one is used by one of the respected and well-known members of a community.

For example, when you put a Lock-Tight Roof on your house, folks are bound to notice it and ask your opinion of it. They may even come by to examine the heavy "PRIME" sheets and the sturdy locks that snap the sheets together. And we are so confident that you are going to be satisfied with your Lock-Tight Roof and give it a boost with many of your neighbors, that we are glad even to lose money to get you to send in your order for Lock-Tight Roofing at this time.

Of course, whether we lose money is our worry; most important to you is the fact that by using your certificate and ordering now you can get premium Lock-Tight Roofing for only 39¢ more per square than 5 V-Crimp . . . as little as \$3.90 more on an order for ten squares.

Extra Saving with Lock-Tight Roofing, Too

That 50¢ a square you save by ordering Lock-Tight Roofing now is just the beginning of your savings, for Lock-Tight is built to give you more years of fire-proof, leak-proof protection than any other sheet roofing.

You know from experience that most roofing troubles start right around the nail hole. A tiny drop of water leaks in; the decking beneath rots; the nail pulls loose; . . . and pretty soon this all adds up to trouble and expense for you. Well, Sir, Lock-Tight Roofing rules out all this trouble right from the start because on a Lock-Tight Roof *every nail head is covered with a solid sheet of steel*. This keeps the nail head bone-dry even in a driving rain.

Lock-Tight gives you extra protection at the three other vital spots on a roof—as the folder I am enclosing explains. This extra protection naturally adds years of life to each Lock-Tight Roof. When you divide the cost of roofing by the number of years you can expect it to last, you will almost certainly find that Lock-Tight is far less expensive than any other roofing.

Remember that the price of Lock-Tight even before this 50¢ special reduction was already the rock-bottom factory price, freight-paid to you. The additional reduction means that this is an opportunity that comes only once in ten years—an opportunity you should not pass up if you plan to buy roofing this year.

FREE Roofing Estimate Service

Without charge or obligation to you, we are glad to estimate just how much roofing you need and tell you in advance what it will cost, right to the penny. In order to get this free service, all you have to do is fill in the dimensions of your roof on the back of the sheet I have enclosed for you to use in writing me. I'll have one of our roofing experts figure your entire job and rush the figures right back to you.

How to Get Your Discount

Because we are not making this offer to everyone, we have registered the certificate in your name. It must be used only by you, and before April 13, 19 , in order to get this discount.

The folder that I am enclosing gives you the regular and also the reduced prices that you may have by using this certificate. It also gives you the facts about various styles of EVERWEAR Roofing. Select your roofing from it, and then use the enclosed order blank to mail your order before the deadline, April 13. Be sure to enclose your price reduction certificate with your order so that we will know you are entitled to the special discount.

I'll count on hearing from you in the next few days.

Expectantly,
Charlie Foster

CF:AKX

P.S.—In case you need some corrugated galvanized steel and have misplaced your Roofing Book, you can also figure the corrugated price by using the 5 V-Crimp price given in the enclosed folder. Subtract 7¢

from the 5-V price for 1¼ inch corrugated; subtract 12¢ from the 5-V price for 2½-inch corrugated.

LETTER 5

(Third follow-up. This letter asks for a second inquiry. The purpose was to cut down the mailing list drastically, since, by the middle of April, Southern farmers are exceedingly busy with their crops. The letter and card enclosed offer a substantial saving, but by experience the company knows that any farmer who takes time at this busy season of the year to fill out an inquiry card is a "hot" prospect and deserves concentrated attention for the next month or so. The letter also provides a way of bringing the company's paint line, which sells later in the spring, to the attention of prospects.)

Rush message—Mail at once

Read how this "Summer Special" slashes 40¢ a square off price of your EVERWEAR Roofing . . .

You certainly will not want to miss an opportunity like this, so mail the enclosed card at once for complete details of the "Summer Special" by which you save 40¢ a square on EVERWEAR Steel Roofing and Shingles—a saving that amounts to about 10% on most styles.

Here, in brief, is the plan that enables you to make such a saving:

For every gallon of "Southern States" Guaranteed Paint that you buy, we allow you a reduction of 40¢ on the price of one square of roofing—any style or weight.

Take Time Now to Order—and Save Plenty

Since you probably will need paint and roofing before long, you naturally would be wise to buy them both at the best possible price. For that reason, this "Summer Sale" reduction (which lasts only to June 30) is your opportunity. You can make a saving by placing your order for roofing and paint at once—a saving that more than repays the small time and effort required for this. Even if you do not plan to use them at once, you can afford to order at this money-saving price and store them until you are ready to use.

Are We Foolish to Make Such an Offer?

We might seem foolish to some folks when we make a reduction now on roofing that probably will be bought anyway at full prices in the fall—but we do not think we are. You see, if people do not complete their roofing in early spring, they ordinarily put it off until fall, even though

leaks threaten to ruin much of their property. They lose, of course, but so do we because our business falls off during the summer and we are faced with the necessity of either letting some of our loyal workers go—which we certainly don't intend to do—or carrying more men on our pay roll than we actually need in the slack season.

By making you an offer so attractive that it would be worth acting upon even in the middle of spring planting, we hope to keep our factories humming and our men at work. Will you help us by figuring your paint and roofing needs for the next six months and ordering at today's low prices? You will be helping yourself too, because every gallon of paint ordered means 40¢ saving on a square of EVERWEAR Roofing or Shingles.

New Free Book Tells How to Cut Property Upkeep Cost

Now, I know that up to date I have not told you about our line of "Southern States" Paint—so rather than just say that its quality is as high as our roofing in every way, I am going to send you a new book (coming from the printer in the next day or two) that is packed with facts about "Southern State" Paint.

From this book you can find out for yourself about the unusual spread-ing and lasting qualities of our paint. In addition it has many sugges-tions for lengthening the life of your buildings and farm equipment. Likewise it has money-saving ideas for the practical painter: how to make paint go further and cover better, how to prepare a surface for painting, how to make brushes last longer, what paint to use for each surface, etc.

As I said, I have a copy of this book for you, but first I would like to be sure you want it. Will you put your OK on the enclosed card and return it to me? The book will reach you within a few days then.

The same card will bring you the complete story about our amazing "Summer Special," together with a new roofing price list showing the regular prices on EVERWEAR Guaranteed Steel Roofing—prices that are 16¢ a square lower than they were in January. Thus the card brings you all the information you need for taking advantage of our "Summer Special."

Don't Miss This—Mail Your Card *Today*

Mailing a little card that requires no postage is a pretty easy way to save 40¢ a square on your roofing—why not sign that card right this minute while you have it in hand. There is no obligation, and it can save you plenty.

Expectantly,
Charlie Foster
General Manager

CF:ALM

P.S.—I know you will be interested in the recent results of 153 labora-tory tests on our roofing at Pittsburgh Testing Laboratory, Pittsburgh,

Pa. Scientists found that the weight of the protective zinc coating on EVERWEAR Sheets averaged 32% heavier than United States Government requirements for standard roofing. Because even a small increase in the weight of the zinc coating substantially lengthens the life of the roofing, EVERWEAR Roofing may last 64% longer than sheets which would pass Government standards as "good" roofing . . . and that is something to consider in buying your next roofing!

LETTER 6

(Answer to inquiry—second series. The letter makes a combination offer of roofing and paint. The letterhead was varied to emphasize paint.)

For the 4:32 mail train

How to save 40¢ a square
on steel roofing . . .

Enclosed with this letter is the paint book I promised to send you, together with a roofing price sheet and full information about our special "Summer Sale" offer. This unusual offer enables you to save 40¢ a square on roofing if you purchase your paint needs at the same time. I am mighty glad to be able to make such a money-saving offer to you, because my business grows only if I can save money for Southern property owners who are building or repairing.

Briefly, the offer is this: For each gallon of paint that you purchase you are entitled to one square of roofing at a 40¢ reduction from our already-low, freight-paid prices. The enclosed folder gives you the details.

Understand, please, that the roofing and paint on which this special offer is made are our full-quality, first-line products—the same ones that we sell every day at full price. We make such a reduction only because we want to encourage you to buy your roofing and paint now, rather than waiting until fall. That way—although we may lose money—we can keep our factories busy and our men at their places throughout the summer, which is usually our dull season.

Figure What You Save

These prices make it worth while for you to buy now, even if you have to store your paint and roofing for a while before you have time to use them. The money you save more than repays the slight inconvenience. For example, on an order for 14 squares of roofing you save \$5.60 if you buy paint at the same time. That's worth saving!

If you have absolutely no use for paint at this time, there is certain to be one or more of your neighbors who can use paint. By combining your roofing order with a neighbor's paint order you can still take advantage of this reduction.

To make it easy to order, we have prepared a combination roofing-and-

paint order form and enclosed it with this letter. It has a blank for ordering paint and a blank for ordering roofing. These are on opposite pages, facing each other. Just fill in each one, and then for each gallon of paint ordered, deduct 40¢ from the price of a square of roofing.

We are always glad to hear from our friends like yourself, so be sure to write us if there is any way we can help you select the proper roofing or paint.

Cordially yours,
Charlie Foster
General Manager

CF:ALT

P.S.—Our Estimate service is FREE. Just send us the measurements of your building and we will figure, without charge or obligation, the paint and roofing you need and the total price.

LETTER 7

(First follow-up. Second series. Again it was necessary for the mailing to carry prices on both paint and roofing and a combination order blank. The letter and folder were built around new laboratory tests that established the high quality of EVERWEAR Roofing.)

Spring Bargain Season
19

Here is what thrifty buyers
do when they want to be sure
of getting their money's worth . . .

They ask: "How does this product you are offering me compare with the requirements of the United States Government's Bureau of Standards?"

Through the years they have come to know that "Bureau of Standards requirements" spell quality, whether they are buying sewing machines or bath tubs, motor oil or steel roofing. The Bureau is Uncle Sam's checking laboratory. It sets up certain standards of performance and excellence that all products purchased by the Government must meet. Because the Government is so careful in its purchases, practical farmers and other businessmen figure that when they demand the same standards as the Government, they are sure to get full value and satisfactory merchandise.

Facts about Government Standards for Galvanized Roofing

The U. S. Bureau of Standards rates galvanized steel roofing by the thickness of its protective coating of zinc galvanizing; the thicker the coating, they have learned, the longer a sheet will last. Moreover, a

small increase in the weight of the coating means a much greater increase in the life of the roofing.

In view of these facts, I know you will be interested in tests we had made recently on EVERWEAR Roofing sheets by an independent steel laboratory, the Pittsburgh Testing Laboratory, in Pittsburgh, Pa. They made a total of 153 tests, and found that EVERWEAR's zinc coating averaged 32% heavier than U. S. Government standards for "good" roofing.

What This Means to You

This means that you can buy—at regular prices—a roofing that is 32% better than Government standards. And because just a small increase in the weight of the zinc coating adds greatly to the life of the roofing—roofing experts indicate that such roofing with 32% heavier coating should last 64% or more longer than roofing that just meets Government standards.

Therefore, though you pay no more for the heavier-coated EVERWEAR Roofing it should give you 64% more trouble-free storm-proof service.

You can sit at home in your easy chair and order EVERWEAR Roofing by mail, direct-from-the-factory. The enclosed order blank shows you how to figure the roofing you need; and the price sheet shows you the details of each kind of roofing as well as the low, factory prices at which you can purchase now.

Our estimate service is free, if you would like to have us figure your roofing needs for you. Just send the dimensions of your roof to our experts and tell them what style of EVERWEAR Roofing you want. They figure just how much you need and tell you to the penny the freight-paid price on it.

Extra Saving on EVERWEAR Now

Right now our Summer Special on EVERWEAR Roofing and "Southern States" Paint gives you an opportunity to get this heavier-coated roofing at an unusual saving . . .

For every gallon of "Southern States" Paint or Varnish
that you buy, you are entitled to a reduction of 40¢
on one square of EVERWEAR Roofing.

Figure what this means to you: for example, on an order for only ten gallons of paint and ten squares of roofing, you save \$4.00—a remarkable saving on paint and roofing that are already offered at bargain prices.

The enclosed combination order blank has space for ordering paint and roofing together, and it also gives you more detailed information about this "Summer Special." The price sheets on paint and roofing give you the information you need in choosing these products.

You need not send cash or check with your order. Order now, while

the order blank and envelope are at hand. Then pay your freight agent only after you have examined and approved your paint and roofing.

This offer is good for a limited time only, so better act at once.

Cordially,
Charlie Foster
General Manager

CF:AMD

P.S.—If you have no need for both paint and roofing at this time, please do not hesitate to order just the one product you do need. The enclosed price sheets give the correct prices to use in ordering either paint or roofing by themselves, and you may use the enclosed order blank to return your order for fast service.

LETTER 8

(Second follow-up. Second series. In this letter roofing is ignored completely, and a paint special is concentrated upon. This is the last letter of the follow-up campaign.)

Next week I am sending you
a full gallon of paint FREE
to try at my expense . . .

Will you fill in (on the slip I am enclosing) the grade and color of house paint that you want? Then I can send you by return freight a full gallon of "Southern States" paint absolutely free.

The idea is that you agree to take this free gallon of paint and try it on your home or outbuilding—you to be the sole judge of whether it is the best paint you ever bought at its price. The only requirement is that, at the time I send you the free gallon, you place a tentative order for at least five more gallons of the same grade paint. By the time you have used up that first trial gallon, I feel you will agree with thousands of other Southern property owners that "Southern States" is the most paint for the money on the market today. If you don't, then just return the remaining five gallons to us at our expense . . . and without obligation to you in any way.

How can you lose on this offer?

We give you the first gallon free so that you can find out about our paint without risking one penny of your own. The decision is entirely up to you. If you say, "No, I don't like your paint," we take back the remaining five gallons and instantly refund any freight or money you have paid. If you do like the paint—and we believe you will—the first extra gallon is still yours FREE, and you can finish your painting with the remaining five gallons . . . and pay us just the low, freight-paid price on them.

By taking advantage of this offer, you get six gallons of paint at our usual price for five. For example, if you order "Southern States" First-Quality House Paint, we would send you one gallon free and then five at the regular price of \$2.40 per gallon: a total of only \$12 for six gallons or at the amazingly low price of \$2 per gallon for what is practically the finest house paint made—a paint that few local dealers can begin to equal at less than \$3.50 a gallon.

You don't have to take our word for how good our paints are: we are giving you the opportunity to try them without risking a cent. You may choose a free trial gallon of any of these four grades:

"Southern States" First-Quality House Paint . .	\$2.40 per gal.
"Economy" House Paint	1.65 per gal.
Mildew-Resisting Paste Paint	3.34 per gal.
Barn & Roof Paint	1.40 per gal.

You will find these listed on the enclosed price sheet, together with a complete description and all colors. You may order several different colors if you want, rather than have all six gallons one color.

You won't have to bother about thinner either. You always get a gallon of turpentine FREE with every five gallons of "Southern States" paint. The turpentine will be sent right along with your paint.

How to get your free trial gallon—*Be sure to read this.*

You may give us the information about the trial gallon you want in the space provided on the pink request slip. Then attach this slip to a tentative order (on the regular paint order blank) for five gallons more to be shipped at the same time that we send the test gallon. You can either send payment for the five gallons with your order, or else we are glad to ship them to you C. O. D. In either case, at any time after you have tested the first gallon and decide that you do not want to keep the other five, your money is subject to instant refund.

Since we pay the freight on all orders for five gallons or more, there will be no freight charges for you to pay.

This opportunity to test "Southern States" paint at our expense is good only until June 30, so fill out the request and mail it today. The paint is all ready to ship to you. All I need is your "OK."

Expectantly,
Charlie Foster

CF:AML

P.S.—Whether you keep or return the five gallons, the one FREE gallon is yours without obligation. There are no "strings" to our offer.

9. DEVICES THAT MAKE SALES LETTERS WORK

Devices that make sales letters work. A good sales letter can be made a better sales letter if it is combined with a device for get-

ting attention and action. In the following paragraphs examples are given of devices that have given sales letters a special pulling power.

Extra-size letter. The following letter took the form of a self-mailing folder measuring $13\frac{1}{2} \times 20$ inches when open. It was folded in half from left to right and then three times to measure $4\frac{1}{2} \times 10$ inches when folded for mailing. An attractive illustration on the address side suggested that the reader open the folder. When the folder was opened, there appeared these words in a design that suggested speed: "There's a big letter for you inside." Then appeared the following letter in enormous typewriter type, on an enlarged J. I. Case Company letterhead. The number of cards received and the number of farmers who visited Case dealers to see the mower and other hay tools were evidence that the mailing piece was effective.

Hay Time Is
No Play Time

When it's time to make hay there's no time to waste with machinery that breaks down or gives trouble in the field. Maybe there's corn to be laid by, grain harvest coming on, perhaps something else—but there's always something to make haying a rush season job.

And it's no time to make your horses pull a hard-running mower. After the long, hard grind of spring work they are in no shape to worry along under a load of neck weight and side draft. It's hot, sultry weather, and you need to keep them in good condition for harvest.

Maybe you can afford hours of wasted labor—possibly your horses can stand the risk of sore necks—but nobody can afford to take chances on a hay crop. Don't blame the weather entirely for sun-bleach, rain-damage, leaf-loss, and the other things that make the difference between hay worth a good price on the market or in your own mangers, and the other kind—at which both buyers and "bossies" turn up their noses.

With exceedingly few exceptions you can beat the weather and escape most of these losses if you use a modern method of hay making and have machinery you can depend on to get every job done right on time. For the cutting operation you can't beat the Case Hi-Lift Oil Bath Mower described in the enclosed folder. The difference in quality and value of hay on only ten acres might easily pay for it in a single year. But this is a mower that will give you years of good service. It is light-running and has easy adjustments for maintaining a clean cut and minimizing the replacement of working parts.

Don't wait until the last minute—see this great mower now at your Case dealer.

At the same time get full information on Case sulky and side delivery

rakes as well as the new Case combination cylinder and push bar hay loader with tight bottom—the loader that has the best features of both types, and saves a lot of loose leaves. Learn all about the pick-up method of baling hay or straw that puts it in the bale with less labor than to put it in a stack. Just check the enclosed card, sign and drop it in the mail.

Very truly yours,

Form letter personalized by photos. What better way to get “in step” with the reader at the outset than to let him come face to face with his own photograph? By using the pictures of hotel executives published in a trade journal, an Indiana furniture firm constructed a novel letter to be sent to the person photographed. A form letter on the subject of hotel chairs was prepared, and the picture of the executive was cut out and pasted at the top of the letterhead. Alongside the picture, the following copy was typewritten:

GOOD MORNING
You look to me like a man
who would appreciate
GOOD HOTEL CHAIRS

An additional copy of the hotel publication was secured, and a similar cutout was pasted on the envelope next to the name and address.

The envelope and letter succeeded in securing eye attention from the reader, and the envelope had a better chance of getting past the mail clerk and into the hands of the executive.

Devices to facilitate action by the reader. The fact that it contains a device to make it easy for the reader to act is one of the reasons for the success of the letter reproduced in Figure 9. An application is attached to the letter; the need for an envelope is eliminated; and the directions for forwarding are simple. Notice the following about the letter:

(1) The evidence of confidence in what is offered. “Don’t send any money. See the policy first and, if you’re satisfied, then just mail your check for \$3.65.”

(2) The stimulation to one specific action at the close.

Reply-O-Letter makes it easy for the reader to act. The Reply-O-Letter is a patented device used by the Reply-O-Products Corporation, New York, in the letter service that it supplies. The

W. H. EBY, PRESIDENT
E. D. ALVING, VICE PRESIDENT
S. WIEBELER, TREASURER

Policy Holders from Coast to Coast
ESTABLISHED 1927

F. W. WALDEN, VICE PRESIDENT
M. H. GREGORY, SECRETARY
A. S. WARDEN, ASST. TREASURER

**POSTAL LIFE
INSURANCE**



**8-CASUALTY
COMPANY**

1727 WYANDOTTE STREET
KANSAS CITY, MO.

Dear Friend:

We have just put a NEW accident policy on the market that COSTS ONLY ONE CENT A DAY!

This policy will pay you up to \$100.00 a month for a period of TWENTY-FOUR MONTHS if you are disabled.

It has a special HOSPITAL BENEFIT which pays in addition as much as \$50.00 a month for TWO MONTHS for hospital care in accidental injury.

It pays up to \$1,000.00 to your beneficiary if you are killed! And it covers accidents such as happen every day--accidents due to riding in or driving automobiles, house trailers, trucks, taxicabs or buses (including school or chartered buses); being struck by vehicles on any public street, road or highway, accidents while operating or riding in trains, street cars, elevators, mall, express or baggage cars, accidents while riding as a fare-paying passenger on a regularly scheduled airplane.

It also covers being injured or killed by lightning, tornadoes, hurricanes, by the collapse of the outer walls of a building or the burning of any church, theater, library, school or public building and numerous other accidents. This new policy covers farm implement, wagon, and tractor accidents--being kicked by a horse or mule, or gored by a bull or cow--and accidents while riding a bicycle.

As an emergency benefit, the company will pay all expenses up to \$100.00 of putting you in touch with friends or relatives if you are injured.

A medical benefit of \$20.00 is provided in case of minor injuries--this benefit alone is nearly six times the amount of the yearly premium.

Think of all this protection for only \$3.65 a year! You do not have to be killed to secure the indemnity, but if you are killed, it pays for that too. So you have protection whether you live or die.

More than A QUARTER MILLION people have already bought Postal accident policies. Men, women and children are eligible. No medical examination is required, and it does not matter how many other policies you have.

Just fill in and return application today! Don't send any money. See the policy first and if you're satisfied, then just mail your check for \$3.65.

The policy will be sent directly to you and no salesman will call

Sincerely yours,

J. A. Walker
Vice President

JW:IA
27

REFERENCED TRADERS GATE CITY NATIONAL BANK PLAZA BANK OF COMMERCE FIRST NATIONAL BANK
OVER ONE-HALF MILLION DOLLARS PAID IN CLAIMS
COPYRIGHT 1928

NO ENVELOPE NECESSARY
JUST-FOLD, SEAL AND MAIL.

APPLICATION

This Policy is issued to Men, Women and Children. To Avoid Any Errors Please Print All Information. Please send me one of your NEW, IMPROVED accident policies for FREE EXAMINATION, without obligation. If I decide to keep the policy I will send you a check for \$3.65 to cover the first year's premium. I certify that I am in sound condition mentally and physically and that the following answers are true and correct.

Full Name _____ PRINT NAME IN FULL

Address _____ STREET NO OR R. F. D.

CITY _____ STATE _____

Sex _____ Age _____ Birth Date: Month _____ Day _____ Year _____

Occupation _____

Print below name, address and relation of person to whom you want insurance paid in case you are killed.

Beneficiary- _____ NAME _____ RELATIONSHIP _____

Address _____

If you want additional applications for friends or relatives, check here (_____).

Figure 9. A Sales Letter That Has Met All Tests.

reply card is slipped into a pocket attached to the letter. The card serves as the inside address on the letter and makes it unnecessary for the person to whom it is addressed to write his name and address on the card. It also enables the sender to check the exact number of replies to a letter sent out with the reply card. Companies which have used the Reply-O-Letter have indicated that it has helped to increase the percentage of returns and has also cut operating costs by reducing the motions required to complete a campaign.

Personalization and showmanship important. By catching the eye and persuading attention through personalization, the following letter (Figure 10) produced excellent results for Mailings, Incorporated, a direct-mail service. The prospect's name was written across the top, brush-scripted in gold paint. An Aspirin tablet was attached on the left. Here was showmanship and personalization of a high order.

Tie-up with premium. Using a rabbit's foot charm as a premium in a direct-mail campaign to sell accident policies required a letter that brought both the superstition and the premium to the attention of the prospect. A provocative opening question and a closing reference to the premium, in the Maryland Casualty Company letter reproduced below, shows a simple but effective tie-in. A common-sense appeal, supported by facts, is used.

My dear Mr. Hunt:

Would you trust to luck to protect you against accidents, Mr. Hunt?

Even a good luck charm will not prevent them. It is an established fact that one person in twenty-seven will be seriously injured this year. You may be that one.

If you are, your income is more needed than ever. Your home expenses must go on and in addition there are hospital, doctors' and nurses' bills. Accident Insurance guarantees you a weekly income while you are disabled, plus payment of hospital, doctors' and nurses' bills up to the amount specified in the policy. You can relax from worry.

Invest in an accident policy. Then, if you are injured, you will be lucky. One of our agents, Mr. Robert L. Ward, Parker Building, Bridgeville, will call on you within a few days. Incidentally, he has a rabbit's foot charm for you.

Yours very truly,

Rabbit's Foot Accident

Vice-President

Mr. Fraser

Does your D. M. give you a headache?

Here's relief:

We --- not Aspirin --- but experience!

Patent medicines, panaceas and poultices have their place --- but, they try to correct, they don't prevent.

If you're displeased with your Direct Mail results --- perhaps we can be the Doctor.

We can apply "preventative medicine" or give your direct mail a tonic stimulant. Experience in creating and producing millions of mailing pieces (6,000,000 for the Book-of-the-Month Club alone) has taught us what to do and what not to do.

Most doctors charge a fee for consultation. We run a Clinic --- diagnose your case and prescribe copy and ideas without charge.

If you should retain us for treatment, you will receive the skilled services of a Specialist at the modest fee of a General Practitioner.

There's a Prescription card enclosed that's already filled in with your name. It will bring a Specialist and Case Histories of remarkable cures.

Professionally yours.



LK:G

LEWIS KLEID, President

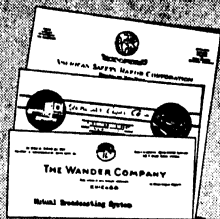
Mailings incorporated

25 WEST 45th STREET - NEW YORK CITY

Figure 10. Showmanship in a Personalized Sales Letter.

MUTUAL BROADCASTING SYSTEM

NEW YORK OFFICES • 1440 BROADWAY



Sept. 11, 1940

Mr. Robert Bruce
Prentice-Hall, Inc.
New York City

Dear Mr. Bruce:

Recently, in a booklet of school-pad proportions,* complete with pencil, we pointed out that Mutual's new Volume Plan stands ready to save you 20 - 30% of your network time cost.

Attached here, is a story of a different color -- a fact, not a forecast. A story of what leading advertisers are actually doing about Mutual's new Volume Plan.

It is the story of three of the latest clients to sign Mutual volume contracts.

And by the way, isn't this a three-fold answer to the armchair critics who confide, "Certainly it's a marvelous value, but can Mutual clear time?"

Sincerely,

Robert A. Schmid
Robert A. Schmid
Director of Advertising

RAS:LP

*If by any chance you failed to receive your copy of "Air-rithmetic", or would find another helpful, we would be glad to send one of our limited supply on its way.

Figure 11. Novel Presentation of Testimonials.

Novel presentation of testimonials. Miniature testimonial letters were inserted in the sales letter of the Mutual Broadcasting System shown on page 126. The miniatures were kept in place by means of a pocket placed in back of the letterhead. The reproductions were graduated in length so that each letterhead would show. (See Figure 11.) The shortest measured 2½ inches; the longest, 3½ inches. A black arrow above the date pointed to the insertion. The letter merely calls attention to "what leading advertisers are actually doing about Mutual's new Volume Plan."

How to get the most out of successful sales letters. A letter that has brought results can be used again and again. It should not be discarded until it ceases to work.

A successful letter can even be repeated as a follow-up. Variations can be added to get attention. The following devices have been used successfully on repeat letters:

1. Reproduce the letter on a different colored paper with the word COPY in red ink across its face and a brief note in red ink in the upper right-hand corner. One firm added the following note:

"91 Arizona employers accepted the offer made in my letter of July 5.

"With the thought that the original may not have reached you, I am sending this duplicate.

"I hope you, too, will want to take advantage of this special offer.

D.A.L."

2. Use the same letter with a handwritten and initialed sentence at the top of the page, such as: "Did you overlook this letter mailed to you recently? D.A.L."

SECTION 2

Profitable Advertising

1. WHAT ADVERTISING CAN DO SUCCESSFULLY		4. SELECTING THE RIGHT ADVERTISING MEDIA	
What is advertising?	131	Principal media	159
Functions of an advertising department	131	Selecting the right media	159
Who advertises	136	Magazines	160
Facts for smaller advertisers	136	Newspapers	161
Developing demand for an advertiser's product	137	Radio and television	162
Tools for merchandising the advertising	138	Farm papers	165
		Direct mail	165
		Outdoor advertising	165
		Car cards	166
		Premiums	167
		Advertising specialties	167
		Trade papers	168
2. MAKING THE BEST USE OF AN ADVERTISING AGENCY		5. TESTING YOUR ADVERTISING	
Choosing an advertising agency	140	Can an advertiser forecast the results of his advertising	168
What points to investigate in choosing an advertising agency	140	Advertiser's personal judgment not reliable	169
Scope of agency service	144	What pretesting aims to do	169
How to work with an advertising agency	147		
Three plans of agency compensation	148	Pretesting by the Sales-Area Method	
Straight commission plan	149	What the sales-area method is	171
15 per cent, less commissions plan	150	Procedure in the sales-area test	171
Retainer plus commissions plan	151	Safeguards to observe in sales-area testing	172
Agreement with the advertising agency	152	Advantages and disadvantages of sales-area method	175
3. FIXING THE ADVERTISING APPROPRIATION		Pretesting by the Inquiries Method	
Three methods in common use	152	What the inquiries method is	176
Percentage-of-sales method	153	Procedure in the inquiries test	177
Unit-of-sales method	154	Two problems in the use of the inquiries method	180
Market-survey method	155	Safeguards to observe in testing by the inquiries method	181
What to charge to advertising costs	157		

Pretesting by the Consumer-Jury Method

Procedure in the consumer-jury test	183
Safeguards to observe in using the consumer-jury test	183
Advantages and disadvantages of the consumer-jury test	184

6. HOW TO DESIGN AND REGISTER A TRADE-MARK

New Trade-Mark Act	185
What registration of a trade-mark means	185
Advantages of registration on the Principal Register	186
What marks are registrable?	187
The "must-nots" of the trade-mark law	187
Notice of registration	188
Duration of a registered mark; affidavit of use	189
Use by related companies	189
Conflicting trade-marks	189
Assignment of trade-marks	189
Incontestability of trade-marks	189
Cancellation of registrations	190
Remedies	191
Protecting foreign trade-marks in the U.S. and U.S. trade-marks abroad	191
The Canadian trade-mark law	192
Effect of Food, Drug and Cosmetic Act on trade-marks	193
Designing a trade-mark	193
Forms of trade-marks	193
Dictionary words	194
Coined or invented words	194
Foreign words	195
Personal names	195
Geographical names	195
Initials and numbers	196
Portraits, designs, symbols	196
Color and other devices	196
How to create a trade-mark	197
Copy demands of a trade-mark word	197

7. COPYRIGHT PROCEDURE

Outline of copyright procedure	199
Classification of copyrightable material	199
Regulations of Copyright Office governing works reproduced in copies for sale or public distribution	200
Regulations of Copyright Office governing works not reproduced in copies for sale or public distribution	201
Term of copyright in the United States	202
Copyright fees	202
Copyright on a new edition of a copyrighted work	203
Copyright on an unpublished manuscript	203
Quotations from a copyrighted work	204
Copyright on prints and labels	204
Copyright in Great Britain	205

8. PRINTING AND TYPOGRAPHY

Printing processes	211
Advantages of photo offset	212
Uses of photo offset	213
Preparation of copy for photo offset	213
How to plan a printing job	213
How type is set	215
Choosing a type face	215
How type is measured	221
Use of leading	224
Preparing copy for the printer	226
Computation of space and copy-fitting	228
Proofreader's marks	230
Illustrations	231
Paper	231

9. GLOSSARY OF ADVERTISING PROCEDURE

Glossary of advertising procedure	243
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SECTION 2

Profitable Advertising*

1. WHAT ADVERTISING CAN DO SUCCESSFULLY

What is advertising? Advertising is not necessarily what you see or hear. That advertisement in a national magazine or newspaper, that program you hear over the air—that is not “advertising”; that is merely a part of advertising.

Advertising is not a “thing apart.” It is not divorced from the rest of business. In fact, it cannot be successful unless and until it is part and parcel of business.

There is only one way to obtain an accurate answer to the question, What is advertising? and that is, to study a list of the functions of a large advertising and sales-promotion department.

Functions of an advertising department. If you could sit down with the executive in charge of such a department, in the offices of a company spending several million dollars annually in advertising, and ask him, What does your department do? here is how he would answer that question. “First,” he would say, “with regard to strictly advertising functions, this is what we do:

ADVERTISING DUTIES

Preparation of the advertising budget

Supervision of the preparation and purchase of space in

Newspapers

Magazines

Radio

Television

Business papers

Industrial publications

Farm papers

Religious papers

Class journals

Car cards

Posters

Theater programs

Directories

Outdoor advertising

Window displays

Counter displays

Novelties

Booklets

* Acknowledgment is made to Albert Frank-Guenther Law, Inc., Advertising, for assistance in revising this Section.

- Supervision of the preparation of cards and labels
- Preparation of catalogues
- Preparation of package inserts
- Preparation of motion pictures (including talking pictures when used for consumer advertising)
- Preparation of consumer samples
- Supervision of copy testing
- Preparation of consumer house organs
- Supervision of improvements of packages, labels, tags, display cartons
- Supervision of trade-mark design
- Purchase of paper, artwork, engravings, mats, electros, and other material used in advertising (except where agency does such detail and advertising department approves)
- Preparation and maintenance of files of advertising material, scrapbooks of same, etc.
- Analysis and study of competitive advertising
- Wrapping and distributing advertising material
- Contact with the advertising agency
- Preparation and maintenance of mailing lists (which apply to advertising work as distinguished from mailing lists prepared and maintained by the sales-promotion department)
- Purchase of office supplies and fixtures for advertising department (except where purchasing department does this)
- Advertising accounting work (in addition to work carried on by regular accounting department)
- Co-operation with engineering and/or production department in developments that will affect advertising
- Sales-convention work to explain reasons for and values of advertising and to present advertising plans (as distinguished from more detailed convention work often carried on by the sales-promotion department)
- Preparation of advertising exhibits for sales conventions
- Development and preparation of advertising portfolios for salesmen (except where these are almost entirely made up of promotion-department material)
- Preparation of advertising material directed at company's personnel
- Sales-analysis work to determine where best to carry on special advertising effort
- Analysis of dealer and distributor media advertising (sometimes in co-operation with sales-promotion department)
- Individual dealer and distributor correspondence on advertising matters
- Co-operation in preparing annual report (where company makes report something more than a balance sheet)
- Co-operation with other departments on public-relations work
- Choice and purchase of consumer premiums
- Representing the company in associations or other organizations devoted to advertising

Supervision of our co-operation with testing bureaus where results of work are used for advertising purposes
 Preparation of purchase and display signs on the factory or office building
 Checking and maintaining record of advertising returns"

"Then," he would continue, "with respect to so-called 'sales-promotion functions,' which are part and parcel of advertising, this is what we do:

SALES PROMOTION DUTIES

Preparation of direct mail done by dealers and distributors
 Preparation and/or checking of lists for dealers or distributors
 Preparation of folders or pamphlets to accompany monthly statements sent out by dealers
 Preparation of folders or pamphlets for counter distribution
 Preparation of complete mail campaigns
 Preparation of new customer letters
 Preparation of lost customer letters
 Planning and supervision of motion pictures (for dealer or distributor effect)
 Preparation of permanent display stands (as opposed to perishable display material)
 Preparation of dealer identification signs
 Co-operation in the issuance of house magazines:
 A. Internal
 1. Sales
 2. Employee
 B. External
 1. Dealer
 Purchase of paper, artwork, engravings, mats, electros, and other materials used in sales promotion
 Preparation of dealer samples
 Preparation and maintenance of files and scrapbooks, etc., of promotion material
 Sales-promotion accounting work (in addition to work done by accounting department)
 Purchase of office supplies and fixtures for sales-promotion department (except where purchasing department does this)
 Maintenance of mailing lists (which apply to promotion work)
 Preparation of sales-promotion budget
 Exchange of experiences within far-flung parts of large organizations
 Co-operation with engineering and/or production departments in developments that will affect promotion duties
 Experimental sales work. This means actual selling in the field to test the effects of certain promotion plans

- Handling of sales-training courses (under supervision of sales department) for
 - Company salesmen
 - Distributors' salesmen
- Sales training in the field (where not done by representatives of sales department)
- Co-operation with sales department in following through individual dealer inquiries
- Sales correspondence (where not handled by sales department)
- Keeping of sales records (where not handled by sales department)
- Development of salesmen's portfolios (except where these are largely advertising)
- Development of visual sales presentations
- Preparation of sales bulletins (where this is not done by an assistant sales manager)
- Preparation of salesmen's sample case (where not done by sales department)
- Development of salesmen's display material
- Working with sales department to prepare material for sales conventions (except advertising exhibits)
- Salesmen and dealer training
 - Programming of meetings instructing in product and how to sell
- Informing salesmen of new equipment, new product, etc. (where not done by sales department)
- Securing data by which sales quotas can be assigned
- Special-analysis work of customer problems too complicated for individual salesmen to handle
- Co-ordination of programs and itineraries of traveling representatives from home office to branches so there will be no overlapping or backtracking of effort
- Contacting of dealers in matters other than sales
- Contacting of distributors in matters other than sales
- Dealer and distributor adjustments (where not handled by sales department)
- Planning distributor and dealer contests
- Educational work among dealers' salespeople
- Working with dealers on customer-control systems
- Arrangement for distribution of films among dealers and distributors
- Individual dealer and distributor correspondence dealing with promotional matters
- Analysis of dealer and distributor direct-mail advertising
- Liaison work for distributors and their dealers—as between licensees and dealers
- Guidance of trade relations through
 - Education
 - Trade associations

Meetings

Product information

- Preparation and supervision of product exhibits in trade meetings
- Preparation and supervision of product exhibits in dealers' stores
- Planning and supervision of demonstrations (except salesmen's demonstrations)
- Helping dealer with his advertising budget
- Sales research
- Analysis to determine new product needs
- Sales analysis to determine where best to carry out promotion effort
- Analysis of accounts, new and lost, to determine promotion effort
- Development of sales-facilitating services, such as time-payment plans
- Maintenance of unit sales records for individual products
- Corresponding with home-demonstration agents and home-economics teachers
- Planning and supervision of exhibition of product in branch houses
- Preparation of material for trade shows
- Handling of trade-show space where sales department does not take over function
- Contact with competitors
- Study and analysis of competitive products from the standpoint of product improvement
- Contact with trade associations whose members sell company's products"

"And then," he would conclude, "there are some functions that we are sometimes called upon to do which may not be strictly advertising or sales promotion—but nobody else is equipped to do these things, so we undertake to do them. They include:

BORDERLINE DUTIES

- Production of direct-mail material (other than that used by dealers)
- Creation and design of letterheads, billheads, shipping labels
- Supervision of the preparation and distribution of traveling window displays
- Preparation of instruction sheets and manuals to insure proper use of products
- Preparation and supervision of factory outside display signs
- Distribution of display material
- Supervision of design and purchase of salesmen's automobiles where these are used for advertising purposes
- Co-operation with window display services
- Distribution of circulars and pamphlets to the consumer
- Distribution of circulars and pamphlets to the trade
- Supervision of premium distribution
- Gathering of photographic evidence of use of product

Gathering of testimonial data
Supervision of printing plant, duplicating department
Institutional publicity
Gaining publicity for the firm for new products
Market research
Complete cataloguing of product
Clearing house for leads from distributors or dealers
Following through with dealers' inquiries developing from advertising and promotion effort
Co-ordinating sales and advertising activities
Maintaining file of historical material of company's activities
Preparation of salesmen's catalogue
Preparation, supervision, and distribution of special exhibits for schools and colleges"

Who advertises. No more than 1,000 companies in this country spend in excess of \$50,000 annually in so-called commissionable advertising—that is, advertising in magazines, newspapers, radio, trade papers, farm papers, etc. But there are over 13,500 advertisers listed in the advertising directory. The remaining 12,500 advertisers, therefore, are comparatively small advertisers. Consequently, when you think of advertising, think of it, not as practiced by the 1,000 large advertisers of this country but as practiced by the 12,500 smaller advertisers.

Think of a typical hardware store. What percentage of the items carried do you suppose are actually *demand*ed by brand name by the majority of customers who make purchases? Ask yourself that question with regard to department stores. Picture the thousands of items stocked by a typical department store and then realize the tiny percentage *demand*ed by brand name.

Copy, art, radio technique, media—all are of paramount importance. But they can rarely carry the entire burden of making the merchandise move into consumption. They should seldom be asked to carry that terrific load. Advertising should and must be merchandised if the utmost is to be squeezed out of the advertising investment.

Facts for smaller advertisers. In looking at the overwhelming majority of advertisers, those whose total advertising appropriations are less than \$100,000 annually, these facts are revealed:

First, these advertisers spend sufficient money for actual consumer advertising to cover the country only thinly. Second, with this thin

coverage, these advertisers can usually hope to create, through their own advertising, only a sporadic consumer *demand*. Third, their advertising can, and should, create consumer *interest*. Fourth, their advertising can, and should, create a measurable degree of consumer acceptance.

Now, when we view the results of the consumer advertising of the large majority of our advertisers in this light, some further facts promptly become clear. These may be summarized as follows: First, consumer *interest* is a passive quality. It means little to the advertiser unless and until it is cultivated—developed. Second, consumer *acceptance* is also a passive quality. It, too, is of little importance as an asset unless and until it is cultivated—developed. Third, both consumer *interest* and consumer *acceptance* are actually consumer *demand* in the incipient stage. The breath of life must be pumped into them. They must be vitalized—energized.

Developing demand for an advertiser's product. These additional facts are of importance to the advertiser on the question of developing demand for a product. First, consumer interest and consumer acceptance ripen most quickly into consumer demand in the retail store. The retailer is the modern magician who, practically with the wave of a wand, can turn the consumer interest and consumer acceptance developed by the manufacturer's advertising into consumer demand. Second, the retailer can also nurse along the actual consumer demand created by the manufacturer, play along with it, build it up. Third, the retailer has a consumer demand of his own. Very often his own consumer demand is stronger than the consumer demand possessed by most of the brands that he stocks. This is particularly true of department stores. The large department stores in many cities spend more money advertising specific items in their areas than do the manufacturers of these items. They have a powerful consumer demand. The retailer can take his consumer demand and turn it over to the manufacturer.

But will the retailer wave that magic wand over the manufacturer's consumer interest and consumer acceptance? Will the retailer nurse along the manufacturer's actual consumer demand? Will the retailer turn over his own consumer demand to the manufacturer? No, he will not, if he is ignored in the manufacturer's planning.

First and foremost, then, throw overboard the delusion that irresistible consumer demand is created by small consumer-advertising appropriations. Second, *merchandise the manufacturer's consumer advertising to and through the trade.*

The distributor, in the final analysis, holds the key to success in consumer advertising in so far as the majority of advertisers are concerned. If he is roused to enthusiasm about the manufacturer's advertising, if he is not merely told to tie up but is shown how to tie up, then the manufacturer gets the bonus on his advertising appropriation to which he is justly entitled.

Tools for merchandising the advertising. Here is a list of the tools available to the advertising man who wants to do a thorough job of merchandising the advertising:

Related selling in retail stores	New shipping cartons for trade shipments
Case histories	Direct-mail campaign to dealers
Store histories demonstrations	Advertising allowances
Circularizing dealers' prospects	Profit-sharing plan for distributors
Bill inserts for stores	Helping dealer sell right product (like device for measuring gloves, etc.)
Bulletins for dealers on various subjects (telephone selling, collection letters, etc.)	
Mailing lists of jobbers' salesmen and retail salespeople (home addresses)	
Tags on merchandise (to help salespeople do more effective selling job)	
Co-operative merchandising with a noncompetitive manufacturer	
Securing interest of wives, mothers, etc. of dealers, salespeople, manufacturers' salesmen	
Bringing back lost customers (both lost accounts to the manufacturer and lost customers to the dealer)	
Store-wide promotions—promotions in more than one department—interdepartment merchandising	
Plans for tying up with special events—new events, holidays, etc.	
Finding changes in consumer habits (rug sizes have not kept pace with changes in room design)	
Clinics for dealers and salespeople	Manual for dealer and salespeople
Merchandising manual for retailer	House magazine for dealers
Helping retailers sell outside the store	Dealer contest
Deals—free deals, etc.	Accounting system for retailers
Premiums for dealers	Trade paper advertising
Mat service	Handling inquiries received from the advertising
Promotion kits for dealers	Reports from salesmen
Motion pictures for distributors	Portfolio for manufacturers' salesmen
Counter catalogue	

Bulletins for manufacturers' salesmen	New use of the package
Contest for manufacturers' salesmen	New size (larger or smaller) for container
Quota system for distributors	New labels for container
Sales manual	New color scheme for container
Special merchandise arrangements	New general design of container
Special tables or sections for stores	New construction of container
Window display contest; interior display contests	Cross advertising on package
Routing exclusive window displays from one dealer to another	Double-use containers
General helps for salespeople	Improved package design
Jobbers' salesmen contests	Package inserts
Consumer contest	Tested sales sentences
Promotional calendar	Clubs for salespeople
Style promotions	Correspondence course for salespeople
Special "weeks"	Instruction manual for salespeople
Anniversary promotions	Manual for jobbers' salesmen
Sampling	Quotas for jobbers' salesmen
Guaranty	Dealers' salesmen contests
Installing department in stores	Fashion show
Exhibition and demonstration trucks and trailers	Tests of brand pulling power
Model stock plans	Factory showrooms (model store at factory, etc.)
Development of new uses	Advertising novelties and specialties—calendars, etc.
Giant blow-ups	Exclusive agency plan
Counter cabinets	Miniature models for demonstration purposes, etc.
Use of demonstrators	Trial offers
Window displays	Dramatic demonstration ideas for products
Interior displays	Trade-ins
Counter demonstration devices	Installment selling
Itinerant displays	Consignment selling
Assortment packages	Exhibit at shows, fairs, etc.
Improved method of packing	
New convenience of the container	

Many of these tools may not fit into the tool chests of most advertising men. Nevertheless, each and every one is part and parcel of the big job of merchandising the advertising. It will pay any advertising man to check this list periodically and determine what he is not doing that he should do—and what he is doing that can be done better. It is in this kind of soil that advertising functions most effectively. It is when these things are done that we have fewer so-called advertising failures.

2. MAKING THE BEST USE OF AN ADVERTISING AGENCY

Choosing an advertising agency. The choice of an advertising agency should be the subject of careful investigation and consideration. At the present time there are in the United States approximately 2,800 concerns that call themselves advertising agencies. However, although these concerns do business under the same general title, there is considerable variation in the nature of the services that they perform. The success of the advertising will depend to a large extent upon the success in choosing the agency best fitted to handle any particular advertising situation.

What points to investigate in choosing an advertising agency. The best basis upon which an advertiser can select an advertising agency is *facts*—as to the agency's experience, its record of past success, and the like. The following paragraphs discuss a number of specific points that might be investigated. The points are listed on page 141.

1. *History of agency's chief executives.* The success of an advertising agency, even more than that of most other businesses, depends upon the experience and ability of its chief executives. The advertiser should inquire who are the agency's chief executives and, particularly, what has been their sales, general business, and advertising experience. The advertiser himself suffers from the handicap of specialization in his chosen field. One of the reasons for placing advertising in the hands of an agency is to benefit from the agency's broad knowledge of selling methods and market conditions. Can the agency demonstrate, by pointing to what it has done for other clients, that it does possess a broad knowledge of modern selling methods and the vision to apply them effectively to a particular situation?

2. *Who will handle account.* The advertiser may inquire beforehand who is to handle his account—that is, who in the agency is to plan the expenditure of his appropriation. Since the relation between an advertiser and his agency is an intimate one, much depends upon the personal factor. Is the individual in the agency who is to handle the account acceptable to the advertiser on grounds of personality, as well as on grounds of ability and experience?

1. List the names of your agency's chief executives.
 - (a) State briefly the sales, general business, and advertising experience of the executives listed above.
 - (b) Are the above executives active in the conduct of the agency's business?
2. Which member of your agency would handle our account?
3. How many accounts are you now handling?
4. Give the names of the accounts that you are now handling. State how long you have handled each.
 - (a) Give such facts and figures as are not confidential to show how you have contributed to the sales of the companies whose accounts you have handled.
 - (b) What merchandising plans have you originated for your clients?
 - (c) List the names of accounts that you have gained during the past two years.
 - (d) List the names of accounts that you have lost during the past two years.
5. Outline briefly your experience in and knowledge of our line of business.
6. By which associations are you recognized?
7. On what basis of compensation would you handle our account?

Points to Investigate in Choosing an Advertising Agency.

3. *Number of accounts that agency handles.* This factor is likely to bring up, in the advertiser's mind, the question of large versus small agencies. Some advertisers feel that if they select a large agency, or an agency that has several very large accounts, their own advertising will not receive proper attention if their appropriation is relatively small. On the other hand, the criticism is sometimes made that many of the smaller agencies are one-man businesses and cannot give adequate service. The question is one on which no general statement can be made. However, if the advertiser's appropriation is relatively small, and he is doubtful that his account should be given to a large agency, he can ask the agency to give him the names of companies whose advertising it has handled on appropriations comparable to his, and can then get in touch with those companies to ascertain whether their experience with the agency has been satisfactory.

4. *Names of accounts now on agency's books.* The advertiser

may ask the agency to list the names of its leading accounts, and to state how long it has handled each account. Can the agency give evidence that it has originated merchandising plans for its clients, or has its work been chiefly the "placing" of advertising?

Also to be considered are the names of accounts that the agency has gained during the preceding, say, two years, and the names of accounts lost during that period. A high turnover of accounts is an unfavorable factor.

The advertiser may write to the companies whose names have been given, requesting a statement as to their experience with the agency.

5. *Agency's knowledge of advertiser's line of business.* This is one point to which the advertiser is likely to give too much weight. Unless the advertiser's line is especially difficult, the question may not be important, and too much emphasis should not be placed on it. One of the objects of retaining an agency is to benefit from an outside, fresh viewpoint and insight.

6. *Completeness of recognition.* Recognition means that the agency is granted commissions by the media in which the advertising is placed. There are various media associations that grant recognition to agencies:

- A.N.P.A. American Newspaper Publisher's Association.
- A.B.P. Associated Business Papers
- P.P.A. Periodical Publishers' Association.
- A.P.A. Agricultural Publishers' Association.

Recognition from an association is generally honored by the members of the association. However, recognition by an association is not binding upon the members, and some media act independently of their association in investigating and recognizing agencies; for example, the Curtis Publishing Company grants its own recognition. Further, an agency that is not recognized by a national association may be recognized by a local association or by individual media. Some publications do not grant commissions to agencies, and hence do not recognize them; this is true of a number of trade papers, which feel that a general agency cannot serve the interests of clients in their specialized field, and maintain their own "service departments" to service the advertising in their publications.

The system of agency recognition arose from the necessity, on the part of advertising media, of having information as to the financial

standing and integrity of agencies from whom the media were accepting advertising. Essentially, recognition has two implications:

(a) That the agency has met certain requirements established by the media. In this sense recognition is a recommendation by the association to its members that the agency is a good credit risk, that it conducts its business on a legitimate basis, and that the media are warranted in accepting the agency's advertising.

(b) That the agency is active in the field in which it has obtained recognition. An agency cannot obtain recognition from an association merely by meeting the association's requirements as to financial strength, business methods, and so on. The agency must be actively engaged in placing advertising in, for example, business papers, or newspapers, before the association representing the media in one of these fields will grant the agency recognition.

The chief requirements for recognition are the following:

(a) *Financial strength.* Since the agency is often solely liable to the media for the payment of bills covering the advertising that it has placed for its clients, the associations naturally inquire carefully into the financial strength of an agency before granting recognition.

(b) *Constructive service to clients.* Before recognition is granted, the agency must satisfy the associations that it has had adequate experience in the practice of advertising and that it is performing a constructive service for its clients.

(c) *Sound business methods.* An agency may not make indirect or secret rebates to clients of a portion of the commissions allowed by the media.

From the advertiser's standpoint recognition is important because an agency that lacks recognition may have difficulty in securing credit from the media, and possibly the advertiser may be asked to guarantee payment. Moreover, the agency is likely to be prejudiced in favor of the media in the field in which it has obtained recognition.

7. *Method of compensation proposed.* A number of methods of compensation, each of which has its advantages and disadvantages, are in common use. These are discussed on page 148, *et seq.*

Some agencies, a small percentage of the total number, solicit accounts on a price basis, offering special inducements and indirect

rebates of various kinds. The practice is contrary to the standards of the American Association of Advertising Agencies, which require an agency to conform to its agreements with media and to retain the full amount of compensation granted by media owners without direct or indirect rebating.

The seven points discussed above outline the scope of the investigation that an advertiser may make before he chooses an agency. It will be noted that one question that is *not* asked is how the agency will handle the advertising if it secures the advertiser's business. This is a question that advertisers frequently ask agencies, and sometimes, in response to it, agencies prepare advertising plans for the prospective client. In many cases they will prepare complete advertisements, with copy and illustrations. A few large agencies, however, will not do this. The large majority will if the account is worth while.

Scope of agency service. Originally advertising agencies were little more than brokerage or commission houses, selling space in media. However, these pioneer agencies early found that it was to their advantage to contribute to making the space that they sold productive for the advertiser, and accordingly they broadened their function to include the writing of the advertising. Later there were further developments, until at the present time the term "advertising agency" no longer truly describes the services that an agency makes available to its clients. Agencies now commonly act as marketing counselors; in many cases they are practically partners in the business, in everything but name.

The chief services of the present-day agency are as follows: *

1. *Analysis of the product.* The agency usually makes a thorough study and analysis of the product before any advertising is prepared. In other words, from the intermediate ground that it occupies between the advertiser on the one hand and the public on the other, the agency reviews the advertiser's proposition. What are the distinctive features of the product? In design, is it what the public wants? Would changes in design widen the appeal and increase sales? Is the packaging effective? Is the product priced right? How does it compare with competitive products? That this analysis of the product is worth while from the advertiser's standpoint has been

* Developed from an outline of agency services prepared by the American Association of Advertising Agencies.

demonstrated many times. Agencies have contributed suggestions on product design, packaging, pricing, and other problems, which have proved invaluable to their clients. For example, the agency handling the Bon Ami account recommended that Bon Ami be made up in a new package, which could be left in the bathroom. Similarly, a number of ideas suggested by another agency were incorporated in a model of the Buick car. Continuous advice on problems connected with the product itself is one of the newer features of agency service.

2. *Analysis of the market.* This involves a study of the product's present and potential markets. What are the product's principal markets at the present time? Are there potential markets as yet untapped? Where are they? In which markets is competition most acute? How do consumers react to the product? Those who buy—why do they buy, and how often? Can new uses be found for the product that would result in more frequent buying? Those who do not buy—why do they not buy? Do they prefer competing products? If so, why—style, packaging, price? These are examples of questions which the advertising agency, because of its familiarity with selling methods and markets, is peculiarly fitted to answer from experience or to develop by research.

3. *Analysis of present sales structure.* What is the advertiser's present sales and distribution setup? Is it producing results? Are relations with dealers satisfactory? Are selling costs in line? Possibly the advertiser should add new channels of distribution or eliminate some of those now in use? Questions such as these fall within the province of the advertising agency's work.

4. *Formulation of definite plan.* On the basis of the facts obtained from its analysis of the product, the market, and the present sales structure, the agency will probably recommend a definite plan. It is worth noting, however, that this "definite plan" may or may not be that the client undertake an advertising campaign. Although any agency is likely to be prejudiced in favor of advertising as a means of developing a business, the right kind of agency will not advise a client to advertise unless it is satisfied that advertising will produce results. An agency cannot afford to be associated with a failure, since its reputation is built upon its record in increasing sales. It may be that modification of the product will be necessary before advertising is undertaken. Possibly the time is not propitious for an advertising campaign in the client's line of business. Consideration

Advertising

Determining basic copy appeal	Production
Copy research	Traffic control
Copy testing	Advertising economies
Copy writing	Advertising checking
Copy supervision	Art policies
Space-buying policies	Radio and television commercials

Merchandising the Advertising

Retail promotion program	Getting jobber's salesman's co-operation
Dealer-help program	Traveling among jobbers and jobbers' salesmen
Window displays	Traveling among retailers
Interior displays	Advertising portfolios
Counter merchandising units	Contest for distributors
Education of salespeople	Retail mats
House magazine for dealer	Films—reprints of ads—etc.
House magazine for salespeople	
Seasonal drives by retailer	
Getting jobber co-operation	

Tying up Advertising with Sales Organization

Sales portfolios	Distribution of jobber material through salesmen
Bulletins to salesmen	Advertising training for salesmen
Distribution of dealer material through salesmen	Checking advertising appeals with salesmen
Traveling with salesmen	Getting advertising information from sales force
Maintaining salesmen's interest and enthusiasm	Study of salesmen's reports
Sales conventions	Promotion ideas for salesmen to pass on to distributors
Sales manuals	
Contests for salesmen	
Advertising portfolios	

General Sales Promotion

Catalogue	Demonstration devices
Price lists	Flow of letters, bulletins, etc., to trade
Trade shows	Follow-up of advertising inquiries
Trade conventions	Special plans for local areas
Sampling	Special emergency plans
Premiums	

Merchandise

Styling and designing	Pricing
Size or quantity units	General study of merchandise
Development of special features	Market research
Trade names and trade-marks	New uses
Packages	New markets
Shipping cartons	

General Policies

Trade discounts	Organization of sales force
Public relations	Compensation of sales force
Employee relations	Distribution policies
Distribution channels	Manufacturing policies
Elimination of, or additions to, line	

Miscellaneous

Publicity	Work with stockholders
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Functions Performed by Advertising Agencies.

of all the factors involved may make it advisable for the client to spend only a small sum on advertising at the present moment, later gradually increasing his appropriation. The right kind of agency can be relied upon for a frank statement of the facts and for a reasonable appraisal of future prospects.

If, however, the agency believes that an advertising campaign can successfully be inaugurated, the definite plan may comprise recommendations as to the market to which the campaign should be directed, the media to be used (newspapers, class magazines, trade publications, radio, television, outdoor, car cards, and the like), the features of the product that are to be emphasized, and the nature of the appeals that the advertising is to contain.

5. *Execution of plan.* Execution of the plan includes:

(a) Writing, designing, and illustrating advertisements, or other appropriate forms of the message.

(b) Selecting the advertising media (and in the case of radio and television, the programs, air time, length of commercial, and the like); ordering and buying the advertising space, time, and production materials.

(c) Proper incorporation of the message in mechanical form, and forwarding of the message with instructions for the fulfilment of the contract.

(d) Preparation of catalogues, trade literature, dealer broadsides and portfolios, dealer displays, direct-mail literature, and so forth.

(e) Preparation of material for salesmen, such as sales kits.

(f) Checking and verifying of insertions, display, or other means used.

(g) Auditing, billing, and paying for the service, space, time, and production materials.

How to work with an advertising agency. The function of the advertising agency may be said to be twofold: (1) to interpret the advertiser to the public; (2) to interpret the public to the advertiser. For best success, the advertiser and his agency should work in close collaboration.

Two mistakes that advertisers frequently make in working with agencies are:

1. Having given their account to the agency and determined the appropriation, they sit back and expect the agency to do the rest.

They adopt the attitude, "Here's what I want to spend; now you go ahead and get the results." This attitude is a handicap to the agency, which definitely needs the advertiser's co-operation. A free exchange of viewpoints, ideas, and experience is to the benefit of both parties concerned.

2. At the opposite extreme is the advertiser who handicaps his agency by undue interference, and particularly by trying to force onto the agency his own personal preferences and prejudices or those of other executives of the company (not to mention his wife).

It is often difficult for the advertiser to appreciate the agency's viewpoint. However, bringing a different, fresh viewpoint to the advertiser's business is one of the chief services that an agency can perform. Perhaps the best procedure is for the advertiser to give the agency a free hand in formulating its plans for the advertising; then, to examine these plans closely, question thoroughly, and require the agency to justify whatever appears doubtful—but give it the opportunity to so justify itself.

Some additional "don'ts" are:

1. Don't regard your advertising merely as a plaything; it is an expensive toy.

2. Don't place undue faith in advertising "company tradition," "company name," or "established reputation." What the public wants is a better article at a lower price.

3. Don't begin by telling your agency "exactly what kind of advertising I want." Give the agency an opportunity to determine what kind of advertising you need.

4. Don't be impatient if, after your advertising appears, results in accordance with your expectations are not immediately forthcoming. Although there have been cases of instantaneous success, as a rule it takes time to make an impression—time, and persistent advertising.

Three plans of agency compensation.* The media bill the agency, and the agency, in turn, bills the advertiser. A recognized agency receives a commission from the various media in which the advertising is placed. The rate is fixed by the individual medium, but it is usually 15 per cent of the card rate. In addition, an extra 2

* From Otto Kleppner, *Advertising Procedure*, 4th ed. New York: Prentice-Hall, Inc., 1950.

per cent cash discount is often allowed on the net payment made by the agency (2 per cent on 85 per cent). Many publications, however, allow no extra discount for cash and require that the agency pay by a fixed date to obtain the agency commission.

The following are the three plans of agency compensation in most common use:

1. *Straight commission plan.* Under the straight commission plan the agency accepts as payment for its services the commission granted by the media upon the client's advertising. The client merely pays the card rates.

EXAMPLE

For space costing \$3,000 the publisher bills the agency	\$3,000.00	
Less 15%	450.00	
Net	<u>\$2,550.00</u>	
Discount for cash, 2% on net	51.00	
Agency pays publisher		\$2,499.00
Agency bills client	\$3,000.00	
Cash discount if client pays promptly	<u>51.00</u>	
Client pays agency		\$2,949.00

In connection with the cash discount, it should be noted that the client receives only 2 per cent on the net (or 2 per cent on 85 per cent), and that he does not receive 2 per cent on the gross. It is held that the agency commission, like a professional service bill, is not subject to cash discount.

Art work, engraving, typographical setups, and so forth, are usually billed to the client at cost plus an amount which will yield the agency 15 per cent of the total charge.

EXAMPLE

Art work	\$450.00	
Plates	180.00	
Typographical composition	45.00	
	<u>\$675.00</u>	
Plus agency service	119.12	
Charge to client for mechanical costs		\$794.12

The same arrangement is followed in the purchase of radio time; the agency receives a commission, ordinarily 15 per cent, from the

broadcasting station on the cost of the time. The cost of talent and incidents of broadcasting is usually non-commissionable. The better agencies make a service charge, usually on the basis as previously described for mechanical charges.

2. *15 per cent,* less commissions plan.* Another method used by a number of agencies is that of charging for their services a flat fee representing usually 15 per cent of the card rates (and of expenditures for art work or mechanical charges), crediting the client with whatever commissions and discounts they receive.

EXAMPLE

There is spent in		
Publication A	\$10,000.00	
Publication B	20,000.00	
Publication C	2,000.00	
There is also spent		
Art work	500.00	
Type setup and plates	145.00	
Total expenditure	<u>\$32,645.00</u>	
Assume that agency commissions on publica-		
tions A and B were 13% each, and 2% for		
cash on net amount, and assume that publi-		
cation C granted no commission to agencies;		
the total commission and discounts would		
be		\$ 4,422.00
which would be credited to the advertiser.		
Agency fee for its services is†	5,072.64	
The advertiser would actually be debited	<u>\$37,717.64</u>	
and credited	4,422.00	
leaving his total bill		<u>\$33,295.64</u>

It will be noted that this plan does not result in a saving to the advertiser. In the example the total fee to the agency is \$5,072.64, while the total of commissions and discounts is \$4,422; \$5,072.64 — \$4,422 = \$650.64. Of this, \$113.82 represents the fee on art work and type setup and plates, leaving \$536.82 as the amount that the

* This is advertising parlance, but, as has been pointed out previously, the practice today is to add an amount that will yield the agency 15 per cent of the total charge.

† The agency fee is arrived at by ascertaining the *net* space costs (card rates less whatever commission is allowed) and adding thereto an amount which will yield 15 per cent of the total charge. Service fee on art and mechanical charges figured in the manner previously described.

advertiser has to pay in excess of what he would have had to pay under the straight-commission plan. In fact, the 15-per-cent-less-commissions plan cannot result in a saving to the advertiser, since, if the agency's fee amounted to less than the total of commissions and discounts, the plan would, in effect, be a concealed means of rebating and would therefore be illegitimate. The advantage to the advertiser in the 15-per-cent-less-commissions plan is that the danger that the agency will be biased toward the media from which it receives the largest commissions is removed. It is immaterial to the agency whether a certain piece of its client's advertising is placed in a publication that allows no commission to agencies, or in one that grants 15 per cent; the agency's fee is the same in either case. Accordingly, the 15-per-cent-less-commissions plan is suitable for use when the agency has to do considerable work among media where the amount of commissions varies, or some grant a commission and others do not. Another advantage is the comparative simplicity of its book-keeping.

3. *Retainer plus commissions plan.* The chief value of an agency to a client may consist in its research, its counsel, and its ideas, though little publication advertising is used. A "retainer-plus-commissions" plan has been introduced to provide for this situation and offers a method that is rapidly coming into wide acceptance. By this plan the agency is assured a definite income of, say, \$15,000 for the year. Toward this amount the agency will credit whatever commissions it receives. The client pays a monthly retainer that is to make up for the difference between the income from commissions and the set fee. If the commissions exceed the fee, the client need pay no retainer, and the agency continues on its straight-commission basis.

EXAMPLE 1

Retainer fee set for the year	\$15,000.00
Commissions from publications amount to ..	11,500.00
Client credited with this sum.	

EXAMPLE 2

Retainer fee set for the year	\$15,000.00
Commissions from publications amount to ..	15,500.00
Client need pay no further retainer, but only the card-rate cost of the space used.	

The agency is not allowed to rebate its commissions, and accordingly cannot agree to a flat fee that represents less than the commissions from the media.

The retainer-plus-commissions plan provides a solution to the paradoxical situation whereby an agency serves one master but apparently receives its payment from another. The retainer plan, as its name implies, retains the agency to serve the client without preference toward any form of media. Further, there is no incentive to rush the client into advertising.

Agreement with the advertising agency. It is highly advisable today for an agency and client to agree in advance on the terms of their relationship and to include such terms in a formal instrument, frequently a contract. Such a contract may take various forms, and most agencies have standard contracts that can be adapted to fit the requirements of a particular situation. In the case of smaller accounts, a letter may be sufficient. In order to avoid any possibility of later misunderstandings, any agency-client agreement should include: the effective date of the relationship and the method by which the agreement may be cancelled; the routine for approval of expenditures, billing, and payment for space and time; how the agency is to be reimbursed when media do not allow full commission; the care of client property; cancellation of work in progress; the procedure governing short rates, refunds, and cash discounts; charges for materials and services purchased; and the fees to be charged, if any.

3. FIXING THE ADVERTISING APPROPRIATION

Three methods in common use. Three methods of determining the advertising appropriation are in common use:

1. Percentage-of-sales method.
2. Unit-of-sales method.
3. Market-survey method.

Each of these has its advantages and disadvantages for particular businesses. The first two recommend themselves to many advertisers by the fact that they are relatively easy to use. The third is less easy but more thorough; the market-survey method is being increasingly used.

Percentage-of-sales method. This method consists of setting aside for advertising a fixed percentage of some figure related to sales volume. The figure may be:

1. Percentage of gross or net sales for a preceding period.
2. Percentage of average of gross or net sales for several periods in the past.
3. Percentage of estimated gross or net sales for a future period.
4. Percentage of average of gross or net sales for one or more periods in the past and estimated sales for one or more periods in the future.

The figure most generally taken by advertisers using the percentage-of-sales method is a percentage of estimated sales for a future period (a year, a half year, or a quarter). Many advertisers who formerly allocated to advertising a percentage of sales for a period in the past, or a percentage of average sales for several periods in the past, have changed their ground. Their reasoning is that past sales are not a good index to the amount that should be spent for future advertising. They are prepared to back up their analysis of the market for their product with an advertising expenditure in proportion to the sales volume that they aim to achieve.

Other advertisers, who wish to be more conservative and to offset any undue optimism as to the future, use a combination figure representing a percentage of average sales for a certain period in the past and estimated sales for a certain period in the future.

A variation of the percentage-of-sales method is to use a percentage of profits instead of a percentage of sales. The objection to this plan is that profits are dependent upon operating efficiency and many other factors, and the advertising appropriation should not be affected by these.

How the percentage is determined. There is no formula for determining the percentage figure to be used in the percentage-of-sales method. The figure varies in different industries, and also with companies in the same industry, from 1 per cent to as high as 30 per cent of gross sales. In many cases the figure is based upon the average figure for the industry as a whole, or upon figures used by other companies in the same line. In the final analysis, the advertiser has to decide the percentage in the light of his individual circumstances. A company recently formed might feel that 25 per cent was not too

high, while one that has been established for a number of years might spend 5 per cent. The matter is one of judgment for each particular business.

Advantages and disadvantages of percentage-of-sales method. The chief advantages of the percentage-of-sales method are two:

1. It is easy to use.
2. It relates advertising expenditure to sales volume. That is, the amount spent for advertising is made dependent upon the volume of sales—usually upon the estimated volume of sales for a future period. To base advertising expenditure upon sales volume is, in general, a logical procedure.

As against the above, two important disadvantages of this method are:

1. Where, as is often the case, the percentage figure is based upon the figure for the industry as a whole or upon figures used by other companies in the same line, the method is liable to become one of just keeping up, proportionately to sales, with competitors' advertising. Competitors may be wasteful in spending money on advertising or may have overlooked opportunities that increased advertising would turn into sales. The advertiser has to be careful that he is not allowing himself to be led by the blind.

2. Although the percentage-of-sales method does relate advertising expenditure to sales volume, this relation is often approximate and indefinite. For example, assume that sales for the coming year are estimated at \$1,000,000. It is decided to appropriate 5 per cent of this figure, or \$50,000, for advertising. This amount appears and is considered "adequate." However, whether \$50,000 is the amount actually required (neither too much nor too little) to enable advertising to play its part in the \$1,000,000 sales program may not be known. In this respect the percentage-of-sales method does not compare favorably with the market-survey method, under which a reasonable sales objective for the given period is first decided; then the job that advertising is to do is determined; and finally an amount is appropriated for advertising that will be sufficient for advertising's part in the sales program.

Unit-of-sales method. This method consists of allocating to advertising a fixed sum per unit of sales. Production costs are known;

selling costs are known from past experience; an estimate of sales for a future period—say, one year—is made. A certain sum per unit of anticipated sales is then appropriated for advertising. Thus, an automobile manufacturer might estimate his sales for the coming year at 400,000 cars and set aside for advertising \$5 per car. His total appropriation would then be $\$5 \times 400,000$, or \$2,000,000.

Advantages and disadvantages of unit-of-sales method. Some of the advantages of this method are:

1. If the sum per unit is not arrived at by guesswork, but is the sum which, judged by past experience, will be necessary to move each unit through the market, this method definitely relates advertising expenditure to sales volume, and is reliable and at the same time easy to use. It is particularly convenient for companies selling specialty goods, such as automobiles, refrigerators, oil burners, washing machines, and so forth.

2. The unit-of-sales method can readily be applied to co-operative advertising by a manufacturer and his dealers. The manufacturer allocates to advertising a fixed sum per unit of anticipated sales and also assesses the dealer a fixed sum. The dealer's assessment is commonly charged to the dealer on his invoice and is usually included in the list price to the dealer, not billed as a separate item. The majority of automobile manufacturers operate on this plan.

3. The unit-of-sales method has also been successfully used by co-operative associations of manufacturers, fruit growers, and so forth. For example, co-operative organizations of fruit growers have determined the advertising appropriation for the industry by assessing against each member a certain number of cents per case.

The chief limitation of the unit-of-sales method is the difficulty of applying it in many lines of business. For example, the method can hardly be used by a company selling style merchandise, or, in general, by a company selling in irregular markets.

Market-survey method. This method is being increasingly favored. Stated in its simplest terms, it consists of determining, for a certain future period, the job that advertising is to do as a part of the sales program, and then appropriating whatever amount will be necessary to enable advertising to do that job. In fixing the advertising appropriation by the market-survey method, the advertiser asks himself three general questions:

1. What is the sales objective to be for the next six months, the next year, or longer?
2. What part is advertising to play in the plan to reach that objective; what is to be advertising's job?
3. How much money will advertising require to do its job?

Different companies follow different procedures in answering these three questions. Some depend chiefly upon information obtained from past experience, and from sales managers, salesmen, dealers, and similar sources. Other companies inquire exhaustively into market conditions and potentialities. The procedure in such cases may be briefly outlined as follows:

1. The total market is divided into merchandising and trading areas, or spheres of sales influence. The idea here is that division of the total market into sections facilitates analysis and, in the end, the direction of selling effort to those sections which the analysis shows have not been fully exploited or which are likely to prove most profitable.

2. With the trading areas determined and mapped, the next step is to make an analysis of each area. Factors entering into the analysis are:

- (a) Past sales record of each area. This record should cover several years, so that the trend of sales in the area will be apparent.

- (b) Buying power index for each area. This index should be made as simple as possible. The object should be to include only factors that will affect sales of the advertiser's own product. For example, a company selling an electric refrigerator would be interested chiefly in the number of wired homes, income tax returns, bank deposits, and similar data.

- (c) Index figure indicating the relative cost of selling in each area. This figure can be obtained from past sales records. The object of including it is to avoid overspending in areas where the cost of selling is high.

3. On the basis of the past sales record, buying power index, and index of relative cost of selling, a sales quota for each area is set.

4. The advertising appropriation for each trading area is determined in the light of the facts obtained from the above analysis.

Advantages and disadvantages of market-survey method. The chief point in favor of the market-survey method is that it represents an attempt to substitute for guesswork a method of determining the advertising appropriation which is founded on known facts. It defines the job that advertising is to do, and then allocates the amount necessary for that job. The market-survey method is, indeed, more than just a means of deciding how much to spend for advertising. It is a thorough review of the company's marketing and selling system, of which advertising is one part, and points the way to a planned program.

The chief objection to the market-survey method is the work and expense that it entails. Furthermore, unforeseen changes may upset the most careful calculations. Nevertheless, if applied with common sense, it will clarify advertising and selling policies to a marked degree.

What to charge to advertising costs. After the advertising budget has been determined, the question of what is properly chargeable to advertising arises. The following list of items is recognized as properly chargeable to the advertising appropriation:

Space:

Cartons and labels (when used exclusively for advertising purposes, such as in window displays)

Package inserts (when used as advertising and not just as direction sheets)

Paid advertising in all recognized media, including:

Newspapers

Periodicals

Business papers

Technical journals

Farm papers

Religious papers

Class journals

Car cards

Catalogues

Slides

Export advertising

Dealer helps

Posters

Theater programs

Outdoor advertising

Window displays

Counter displays

Store signs

Novelties

Booklets

Directories

Direct advertising

Reprints of advertisements used in mail or for display

Radio

Television

House magazines to dealers or consumers

Motion pictures (including talking pictures) when used for advertising

All other printed and lithographed material used directly for advertising purposes

Administration:

Salaries of advertising department executives and employees
Office supplies and fixtures used solely by advertising department
Commissions and fees to advertising agencies, special writers, or advisers
Expenses incurred by salesmen working for advertising department
Traveling expenses of department employees engaged in departmental business
(Note: In some companies these go into special "Administration" account)

Mechanical:

Art work	Electros
Typography	Photographs
Engraving	Etc.
Mats	

Miscellaneous:

Transportation of advertising material (to include postage and other carrying charges)
Fees to window display installation services
Other miscellaneous expenses connected with items on the above list

The guardian of the advertising budget must be on constant guard against the following improper advertising charges:

Free goods	Instruction sheets
Picnic and bazaar programs	Packages
Charitable, religious, and fraternal donations	Press agency
Other expenses for "goodwill" purposes	Stationery used outside advertising department
Cartons	Price lists
Labels	Salesmen's calling cards
House magazines going to factory employees	Motion pictures for sales use only
Bonuses to trade	Membership in trade associations
Special rebates	Entertaining customers or prospects
Salesmen's samples (including photographs used in lieu of samples)	Annual reports
Welfare activities among employees	Showrooms
Recreational activities such as baseball teams, etc.	Demonstration stores
	Sales convention expenses
	Sales expenses at conventions
	Cost of salesmen's automobiles
	"Special editions" which approach advertisers on "goodwill" basis

Because advertising, like sales work, is, admittedly, far from being a scientific procedure, there are some advertising charges that may or may not be proper advertising expenses. Circumstances will indicate what the decision should be. These charges include:

Samples	Contributions to special advertising funds of trade associations
Demonstrations	Display signs on the factory or office building
Fairs	Light
Canvassing	Heat
Rent	Depreciation of equipment used by advertising department
Telephone and other overhead expenses, apportioned to advertising department	Advertising automobiles
House magazines going to salesmen	Premiums
Membership in associations or other organizations devoted to advertising	Salesmen's catalogues
Testing bureaux	Research and market investigations
Advertising portfolios for salesmen	Advertising allowances to trade for co-operative effort

4. SELECTING THE RIGHT ADVERTISING MEDIA

Principal media. The principal media available for advertising by advertisers with merchandise to be sold to the general public include:

1. Newspapers.
2. Magazines.
3. Radio.
4. Television.
5. Farm papers.
6. Direct mail.

This group accounts for over 75 per cent of the total sum spent in so-called consumer advertising. Other media that account for a smaller volume include:

1. Outdoor advertising.
2. Car cards.
3. Premiums.
4. Advertising specialties.
5. Trade papers.

Selecting the right media. One question frequently asked in connection with these media is: Which one is best? Only one answer can be made to that question—namely: It all depends.

No one medium is best for everybody. In fact, there is no one medium that is necessarily best for any specific advertiser. That is

why we see some advertisers putting the lion's share of their budget into radio one year, into magazines the next year, and perhaps into newspapers the third year.

Undoubtedly, certain sets of circumstances exist that definitely indicate the advisability of using one or the other of these media to the exclusion of all the others. Other sets of circumstances occur that sometimes definitely point to a certain combination of these media. But, more often, two advertising experts might make radically different media suggestions to the same advertiser—and both might be right! Advertising is far from being a science. Until it does become a science—if it ever does—the selection of media will be most often a matter of opinion, backed up by experience; scientific selection of media is only rarely possible.

Suppose, therefore, we scan quickly the major values offered by each of the principal media, bearing in mind that none of these major values may be the exclusive property of any one of the media. For example, the magazines might be pointed to as the medium to use for broad national coverage. However, if that is done, the newspapers will promptly point out that some highly successful national campaigns have been run exclusively in newspapers, and, of course, the radio people will make the same assertion. Therefore, while we will endeavor to assign certain specific points of merit to each of the media, it must be remembered that, actually, there is no such sharp cleavage between them.

Magazines. Magazines tend to classify themselves upon bases of frequency of issue, type of editorial content, sex of reader, economic status of reader, and so on. There are women's magazines, fiction magazines, weekly and monthly magazines, so-called class magazines like *Harper's*, and others. Magazines at one time were looked upon as *the* national advertising media. However, newspapers began to challenge that claim, and, of course, radio has certainly challenged the leadership of magazines. In general, however, it may be said that magazines and radio offer an excellent advertising "buy" to the company with a broad national distribution. The distribution phase is important because magazine circulation is apt to be scattered over the entire country, and if distribution does not follow the advertising, there is considerable waste.

Virtually all advertising media have made dollar gains each year

during the post war period, as shown by the fact that the dollar volume of national advertising almost trebled from 1946 to 1955. Magazines have taken part in this year-by-year increase along with the other media. From a relative high for the years 1944-1946, however, their percentage share of the total advertising volume has decreased over the period of the last ten years. This is due, in part, to the growth of television, which was an insignificant factor in advertising in 1948 but has now become the third largest national advertising medium. Many magazines of various types will continue, nevertheless, to be vitally important vehicles for a large number of advertisers. Actually hundreds of trade names that are household words today became part of our everyday language almost entirely through the power of magazine advertising.

The long life and leisurely reading enjoyed by most magazines is an exceptional advantage. Few magazines are purchased and discarded within a day; an average might be a life of a week for the weekly magazines and a month for the monthly publications.

Newspapers. No other nation has as many newspapers as the United States. Without a doubt, the newspapers represent the voice of the people. There is scarcely a home in the country that cannot be reached with some regularity through a daily, semi-weekly, or weekly newspaper. There are about 1,760 daily and 8,500 weekly English language newspapers published in the United States.

Newspapers carried national advertising almost before magazines came into existence. They are, today, the backbone of the majority of the advertising programs of manufacturers. The basic reason for this fact is that, actually, of our several hundred thousand manufacturers, only a comparative handful have national distribution—or sufficient national distribution to justify national magazine advertising. However, of manufacturers with sectional, or state, or even merely trading-area distribution, there is no end. These manufacturers usually find that newspapers enable them to buy circulation that matches their distribution—and circulation that outruns distribution is usually either complete waste or rather expensive circulation.

In 1955 there were 1,427 companies who spent \$25,000 or more in national newspaper advertising. National advertising in this year cost \$695,000,000. In brief, newspapers constitute the most widely

used media for manufacturers. They enable an advertiser to put his advertising pressure precisely where and when he feels it should be put. Schedules can be changed quickly—in 24 hours when necessary. They make it possible for an advertiser to start in a small way, and expand gradually. They enable him to run a campaign quickly in a territory that needs bolstering.

As advertising has become more and more a business policy planned with all of the timeliness and swiftness of action of a military campaign, newspapers have become more popular as an advertising medium. Successful advertising demands elasticity, mobility, and change of pace. Newspapers make all of this feasible.

Radio and Television. At the end of 1956, there were 53,000,000 homes with radio sets. Of these, 41,000,000 had more than one set. In addition, some 37,000,000 automobiles had radios. Radio as an advertising medium enjoyed a rapid rise which has only been over-shadowed by the more spectacular growth of television. Like anything that has enjoyed a mushroom growth, radio has had millions in advertising money wasted on it; it has also created millions in sales for advertisers. Hundreds of advertisers exist whose entire business has been built by radio advertising. Some former magazine advertisers now put practically all of their consumer advertising appropriations into radio; the same is true of some newspaper advertisers. By and large, radio has created more advertising than it has siphoned off from other advertising media.

Television advertising has been called the “ultimate in advertising technique” because it combines all the known advantages of sight and sound. As an advertising medium it combines the demonstration advantages of motion pictures with the home coverage of other media. Its growth from the relative infancy period of one million sets in 1948 to forty-two million by the end of 1956 has been one of the miracles of the Post World War II era.

Through demonstration techniques on television, small one-man organizations have become medium-sized corporations in twelve months!

Television costs whereby sponsors spend as much as \$100,000 for a single one-hour program have been a major problem to the television industry in attracting a wider diversification of advertising. The obvious appeal of television created a mad rush to the medium by a

host of advertisers, many of whom either were not adaptable to video or misused it with resultant colossal waste of their advertising dollars. During 1953, the construction of more stations in more markets introduced a competitive element with resultant leveling off of costs.

Purposes accomplished by radio and television advertising. Advertisers have used radio and television successfully to accomplish the following purposes. In nearly all cases merchandising and promotional tie-ins have also been employed.

1. Introduce a new product.
2. Demonstrate product or service (television).
3. Remedy seasonal drop of sales volume.
4. Establish product name in mind of the consumer.
5. Familiarize consumers with new and varied uses of a product.
6. Dramatize special features of a product or service.
7. Reach specific audiences—for example, children, housewives.
8. Build mailing lists.
9. Boost holiday "specials."
10. Educate the public to quality of product.
11. Promote public confidence in service or product.
12. Gain additional retail outlets.
13. Encourage retailers to push a product.
14. Build industrial morale.
15. Maintain top prices in a price-cutting market.
16. Force retailers to stock product despite small margin of profit.

Types of successful radio and television programs. The following list cites the different types of radio and television programs that have met with success. In many cases a program may consist of combined elements such as a musical program combining music with dramatic skits, a news program interspersed with music and educational talks, or a studio contest combined with popular music.

AMUSEMENT PROGRAMS

<i>Drama</i>	<i>Music</i>	<i>Audience Participation</i>
Complete plays	Popular	Studio contests
Variety shows	Classical	Listener contests
Skits	Backgrounds	Games
Serial	Interludes	Personal experiences
		Quiz

"SERVICE" PROGRAMS

<i>News</i>	<i>Sports</i>	<i>Educational</i>	<i>Public Service</i>
News flashes	Game results	Music	Employment service
Commentators	Game descriptions	Literature	Safety program
	Sport comments	Interviews	Personal advice
		Talks	Political speeches
			Institutional
			Weather reports

Major values offered by radio. Radio offers equal opportunities to the small and to the large advertiser. Through spot broadcasting, through programs having as many as a dozen different sponsors, advertisers with actually tiny budgets have "gone on the air" and put their message over. Television spots with carefully conceived use of animation, live action, and demonstration produced on film, or participation in live programs have been most successful.

Spot broadcasting may be defined as local radio or television advertising, although there are advertisers who use as many as 300 or 400 stations simultaneously in a radio spot campaign. Because all such broadcasting originates from the studios of the stations selected, the use of electrical transcriptions, or recordings, has become an economic necessity in most of these programs. A program is selected, rehearsed, and recorded in some metropolitan center convenient to talent and production experts, and individual discs are shipped to the stations carrying the campaign. Special equipment "feeds" the record into the station's transmitter, and a local announcer takes care of the commercials. The whole procedure may be compared to the shipment of plates and mats to local newspaper offices for simultaneous insertion in a dealer-advertising campaign. Television spots produced on film follow the same general procedure as radio, except that a greater variety of techniques is used in this medium, which combines both sight and sound.

The wide use of recorded or filmed material in spot broadcasting does not mean that facilities for local live talent shows have been neglected. Many stations are prepared to work with their local clients in the production of programs, and the larger stations maintain very complete production units and talent staffs.

Radio and television are, essentially, entertainment. To that extent, they are somewhat of a gamble, just as is a show on Broadway or a Hollywood movie. However, smart advertisers are, more and

more, buying proved and tested programs. This is as true of the small advertiser as it is of the large.

Farm papers. Few publications get a closer and more appreciative reading than the well-established farm paper. If ever a publication is read "like a bible," that publication is the successful farm paper. What is more, it is apt to be the "bible" for the entire farm family.

Farm papers divide naturally into two groups, national and state. National farm papers have a national circulation; state farm papers usually confine their circulation to a single state. The farm papers have survived every advertising vicissitude. At the bottom of the 1933 depression they stood up better than did most advertising media. They offer a highly valuable shortcut to the great farm market. Actually, they have as competing advertising media only the radio and the semiweekly and weekly newspaper. They always succeed in putting up a good fight against the rural newspaper. The radio, however, is becoming increasingly important as a competitor. More and more advertisers are finding it advisable to supplement their farm paper advertising with radio to strengthen certain sales territories.

Direct mail. Direct mail is not always looked upon as a consumer-advertising medium. It is used to such a large extent, however, in conjunction with the other advertising media that it certainly warrants mention here. It must be remembered that a great many advertisers, whether they use magazines, newspapers, radio, or farm papers, offer a booklet, a leaflet, a premium, or an advertising novelty. When these inquiries come to the advertiser, they become part of a direct-mail follow-up. Most advertising budgets make a fairly liberal allowance for consumer direct-mail work. For a complete discussion of direct-mail advertising, see page 5 *et seq.*

Outdoor advertising. The two principal forms of outdoor advertising are posters and paint. Posters are sold in the standard twenty-four-sheet size and smaller three-sheet panels. Paint is standardized to some extent, but the size of the display is flexible.

The panels for twenty-four-sheet posters are of two kinds: illuminated and non-illuminated. The illuminated panels cost from about \$35 to \$60 per month, and the non-illuminated panels range from about \$12.50 to \$22 per month.

Ordinarily, posters are available for a minimum period of one month and in quantities based upon a 100-showing for each city. The 100-showing in a market corresponds to the number of posters, determined by the plant operators on the basis of population and extent of street pattern, required to cover the market's principal streets. The intensity of the coverage afforded by this basic showing is taken to be the normal degree for the market. For partial coverage, 75-, 50-, and 25-showings are usually available, which consist respectively of three-quarter, one-half, and one-quarter of the number of posters in the 100-showing.

Each plant operator has only a limited number of panels in each city, thus permitting only a certain number of 100-showings in any one month. Posters are ordinarily contracted for well in advance, and since the war, most of the plants in the better areas have been completely sold out. It is usually advisable, therefore, to plan poster advertising well ahead of the time of appearance.

Outdoor advertising has a complete geographical selectivity. It may be used to cover a single city or state, or the entire country. This medium has considerable flexibility within a given market. It offers full color and a dominating size, which is frequently of importance to smaller advertisers who may be out-advertised in number of impressions, but among posters, at least, cannot be out-advertised in the size of the individual panel or the colors appearing on it.

Painted bulletins are generally purchased on a twelve-month or a thirty-six-month contract. They may be selected individually, and the price of each is often subject to individual negotiations. The more expensive and elaborate painted bulletins are located within the city limits on heavy traffic arteries. They are sometimes located at eye level or may be elevated and visible from a great distance. Highway bulletins situated out on the open road are more frequently sold at a standard price and are less expensive than artery locations.

Many of the most important advertising agencies use the National Outdoor Advertising Bureau, Inc., a cooperative organization, for the purpose of servicing their outdoor advertising campaigns.

Car cards. Car cards appearing in streetcars, subways, elevated trains, busses, and even taxicabs, are sold very much as are twenty-four sheet posters—by towns and on the basis of full, half, or quarter service. For reminder advertising, and as part of an advertising

campaign in which other media are used, they serve an excellent purpose.

Premiums. While it may not be absolutely correct to classify premiums as an advertising medium, they are used in many instances as such. For this reason they bear discussion here.

Premiums are used for the following purposes:

1. To help introduce new products.
2. To help increase the unit of sale.
3. To help consumers use the product correctly.
4. To encourage more frequent use of the product.
5. To win the interest of children.
6. To check radio programs.
7. As prizes in contests.

Premiums are offered in the following ways:

1. In a package—as some of the cereal manufacturers do.
2. Through a coupon—as some of the soapmakers do.
3. As a combination sale—where a manufacturer offers his regular item and a premium in combination.
4. Through the consumer returning a stipulated number of box tops or bottle tops.

Premiums are of all types, ranging from seeds, miniature posters and stamps to coffee makers, lamps, silverware, and every other conceivable item.

Millions of dollars are spent annually in this country on premiums, and the premium business has grown as a result. Procter & Gamble distributed premiums valued at over \$1,000,000 in the course of a single year.

Advertising specialties. Some times there is difficulty in differentiating between an advertising specialty and a premium. In general, an advertising specialty is an article that is usually given without cost and always without condition of sale of other goods. It always bears the name of the company that gives it away. The simplest kind of advertising specialty is a pencil, with the name of the giver on it. Knives, watch fobs, desk calendars, desk weights, blotters, wall calendars—all of these are advertising specialties. Many of

these specialties have an amazingly long life. They build a tremendous amount of goodwill and have a great advertising value.

Trade papers. Trade papers are magazines or newspapers devoted editorially to business or the professions. A tremendous number of them are published. Since every industry has its own particular features, and the structure within each field is peculiar to it, trade papers are difficult to classify. They do, however, fall into two broad classifications: horizontal media and vertical media.

Horizontal media appeal to a common interest of many industries and, therefore, circulate among many industries. Broad examples in this class are *Nation's Business* and *Business Week*, which treat business generally and are of interest to everyone connected with business. Other more specific examples would be *Purchasing News*, *Printers' Ink*, *Sales Management*, *Factory Management and Maintenance*, and others.

Each of the vertical papers deal with a single industry or a single phase of one industry. Some examples of this group are *Oil and Gas Journal*, *Hotel Management*, *American Druggist*, and *Modern Brewery Age*.

Trade papers can also be generally classified into business papers and professional or technical papers. The former are concerned with phases of business that follow production—namely, transportation, distribution, advertising, selling, credit, auditing, and so forth. The professional or technical papers cover production problems addressed to engineers, chemists, and technicians, and are likely to be highly technical. In addition, there are many publications that appeal to the professions—medicine, engineering, architecture, and so forth, and the numerous phases and shades of interests within each profession.

5. TESTING YOUR ADVERTISING

Can an advertiser forecast the results of his advertising? The great question which every advertiser asks himself is: How can I tell whether the money that I am about to spend on advertising will produce the hoped-for results? In general, there are two ways in which an advertiser can answer this question for himself.

1. In determining whether the advertising that he proposes to launch will produce results, he can rely on his own judgment, supplemented by the knowledge and accumulated experience of his advertising agency.

2. He can pretest his advertising. That is, he can experiment and test on a small scale before advertising on a large scale and can then base his large-scale advertising on the results that he obtains from his tests.

Advertiser's personal judgment not reliable. With regard to the first of the above methods—the advertiser's relying on his personal judgment—it is a curious fact that, although ninety-nine out of a hundred businessmen will hesitate to pass on a question relating to finance or production, few will hesitate to state definitely that such-and-such is a good or a bad piece of advertising and will support their statements with arguments that seem to them entirely convincing. Yet the most positive opinions have been proved again and again, when checked by actual results, to be wrong, and very far wrong. If this seems an exaggeration, refer to the two advertisements reproduced in Figure 12. One of these advertisements produced a greater number of inquiries than the other. Which one was it? Even if you are successful in choosing which one interested the most men, the fact that the handkerchief advertisement out-pulled the cold cream advertisement by 50 per cent will cause you to question whether, after all, you can depend on yourself to judge advertising and be sure that you are right. And you must be sure that you are right before you begin to plan the expenditure of your own advertising appropriation.

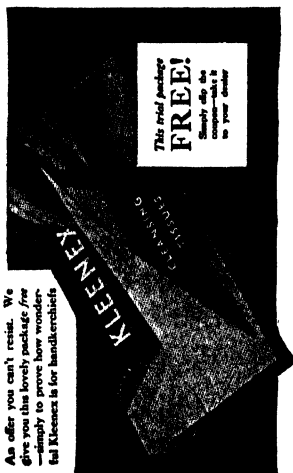
The advertising agency, because of its specialized knowledge and accumulated experience, is undoubtedly a better judge of effective advertising than the advertiser himself. However, tests have shown that advertising men are far from infallible.

What pretesting aims to do. The fact that tests have shown that advertisers and advertising men are not reliable judges as to which advertisements will produce results is not entirely surprising. Personal prejudices are one factor. Close contact with the product, and remoteness from the public, is perhaps another factor. Still a third is the "professional viewpoint," which causes an advertiser or advertising man to judge advertisements in accordance with stand-

WE PAY TO PROVE

Kleenex is wonderful
for Handkerchiefs

An offer you can't resist. We give you this lovely package free—simply to prove how wonderful Kleenex is for handkerchiefs.



Are you tired of the "average" handkerchief? Do you want to know how to get the most out of your handkerchiefs? Then try Kleenex for Handkerchiefs. It's the only handkerchief that's been tested and proven to be the most effective for removing cold cream, makeup, and dirt. It's the only handkerchief that's been tested and proven to be the most effective for removing cold cream, makeup, and dirt. It's the only handkerchief that's been tested and proven to be the most effective for removing cold cream, makeup, and dirt.

KLEENEX FOR HANDKERCHIEFS

Handkerchiefs - Cleanliness - Dainty
Kleenex Handkerchiefs are the only handkerchiefs that have been tested and proven to be the most effective for removing cold cream, makeup, and dirt. They are the only handkerchiefs that have been tested and proven to be the most effective for removing cold cream, makeup, and dirt.

Send this coupon to your dealer for a free trial package of Kleenex Handkerchiefs. Name _____ Address _____ City _____ State _____ Zip _____ TO KLEENEX MANUFACTURING COMPANY, P.O. Box 1000, New York, N.Y. 10108.

WE PAY TO PROVE

there is no way like Kleenex
to remove cold cream

An offer you can't resist! A 7-day supply of Kleenex Cleansing Tissues free—to show you the new, safe way of removing cold cream.



Most women are tired of the old way of removing cold cream. They want a new, safe way. They want a way that's been tested and proven to be the most effective. They want a way that's been tested and proven to be the most effective. They want a way that's been tested and proven to be the most effective.

KLEENEX CLEANSING TISSUES

Send this coupon to your dealer for a free trial package of Kleenex Cleansing Tissues. Name _____ Address _____ City _____ State _____ Zip _____ TO KLEENEX MANUFACTURING COMPANY, P.O. Box 1000, New York, N.Y. 10108.

From Kleppner, "Advertising Procedure." New York: Prentice-Hall, Inc.

Figure 12. The Test Ads That Launched Kleenex Tissues for Handkerchiefs.

The newspaper advertisements above were run to test the comparative interest of women in the use of Kleenex Tissues for handkerchiefs in contrast to their use for removing cold cream—the original purpose for which they were advertised. The handker-

chief advertisement outpulled the cold cream advertisement by 50 per cent. As a result, Kleenex Cleansing Tissues became Kleenex Disposable Tissues, and later Kleenex Tissues, reflecting increasing uses of the product.

ards other than the simple, practical standards of the consumer. Many other explanations of the unreliability of personal judgment could be found, but what is of chief importance is the fact that, whatever the explanation, personal judgment and experience cannot be depended upon to any great extent.

Pretesting attempts to eliminate mere opinion, prejudice, and theory in the planning of an advertising campaign. It aims to subject the ingredients of the campaign to tests on a small scale—tests conducted on the same public that is to read the final advertising and ultimately purchase the product—with the object of discovering which ingredients will have the desired effect and produce the desired results.

There are a number of methods of pretesting. These are described in the following pages.

Pretesting by the Sales-Area Method

What the sales-area method is. The so-called sales-area test may be illustrated by the following hypothetical case. The product to be advertised is a toilet soap. Analysis of the product and of the market suggests that a number of different advertising appeals are possible. For example, one appeal might be the purity appeal; this particular soap has been shown by chemical analysis to be purer than any other soap in its price class. Another approach might be the beauty appeal; buy this soap to protect and beautify your complexion. A third appeal might be semihumorous. A fourth possibility might be an appeal to fear; a poor complexion is a social handicap. The advertiser himself may favor one type of advertising; his advertising manager another; his agency perhaps a third. The fundamental question is: Which of these various appeals is the best; which will produce the greatest public response and hence the greatest sales results? Before launching his advertising and spending his appropriation, the advertiser wishes to be able to answer this question with a degree of certainty. He decides to conduct a sales-area test.

Procedure in the sales-area test. To conduct his sales-area test the advertiser proceeds as follows:

1. He selects sales areas in various sections of the country.
2. In each of these areas he chooses one or more cities to serve as "test" cities.

3. In the same areas he chooses one or more cities to serve as "control" cities.

4. In the control cities he continues to run the advertising that he has previously been using; or, in the event that he has not been advertising, he withholds his advertising from the control cities.

5. In the test cities he substitutes for the old advertising the new advertising that he proposes to use subsequently on a large scale.

6. A careful check is kept of sales in the control and test cities (the old *versus* the new advertising), and on the basis of the results obtained, the advertiser decides whether the new advertising will be successful.

To continue the hypothetical case mentioned above, assume that the advertiser wishes to test the purity appeal against the fear appeal. Assume, further, that he chooses a certain section as one of his sales areas; that City A and City B are to be the test cities in this area; and that City X is to be the control city in this area. Then, in City A the purity appeal is run; in City B the fear appeal is run; and in City X the previous campaign is continued. A careful tabulation of sales in the three cities is made.

Suppose that analysis of the results obtained from the test in this particular area reveals the following facts:

1. In City X, the control city, sales are slipping. This may suggest that the effect of the advertising campaign that is now being used is probably waning.

2. In City A the purity appeal stimulated an increase of 6.5 per cent in dollar sales.

3. In City B the fear appeal stimulated an increase of 16.5 per cent in dollar sales.

In this particular area, therefore, the fear appeal is considerably more effective than either the present campaign or the purity appeal. If results from tests in other sales areas were similar, the advertiser would undoubtedly choose the fear appeal in preference to the purity appeal as his next large-scale campaign, with reasonable assurance that he was making no mistake.

Safeguards to observe in sales-area testing. From the above description of the procedure followed in pretesting by the sales-area method, it is apparent that there is danger of the results being dis-

torted unless the greatest care is exercised. There are many variables that have to be taken into account; for example, the closing down of a large factory in either the control city or one of the test cities would probably affect the tests. If the results of a sales-area test are to be reliable, as many of the variables as possible must be controlled or eliminated. The following are a number of practical safeguards derived from the experience of companies that have used the sales-area test.

1. *Factors to consider in choosing sales areas.* A single sales area, no matter how large, cannot be depended upon to give reliable results. Not less than three areas, but preferably five, should probably be used. Moreover, the sales areas chosen should, as far as possible, be typical of larger territories, and in the aggregate should be typical of the total territory in which the product is sold.

2. *Factors to consider in choosing test and control cities.* The following are the most important factors:

(a) The test and control cities should be as nearly comparable as possible.

(b) Small cities are of little value for testing purposes; 30,000 population may be taken as the minimum.

(c) A growing, progressive city is more suitable than a city whose population is standing still or declining.

(d) Each of the cities should be an independent market; that is, the bulk of the purchasing by consumers should be done within the city itself, and not to any great extent in neighboring cities.

(e) Cities that have a number of different sources of income are preferable to cities depending to a great degree on a single industry. The purchasing power of a city that is dependent upon a single industry follows the curve of current conditions in that industry.

(f) The dealer setup in each city should be equal. Avoid cities in which one dealer, or a chain organization, dominates the market.

(g) As a final check, it is advisable to obtain first-hand information as to current business conditions in each of the cities under consideration. Cities in which abnormal conditions prevail (owing to closing down of a plant, strikes, and the like) can then be eliminated from the list.

3. *Check of sales for period preceding tests.* In order that the

effect of the advertising which is being tested can be accurately measured, it is necessary that sales in the test and control cities be checked for a period preceding the tests; sales during the testing period and during the period preceding the tests are then compared. How long should the preliminary checking period be? In deciding this it must be remembered that sales of the same product, in the same city, and without any material change in business conditions, fluctuate greatly from week to week. In some of the tests that have been conducted, the preliminary checking period has varied from two weeks to three months. Two weeks is entirely too short a period to take account of sales fluctuations. Four or six weeks would appear to be the minimum, and a longer period is advisable if the expense involved is not prohibitive.

4. *How long should the test period be?* The answer to this question depends to a certain extent upon the type of product that is being advertised. Some products are purchased frequently; others only at intervals. The advertising must be given time to produce results. Four or six weeks is the minimum for a product that is bought frequently. Hurrying the tests will produce misleading results. The longer the period in which the advertising is tested, the more likely it is that variables tending to distort the results will be eliminated.

5. *How should sales in the test and control cities be checked?* Companies that have used the sales-area test have found it advisable actually to check the sales themselves, through weekly or semiweekly calls at the stores, rather than rely on the dealers to furnish reports. It is not necessary, however, to check sales in all the stores in the test and control cities. It is usually true that a percentage of the stores in any city do most of the business; small stores may safely be ignored for testing purposes.

6. *Should the sales check be of jobbing sales or retail sales?* Sometimes a check of jobbing sales is used instead of a check of retail sales. There are advantages and disadvantages in this method. Some of the advantages are:

(a) A check of jobbing sales reduces to a minimum the expense involved in the collection of sales data.

(b) The advertising tests can be started immediately, without a preliminary checking period, since figures on past sales to jobbers

are usually readily available. When retail sales are checked, it is necessary to delay the tests of the advertising while sales data for the preliminary checking period are being collected.

Some of the disadvantages of checking jobbing sales instead of retail sales are:

(a) It is necessary to use larger sales areas, and this increases the cost of the advertising during the test period.

(b) The test period has to be longer, because of the "lag" between retail sales and jobbing sales.

(c) Jobbing sales are a less direct check on the effects of the advertising than retail sales.

The majority of companies conducting sales-area tests favor a check of retail sales rather than jobbing sales.

7. *Sales conditions uniform in all test and control cities.* It is important that sales conditions be kept as uniform as possible in all the test and control cities. During the testing period there should be no extra sales effort on the part of dealers, the sales force, or newspapers that perform merchandising services for the advertiser. If dealers and salesmen push sales with more than usual enthusiasm during the testing period, then the tests are not tests strictly of the advertising. When tests are being conducted, it is a good plan to keep the program confidential until it is under way, and then not to encourage dealers and salesmen to be unduly aggressive.

Advantages and disadvantages of sales-area method. In comparison with other methods of pretesting, the sales-area method has a number of advantages, as well as certain disadvantages. The following are some of the disadvantages:

1. The sales-area method involves considerable expense. The check of sales during the preliminary checking period and during the testing period is expensive. So also is the actual running of the advertisements in the test cities for periods that may extend from four weeks to three months.

2. The sales-area method requires time. Taking into account the preliminary checking period and the testing period itself, dependable results can hardly be obtained in less than three months as a minimum. To lessen this difficulty, however, there is the possibility of

running test campaigns concurrently with the regular campaign; that is, while a campaign is being run on a national scale, certain cities are segregated, and future campaigns are tested in those cities. This is the procedure followed by a number of companies using the sales-area test. Some of these companies have had as many as four or six campaigns under test at the same time that another campaign was being used nationally. The test campaign that proves to be most effective is then chosen as the next national campaign.

3. By its nature, the sales-area test can be applied only through local media—chiefly newspapers. It cannot be used in national magazines.

4. The practical problems involved in applying the principles of the sales-area test may in some cases be hard to solve. There are numerous factors that may affect the results of the tests, and these factors are often not subject to the advertiser's control. The sales-area method of testing must therefore be applied with the utmost vigilance, and the results very carefully interpreted in the light of the total situation.

As against the above, the following are some of the advantages of the sales-area method:

1. The sales-area plan is the only method of pretesting that is a direct check upon sales. Under other methods the effect of the advertising upon sales is usually estimated by indirect means.

2. Although the sales-area method is expensive and takes time, if a large sum of money is to be spent on the final advertising campaign, the expenditure involved in pretesting is justifiable. A large advertiser who does not test merely because of the expense may be open to the criticism that he is penny wise and pound foolish.

3. If a sales-area test is planned and executed carefully, the results are dependable. The experience of advertisers who have used the sales-area test would appear to confirm this. Among these advertisers are the following: Pepsodent, Listerine, Ambrosia, Campbell's Soup, Fleischmann's Yeast.

Pretesting by the Inquiries Method

What the inquiries method is. As its name suggests, the inquiries method is a system of testing advertisements by a count of

the inquiries that different advertisements pull. The system is comparable to the methods used by mail-order advertisers. Mail-order advertisers generally "key" all their advertisements, usually through the use of key numbers on coupons; the key number is different on each advertisement. A record is kept of the number of inquiries pulled by each advertisement and of the inquiries that resulted in sales. Analysis of his records enables the mail-order advertiser to know, with regard to each advertisement that he runs, the following facts:

1. Number of inquiries that the advertisement pulled.
2. Number of these inquiries that were consummated as sales.
3. Cost per sales.

Through this system of coupons, inquiries, and tabulations of cost per sale, the mail-order advertiser obtains definite answers to his problems. For example, there may be doubt as to whether Publication A is better for advertising purposes than Publication B. The mail-order advertiser can run test advertisements in both publications (exactly the same advertisement being used in each); his results may show that the cost per sale in Publication A is 85 cents, while the cost per sale in Publication B is 57 cents; on the basis of these results the advertiser would choose Publication B for regular use. The inquiries system of testing so-called "general" advertising is an attempt to apply mail-order testing methods to general advertising, with a view to building up for the general advertiser as solid a foundation of facts and figures as that enjoyed by the mail-order advertiser.

Procedure in the inquiries test. One of the chief differences between the sales-area method and the inquiries method is that the sales-area method tests the complete campaign (in a limited area), whereas the inquiries method is often used to test the various elements in the campaign, for the purpose of determining the most productive combination of those elements. Assume that an advertiser wishes to pretest by the inquiries method a campaign that he has formulated. His procedure is roughly as follows:

1. Certain media are chosen for purposes of the tests.
2. In the test media the advertiser runs his campaign and keeps a record of the inquiries produced. To stimulate inquiries, an offer

—commonly in the form of a coupon—is placed on each advertisement. (See Figure 13 and the explanation of it on this page.)

3. The various elements in the campaign are tested, only one particular being changed at a time. For example, the advertising as first run may bear a certain type of headline. It is desired to test another type of headline. Then the advertisement is run again, with only the headline changed, under exactly similar conditions—in the same media, in the same size, in the same position, with the same offer, and so forth. A count of the inquiries produced indicates which is the more effective type of headline. The other elements that it is desired to test are changed one at a time; and, when the tests are concluded, the advertiser can tell from his count of inquiries which is the most productive combination of the various elements that his advertising is to contain.

The following are a few of the points that may be tested as described above, by a count of inquiries:

1. Which media are most effective? Within limits, a count of inquiries is a useful guide for the advertiser in his selection of media.

2. What size of space is most productive—full pages, half pages, quarter pages, or smaller?

3. Are preferred positions in publications worth the extra cost?

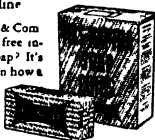
4. Is color worth the extra cost?

Explanation of Figure 13.

- (1) Common form of offer of booklet, without coupon. Instructions simple. Product pictured.
- (2) Common form of coupon for free booklet.
- (3) Free offer; literature pictured. Small charge to cover mailing costs for distant residents secures interest only of those who are prospects.
- (4) Common form of coupon where several products are sold and information on each is handled in separate literature. Enables classification of mailing list.
- (5) Method of developing trial orders. Limitation of time of offer stirs reader to prompt action.
- (6) Attention of certain class of prospects called to free offer of sample. Absence of coupon reduces number of non-prospect inquiries.
- (7) Charge of 10 cents eliminates those who make practice of clipping coupons. Check list helps classify prospects.
- (8) Hidden offer of a sample cuts down number of inquiries from coupon clippers. Inquiries show actual reading of ad. Expectation of automatic repeat sales makes offer possible.
- (9) Simple effort to get inquiries.

nowadays? A washday that began with the fresh, stimulating smell of Fels-Naptha Soap. Made easier and shorter by that Peerless Pair of cleaners - gentle naptha and richer, golden soap. A washday that saw sparkling, sweet scented linens dancing on your line.

Hadn't you better write, now, to Fels & Company Dept. 19-C, Phila., Pa. for a free introductory box of Fels-Naptha Soap? It's the easiest way in the world to learn how a soap that works—that gets after deep-down dirt—will save your time, your health—and will save your money too.



8

BUILDING MATERIAL CATALOG—5,000 Building Material Bargains. Everything for home work at money-saving prices. FREE Everywhere!

Send for **BOOK OF HOME PLANS**

Free If you live in Illinois and have (other plans) and 75¢ for mailing costs. Browse our beautiful new home designs, exciting new features, specifications, valuable money-saving building information.

Gordon-Van Tine Co.
World's Largest Specialists in Home Building Since 1898
1818 Cass St. Davenport, Iowa

Check books wanted ☐ Homes ☐ Building Material Catalog

Name _____
Address _____

3

Electric Appliance Company
of St. Chicago Ill.

Edison General Electric Appliance Company Inc.
1686 West Taylor Street Chicago, Illinois.

Please send me full information on the complete line of Edison Automatic Electric Water Heaters

Name _____
Address _____
City _____ State _____

9

love Only a 'French' Chef could prepare it—and only in French's can you get *all* those 11 song and health advantages. Treat your Canary to French's!

CANARY BOOK FREE!

72 pages illustrated, send your name and address on postcard to The R. L. French Company, Dept. 2412, Rochester, N. Y.



French's BIRD SEED and BISCUIT

LARGEST-SELLING CANARY FOOD IN U. S. A.

1

on the "road!"

UNITED STATES ENVELOPE COMPANY

General Office:
SPRINGFIELD, MASS.



Envelopes Transmittal Certificates
Paper Cases Drinking Straws
Note Books Tablet Cases
Paper Towels

6

Attention

Printers!

Write today for our latest FREE sample sets giving practical ways to make your type cases earn extra money! Please give the name of your regular paper merchant.



MAIL THIS COUPON

SABRETT EQUIPMENT COMPANY
2101-07 East Avenue St. Louis, Missouri
Gentlemen: Send me complete information on the following items: ☐ Brake Shoe Grinder ☐ Lathe ☐ Drum Grinder ☐ Brake Cutter ☐ Buffer ☐ Mill ☐ Milling Machine ☐ Complete Department ☐ Send me a copy of your catalog and free literature.

Name _____
Address _____
City _____ State _____

4



Women use more Arrid than any other deodorant. Try a jar today at any store which sells toilet goods.

39¢ a jar

Also in 10¢ and 40¢ jars

ARRID

WITHOUT COST TO YOU, we would like to prove that Arrid is the best thing you have ever used to stop under-arm perspiration. For free trial jar write to Carter Products, Inc. Dept. 204, 53 Park Place, New York. (This offer good until March 31, 1941.)

MAIL THIS COUPON for FREE ILLUSTRATED BOOKLET OF INTERESTING WORD ORIGINS
G. & C. MORTON CO., Dept. 684 Springfield, Mass.

Please send me free booklet: Interesting Origins of English Words, and full information about the New Merriam Webster-Webster's New International Dictionary Second Edition

Name _____
Address _____

2



10¢ brings this valuable book

Clip and Mail Coupon Today!

JOHNS-MANVILLE, Dept. B70-14 22 E. 40th Street, N. Y. C. (In Canada, address Dept. N.Y., Canadian Johns-Manville Toronto & Ont.)

Enclosed find 10 cents in coin for my copy of the latest edition of "The Home Idea Book."

I am especially interested in (please check)

☐ J-M Asbestos Roof ☐ J-M Home Insulation
☐ J-M Asbestos Siding ☐ Remodeling
☐ J-M Decorative Insulating Board ☐ Building a new home

Name _____
Street _____
City _____ County _____

Stamp for Postage

10¢ brings you latest edition of *The Home Idea Book*. Fully illustrated, very latest ideas on color treatments, remodeling; 20 new Guildway Houses with Plans, home-financing facts

JOHNS-MANVILLE

JOHNS-MANVILLE

7

Figure 13. Chart of Coupons and Special Offers.

5. Of several different styles of copy, which is the most productive?
6. Is long copy better than short copy?
7. Which of a number of different headlines will pull best?
8. Are photographs better than illustrations?
9. What season of the year is best for advertising the product?

Two problems in the use of the inquiries method. The general advertiser who uses the inquiries method of testing is brought face to face with a problem that does not confront the mail-order advertiser. This problem is: Is the volume of inquiries received from the advertising an accurate index to the volume of sales that the advertising produces? The mail-order advertiser can readily obtain the answer to this question; he follows up his inquiries and knows definitely the number of sales that result. The general advertiser does not follow up his inquiries (other than to send to each inquirer whatever he has offered), and apparently he is left in the dark as to:

1. Whether the people who inquire about his product subsequently go to a local store and buy it; or, are the inquirers mere coupon-clippers?

2. Whether the number of people who mail inquiries is an index to the number of people who do not inquire, but buy the product as a result of the advertising.

Are inquirers mere coupon-clippers? How to defeat coupon-clippers. There is the danger that the inquirers may be mere coupon-clippers, and not serious prospects. However, there are a number of ways in which coupon-clippers may be defeated. Some of these are:

1. The offer may be made a "hidden" offer. That is, the offer may not be featured in a headline, nor need there be a coupon; the offer can be contained in the body of the copy, in the form of a simple statement that a booklet or sample will be mailed to those who write to the advertiser. Only those who are sufficiently interested to read the body of the advertisement will find the offer and go to the trouble of writing a letter.

2. A **small charge** may be made for whatever is offered. A charge of 10 cents will usually eliminate inquiries from children, residents in rural communities, and others who make a practice of clipping coupons.

3. In some cases the offer can be made in such form that it will

interest only those who are prospects for the advertised product. For example, if a manufacturer of pipe tobacco offered a free ash tray to inquirers, he would doubtless receive thousands of worthless inquiries—from women, cigarette and cigar smokers, and others. If, on the other hand, he offered a pipe reamer, the bulk of his inquiries would come from men who were pipe smokers and potential users of his product.

4. The offer may be conditioned upon the inquirer's mailing to the advertiser a carton or some other evidence of the fact that he has purchased the product.

By testing from time to time, there can also be determined the number of inquirers who subsequently become purchasers and the percentage of coupon-clippers among the inquirers. One method is to use anonymous follow-ups. These follow-ups consist of cards on which a number of products are listed, the name of the advertiser's product being among them; the people receiving the cards are asked merely to check off the products that they have recently purchased. The cards do not bear the name of the advertiser, but of a dummy "research bureau."

Is volume of inquiries an index to volume of sales? A number of studies have been made of the reliability of inquiries as a criterion of sales. Dr. Daniel Starch conducted an "Analysis of Five Million Inquiries" produced by 3,500 advertisements of 163 advertisers over a period of 12 years. Doctor Starch's conclusion was that sales figures roughly parallel volume of inquiries. Other investigators have reached the same conclusion. However, fundamentally the answer to the question as to whether volume of inquiries is an index to volume of sales depends upon the manner in which the inquiries method is used. Carelessly applied, it may produce misleading results; adequately safeguarded, its dependability is correspondingly increased.

Safeguards to observe in testing by the inquiries method. The following are the chief safeguards:

1. *Do not force inquiries.* It would obviously be easy to obtain a very large number of inquiries if the offer were featured in the advertisement and dominated everything else. The offer should be simple and businesslike; also, if at all possible, the offer should be of

such a nature that it will interest only those who are potential users of the advertised product.

2. *Test only one particular at a time.* This is a fundamental principle of testing by the inquiries method. If it is desired to test the effectiveness of two different types of headlines, then everything other than the headlines must remain the same. If the value of preferred position in a publication is to be tested, the advertisement in the preferred position must be exactly the same as that in the non-preferred position. If two different offers are to be tested, then except for the change in the offers the advertisements must be alike to the minutest detail. The reason for the principle that only one particular should be tested at a time is apparent; if, for example, both headline and offer were changed, it would be difficult to determine which of the two changes produced the variation in results.

3. *Rely only on comparative count of inquiries.* The number of inquiries obtained from a single advertisement has little meaning. There must be some standard with which the results can be compared. This standard is the number of inquiries received from one or more other advertisements run under exactly similar conditions. If, for example, Advertisement A pulls 5,000 inquiries, this by itself has little significance. If, however, Advertisement B is run under exactly the same conditions and pulls 8,000 inquiries, it is reasonable to conclude that Advertisement B is a better sales instrument than Advertisement A; if, further, the only difference between the two is in the headlines, then the results indicate that the type of headline used in Advertisement B is more effective than that used in Advertisement A.

In addition to the three safeguards mentioned above, other safeguards will suggest themselves as necessary in particular cases. The inquiries methods cannot be applied automatically or with mathematical precision. It needs the support of strong common sense. For example, an advertiser running copy in an expensive magazine, such as *Town & Country*, would doubtless receive poor returns if he used a coupon, for the reason that people would not wish to mutilate an expensive and beautifully printed magazine; if it was desired to key the advertisement, a hidden offer or a simple request that readers write to the advertiser would be more logical. Similarly, if an advertiser intends to use a coupon, it may be advisable

for him not to place his advertisement on the back cover of certain serious magazines of which many readers keep files; readers would not wish to cut the back cover of a magazine of this type.

Pretesting by the Consumer-Jury Method

Procedure in the consumer-jury test. In general, the consumer-jury test consists of submitting to a "jury of consumers" specimens of the advertising that it is proposed to use. The jury is asked to rank the various pieces of advertising in the order of their effectiveness. The advertising chosen by the majority is run in the campaign.

In practice, the methods followed by advertisers in applying the consumer-jury test differ considerably in detail. For example:

1. In some cases the advertising submitted to the jury is in final form; that is, the headlines and copy are set in type, the illustrations made, and so forth, and what the jury sees are final proofs showing the advertisements as they would actually appear in publications. In other cases the advertising submitted to the jury is in rough-draft form, with the headlines and layout merely sketched in. The latter method is the more economical.

2. Occasionally, when the advertisements that are under test are given to the jury, the jury is required not to analyze them but merely to give an answer to some such question as: "Which of these advertisements would be most likely to make you want to buy the product?" On the other hand, some advertisers have required the jury to analyze the advertisements, and to rate them for attention value and appeal, or for attention value, headline, and text.

3. Some advertisers mail the advertisements to the members of the jury, the arrangement being that the members of the jury will receive a small gift in return for their services. Other advertisers prefer to send out investigators to interview the members of the jury and obtain their reactions at first hand.

Safeguards to observe in using the consumer-jury test. The following are the chief safeguards:

1. The persons chosen for the jury should be typical prospects for the product. If, for example, the product to be advertised is a baby food, as far as possible the jury should be comprised of women who have babies.

2. The number of persons tested should be adequate. Tests on a small number may produce misleading results. A jury of two hundred persons may be regarded as a safe minimum.

Advantages and disadvantages of the consumer-jury test. The criticism most frequently made of the consumer-jury test is that it requires the jury to express a conscious reaction to the advertisements, whereas under actual conditions the reaction of the consumer to the advertisements that he sees is largely subconscious. Critics of the consumer-jury test say that no one can tell, merely by looking at two or more advertisements, which would have the greatest effect upon him if read in a publication. There is also the difficulty of getting the jury to be strictly honest. For example, if two advertisements for the same product are submitted to a jury, and one features low price while the other features the established reputation of the manufacturer, doubtless quite a number of the jury will *vote* for the reputation appeal, whereas in "real life" it would be the price appeal that would stimulate them to *buy*.

Various means have been used to overcome the difficulties outlined above. One advertiser tested his advertisements by direct mail. The advertisements were set up in exactly the form in which they would appear in publications. Then the last few lines of each advertisement, in which the reader was urged to call at his local store and purchase the product, were removed; in their place was inserted a hidden free offer—a sample of the product would be sent to inquirers. The advertisements under test were mailed to a split list; included in each envelope was a card bearing only the advertiser's name and address and, on the reverse side, three blank lines on which the inquirer could write his name and address. The product was not mentioned on the cards, and no effort was made to direct attention to the free offer. A count of the inquiries received indicated which was the strongest advertisement.

Another advertiser, who was employing field investigators to test two different types of advertising, used a simple trick to obtain frank and unartificial responses from the people who were interviewed. An investigator would call on an individual, and say that he wished to obtain an opinion regarding a new kind of advertising that his company was thinking of using. Then, reaching into his briefcase, he would pretend that he could not find what he was looking for,

but, drawing out two advertisements, would say: "Oh, incidentally, while I'm looking for the new advertising, would you mind taking a look at these two ads?" A moment later he would produce a new set of advertisements and discuss these with the person being interviewed. When the interview was concluded, the investigator would ask: "By the way, you remember the two advertisements that I showed you first? Can you describe them for me?" The advertisements first shown were, of course, the advertisements under test, and the individual's ability to describe one or the other more fully and completely indicated which had made the greater impression upon him.

Mention has been made of some of the disadvantages of the consumer-jury tests. However, this method of testing also has important advantages. Chief among these is the fact that it involves no great expenditure of time and money, and that it is comparatively easy to use. An advertiser who cannot afford to test by the sales-area method or by the inquiries method will find the consumer-jury method of considerable value.

6. HOW TO DESIGN AND REGISTER A TRADE-MARK

Adapted from Kleppner, "Advertising Procedure." New York: Prentice-Hall, Inc.

New Trade-Mark Act. A new Trade-Mark Act, commonly referred to as the Lanham Trade-Mark Act, went into effect on July 5, 1947. Streamlined to conform to present day business needs, it affects, in one way or another, every trade-mark owner or prospective owner. The act codifies all existing laws on trade-marks, formerly contained in many different statutes with conflicting court interpretations. It also makes many changes in the rules that formerly governed the design and protection of trade-marks.

First let us discuss what the law says, and then apply the provisions to the practical problems of designing a trade-mark.

What registration of a trade-mark means. Registration of a trade-mark is not obligatory, for a trade-mark rightfully belongs to the first person who has used it. Furthermore, Federal registration applies only to the use of trade-marks in interstate and foreign com-

merce. State registration may still be sought in one or more states for protection in intrastate commerce. However, the new Federal law offers wider protection than the former statutes and makes application under the state registration laws less necessary.

Registration does not automatically protect the owner from litigation. Once the trade-mark has been registered, the Patent Office is empowered to refuse the registration of infringing ideas, but the owner himself has to bring suit actually to restrain the use by another who has unlawfully appropriated his trade-mark.

Advantages of registration on the Principal Register. All trade-marks that are registrable under the act may be registered on the Principal Register. The supplemental Register is described on page 192.

Registration on the Principal Register gives a trade-mark these advantages:

1. It is constructive notice of the registrant's claim to ownership of the mark.

2. It is *prima facie* evidence of the registrant's exclusive right to use the registered mark in commerce on the goods or services specified in the certificate of registration, subject to any conditions or limitations stated therein. This does not preclude an opposing party from proving any legal or equitable defense or defect which might have been asserted if the mark had not been registered.

3. The owner may obtain an incontestable right to use the trade-mark. See page 189.

4. It provides a record that others can consult before adopting a trade-mark to make sure they are not unwittingly infringing upon an existing trade-mark, or adopting a trade-mark too similar to another mark previously used for a similar product.

5. It gives Federal courts jurisdiction in infringement actions.

6. Domestic registration is necessary before a trade-mark can be registered in certain foreign countries.

7. The owner of a registered trade-mark can secure an automatic embargo at the customs of any foreign goods entering this country that infringe on that trade-mark.

8. The award of damages for infringement is not limited to actual injury but may in the discretion of the court be increased to three

times the amount of actual damages. The treble damages are not regarded as a penalty but as compensation.

What marks are registrable? The law permits registration of three types of marks.

1. Marks distinguishing goods.
2. Marks distinguishing service. For example, a symbol to distinguish the services rendered by a telephone company, a hotel, a restaurant; a distinctive feature of a radio program; a character name in any service, or a title or slogan.
3. Collective and certification marks. A "certification" mark is one used on products of persons other than the owner of the mark to certify the origin, material, quality, or standard of goods, or that work was done by union labor. The "seal of approval" of Good Housekeeping is one illustration. A "collective" mark refers to a trade-mark or service mark designating membership in a co-operative, association, or other collective group or organization.

The "must-nots" of trade-mark law. To be protected, the mark

1. Must not be immoral, deceptive, or scandalous.
2. Must not disparage or falsely suggest a connection with persons, living or dead, institutions, beliefs, or national symbols, or bring them into contempt or disrepute.
3. Must not contain the flag or coat of arms of the United States, any state, municipality, or foreign nation.
4. Must not use a name, portrait, or signature of a living person, except by his written consent.
5. Must not use the name, signature, or portrait of a deceased President of the United States during the life of his widow, except by her written consent.
6. Must not resemble a trade-mark previously registered or used by another and not abandoned, if its use is likely to cause confusion or mistake or to deceive purchasers. But see page 189 for concurrent registrations.
7. Must not be merely descriptive or deceptively misdescriptive.
8. When applied to the goods, must not be primarily geographically descriptive or deceptively misdescriptive of them, except as indications of regional origin in a collective or certification mark.
9. Must not be primarily merely a surname.

A mark can be registered even though it is merely descriptive, or geographically descriptive, or is primarily a surname *if it has become distinctive of the applicant's goods in commerce*. Five years of exclusive and continuous use prior to filing application may be accepted by the Commissioner as *prima facie* evidence that the mark has become distinctive. A mark that is unregistrable because of the prohibitions enumerated in 1 through 6 above can never become registrable as distinctive.

Notice of registration. Registration of a mark on the Principal Register is constructive notice of the registrant's claim of ownership thereof. Nevertheless, the owner of a mark must give notice that his mark is registered by displaying with the mark as used the words "Registered in U. S. Patent Office" or "Reg. U. S. Pat. Off." or the letter "R" enclosed within a circle, thus ®. (See also Figure 14.)



Figure 14. How to Show That a Trade-Mark Is Registered.

From Kleppner, "Advertising Procedure." New York: Prentice-Hall, Inc

The top four examples show how to designate that a trade-mark has been registered, as specified by statute. The Band-Aid statement illustrates another effective way. "Registered" may be spelled out as well as abbreviated.

Duration of a registered mark; affidavit of use. A registered trade-mark is good for twenty years. However, during the sixth year the owner must file an affidavit in the Patent Office showing that the mark is still in use or showing that its nonuse is due to special circumstances which excuse the nonuse and is not due to any intention to abandon the mark. Each registration may be renewed after twenty years' use for another twenty-year period.

Use by related companies. A holding, parent, or controlled corporation can use a trade-mark owned by a subsidiary, and vice versa.

Conflicting trade-marks. Can a mark that is registered as a trade-mark for one product be used for an entirely different class of goods? The law says "Yes," by permitting the "concurrent" registration of the same or similar marks by more than one user entitled to its use, if such concurrent use will not result in confusion, mistake, or deception of purchasers. The Commissioner can grant a concurrent registration only if both marks were used concurrently prior to the application date of any registrant. Also, the grant of concurrent registration must contain conditions and limitations on the mode or place of use of the goods, which the equities between the owners dictate.

Assignment of trade-marks. An owner of a trade-mark can assign it with the goodwill of the business in which the trade-mark is used, or with that part of the goodwill of the business connected with the use of the mark. The assignment must be recorded in the Patent Office. The assigned registration can be canceled if the mark is being used so as to misrepresent the source of the goods or services in connection with which the mark is used.

Incontestability of trade-marks. No one can contest an owner's use of a trade-mark after it has been in continuous use for five consecutive years, if the following conditions are met:

1. There has been no final decision adverse to the registrant's claim of ownership, or his right to register the mark or to keep it on the register.
2. There is no dispute pending in the Patent Office or in a court.
3. The owner has filed the required affidavit mentioned at the top of this page.

4. The mark is not the common descriptive name of any article or substance, patented or otherwise.

5. There is no right to cancel as shown under 2 of the following paragraph.

6. The registration on the Principal Register does not infringe a valid right acquired under the law of any state or territory by use of a mark or trade-name from a date prior to the date of the publication of the registered mark.

Cancellation of registrations. Anyone who believes he will be damaged by a mark's registration may apply for cancellation:

1. Within five years from date of registration under the new Act or publication of marks registered under old Acts; or

2. At any time if:

(a) The mark becomes the common descriptive name of an article or substance on which the patent has expired, or has been abandoned;

(b) The registration was obtained fraudulently;

(c) The registration was obtained contrary to certain prohibitory provisions of the law;

(d) The mark has been assigned and is being used by the assignee to misrepresent;

(e) The registrant does not properly control the use of the mark.

The Federal Trade Commission may apply to cancel registration on any grounds under 2.

Item 2 (a) has great significance to advertisers. The names of a number of formerly patented products are no longer protected. Examples are *Singer* for sewing machines, *Stillson* for wrenches, *Shredded Wheat*, *Linoleum*, and *Aspirin*. Other advertisers have lost their trade-mark rights because the trade-mark is so commonly used as the name for a class of products that the public regards it as descriptive of the *class* rather than as the identifying mark of *one product* in that class. *Cellophane* was originally the trade-mark of the DuPont Company, but is now used by anyone making that type of product. But only DuPont can call its product *DuPont Cellophane*. Many large advertisers campaign continually to prevent people from

using the trade-mark of their product to apply to a whole class of goods.

Remedies. Trade-mark owners may institute civil actions whenever an infringing mark is likely to cause confusion or deceive buyers about the origin of goods or services. Also, the printing of labels, signs, wrappers, receptacles, advertisements, and similar materials bearing imitations or counterfeits of a registered mark, and intended to be used with the sale in commerce of such goods or services, is an actionable offense. However, in the latter case, the trade-mark owner is not entitled to recover profits or damages from innocent infringers. Furthermore, the issue or periodical containing infringing matter cannot be stopped if to do so would delay the normal delivery of the issue.

Protecting foreign trade-marks in the U. S. and U. S. trade-marks abroad. The new Act specifically shows how the United States will protect the trade-marks of foreign owners who are domiciled or have businesses in the countries which offer protection to owners of trade-marks registered in the United States. Such protection by foreign countries may come through treaties between the United States and a foreign country relating to trade-marks or trade names, conventions to which the United States and other countries have become parties, and laws of foreign countries affording protection to citizens of the United States. Thus, United States protection to foreign owners and foreign protection to American owners of trade-marks is a reciprocal matter.

The law outlines specifically what the foreign owner must do to obtain protection of his trade-mark in the United States. So far as the protection in foreign countries of marks registered in the United States is concerned, the law merely states that citizens or residents of the United States shall have the same benefits as are accorded to foreign owners entitled to protection in the United States. The United States owner of a trade-mark must still register separately in each country of the world where he thinks protection is desirable.

Many countries permit the registration of a vast array of marks and names that are not eligible for registration on the Principal Register in the United States. However, many countries also require that an outside concern must first register its trade-mark device in its own country. What is the American owner of a trade-mark

to do if he can't register his trade-mark because it failed to meet the requirements of the Principal Register in the United States? To meet this situation, a Supplemental Register is established on which one can register virtually any mark not registrable on the Principal Register, provided the mark is capable of distinguishing one person's products from those of another without confusion—for example, by means of descriptive words, surnames, slogans, appearance of goods or package, and the like.

For domestic purposes, registration on the Supplemental Register is *not* equivalent to registration on the Principal Register, nor is it a substitute for it. The Supplemental Register does not provide a side door for giving domestic protection to ideas that do not qualify for the Principal Register. Registering a mark on the Supplemental Register does, however, place a mark on a public record that may be consulted by others who may be thinking of using a similar trade-mark, to avoid unintentional confusion.

The owner of any trade-marked product which shows signs of developing into national prominence will find it most advisable to protect that trade-mark properly in all foreign countries in which he may some day do business. If he does not do so at the outset, he may find an unpleasant surprise awaiting him when he tries to do it later. Most other countries, particularly those in Latin America, have an entirely different concept of property rights in trade-marks. The owner of the trade-mark is the man who *registers it first*, regardless of whether he originated the trade-mark or has even used it. As a result, piracy of American trade-marks is common abroad. Such experiences have been very costly for American advertisers and emphasize the importance of securing full legal protection before advertising extensively.

The Canadian trade-mark law. The Canadian law differs essentially from the present United States law in the following respects: (1) The first one to use a trade-mark becomes its owner, *provided that he applies for registration within six months*; in the United States, registration is entirely optional. (2) The Canadian act divides marks into "word marks" and "design marks"; each is considered separately and must be registered separately. In the United States they are considered together and can be registered at one time. (3) A trade-mark cannot consist of a corporation or personal

name, although a trade-mark may be registered if it is the chief part of the corporate name of the applicant. For example, *Coca-Cola* might be registered by the Coca-Cola Company.

Effect of Food, Drug and Cosmetic Act on trade-marks. Under the Federal Food, Drug and Cosmetic Act a drug product may not be designated by a name which includes or suggests the name of one or more *but not all* active ingredients. This rule is actually applying to drug products the principle that a trade-mark must not be deceptive either in its implication or in its substance.

Designing a trade-mark. We have considered up to this point the legal background of trade-marks in order that the ideas we offer as trade-marks may be legally valid. We now probe into the elements of creating a trade-mark that will be effective from the advertising point of view. A word of caution should first be given, however. *The services of an attorney should be secured in any contemplated action before the proposed trade-mark is used in any way whatsoever; certainly before any money is spent in printing or packaging.*

Forms of trade-marks. The forms of trade-marks in most frequent use and that would be acceptable for registration under the new law may be grouped into these classifications:

1. *Dictionary words*

Flit (*insecticide*)
Sunbeam (*toaster*)
Ivory (*soap*)

Spry (*shortening*)
Caterpillar (*tractors*)
Old Gold (*cigarettes*)

2. *Coined or invented words*

Spam (*meat*)
Alemite (*lubricant*)
Kleenex (*tissue*)

Duco (*paint*)
Teel (*dentifrice*)
Kodak (*camera*)

3. *Foreign words*

Bon Ami (*soap*)

La Favorita (*cigar*)

4. *Personal names (actual, fictional, historical, mythological)*

Chesterfield (*cigarettes*)
Prince Albert (*tobacco*)
Robert Burns (*cigars*)

Lincoln (*car*)
Venus (*pencils*)
Hercules (*explosives*)

5. *Geographical names*Paris (*garters*)Waterbury (*clocks*)Kalamazoo (*parchment*)Pittsburgh (*paints*)6. *Initials and numbers*R.C.A. (*radio, television*)A.C. (*spark plugs*)Z.B.T. (*talcum powder*)4711 (*perfume*)7-20-4 (*cigars*)A-1 (*sauce*)

7. Portraits, designs, symbols, usually used in connection with one of the foregoing.

8. Novel uses of color.

A single trade-mark may embody several of the foregoing elements, as a picture and a coined word, a symbol and a syllable, or a personal name plus a coined word. The use of a word for a trade-mark generally gives the owner the right to alternative ways of expressing the idea—with a picture or symbol. They may be used separately, together, or interchangeably. (For example, the word *Gargoyle*, a trade-mark for oil, may appear in print, but the idea can also be expressed by a picture of a gargoyle.) It is an advantage to have a trade-mark word that can be illustrated, so that the idea can be expressed both verbally and visually.

Dictionary words. Dictionary words are those which are found in the dictionary but which are used in the trade-mark in an *arbitrary, suggestive, or fanciful manner*—such as *Spry, Sunbeam, Old Gold*. The chief element to consider in choosing a dictionary word is that it be one that is not ordinarily used in describing that type of product.

If the question, “Is the term ‘descriptive’ of the product or merely ‘suggestive’ of it?” arises, that is a danger sign which the advertising man should heed. The warning cannot be repeated too often that it is inexcusable for a person creating a trade-mark to cause trouble by arguing too close to the letter of the law and by not respecting its spirit.

Coined or invented words. Coined words (*Linit, Graftex, Duco*) are one of the best forms of trade-mark to protect. The courts have held: “When a person forms a new word to designate an article made by him, which has never been used before, he may obtain such a right to that name as to entitle him to the sole use

of it as against others who attempt to use it for the sale of similar articles." The possible disadvantage of coined words is first, that it is difficult to create a word that is distinctive and practical; and second, that it places on the advertiser the complete burden of explaining what the product is.

The misspelling or hyphenating of a word (Yung-felo instead of Young Fellow, Heldryte for Held Right, Neva Wet for Never Wet) gives it no rights that a phonetic pronunciation or correct spelling of the word would not have. This does not make a coined or non-descriptive word out of one which would otherwise be descriptive.

Foreign words. A foreign word is treated just as the English translation of that word. *Le Bon* was held ineligible for use as a trade-mark for baking powder because its English translation is *good*, and *good* is regarded as a descriptive term.

Personal names. A personal name as applied to a product may serve as a trade-mark, provided: it has already been in use and serves to distinguish the particular product; or it is written in a distinctive way; or it is not merely primarily a surname. We have therefore old and well-known names serving as trade-marks in cases such as Sherwin-Williams for paints, Elizabeth Arden for cosmetics, McKesson & Robbins for drugs.

Names chosen for trade-marks should be as simple to pronounce and as easy to use as a coined word. The name itself should be sufficiently uncommon to be distinguishable from others. It is difficult to protect a proper name against others having the same name, particularly for a comparative newcomer upon the advertising scene whose product shows high promise of success and which will most likely invite imitators.

Geographical names. Place names are no longer a good source of ideas for new trade-marks, even though many famed trade-marks are geographical names: *Nashua* Blankets, *Palm Beach* Cloth, *Elgin* Watches, *Kalamazoo* Stoves. They came into being when the law on trade-marks was less strict. The law does not now look with favor on permitting one man to use a city, town, or regional name exclusively in connection with his products, when others making similar goods in that area may have the same desire and right to use it for their products.

Initials and numbers. Initials and numbers are the most difficult type of ideas to establish as trade-marks; they are the hardest for people to remember and the easiest to imitate. Numbers usually lack visual value and number trade-marks are confusingly alike.

Portraits, designs, symbols. A portrait of a person is legally acceptable as a trade-mark. Anyone may use the portrait of a deceased person (provided it is not already being used on a similar product). Portraits of living people may be used only with their consent. From the advertising standpoint, portraits are not highly effective as trade-marks. Most portraits look very much alike when reduced to the small size that may be required for trade-mark purposes. They are not easily reproduced. The style of picture they represent may go out of fashion quickly. The whiskers of the Smith Brothers may have helped make their portraits a valuable trade-mark (as has the fortune spent in the advertising of them), but other successful examples are few.

A trade-mark must not include the flag or any insignia of the United States, or of any state or municipality, or of any foreign country. It must not be the insignia of the Red Cross or of any organization that has adopted and publicly used an emblem. (The only exception to this is the right of firms who used a red cross on their products prior to the incorporation of the American National Red Cross in 1904.) The trade-mark must not be immoral, deceptive, scandalous, or against public policy.

Color and other devices. The color or appearance of goods is not a valid trade-mark. The law does not wish to give a monopoly of a color to any one person, since the number of colors is limited. A match company was unable to protect the color of its match heads as a trade-mark; a soap manufacturer the color of his soap; a bottle maker the color of his bottles; and a tire manufacturer the color of his tires. It is a well-settled rule that there can be no trade-mark in the mere form, size, or color of the package containing a product. But color may constitute a valid trade-mark when impressed in a particular design.

For example, a red strip across a shovel has been used as a trade-mark as has been a colored strand in a wire. The use of color is valid in these instances because it is used in a limited way, and is not the basic over-all color of the product. From the advertising view-

point, the use of color has many drawbacks, chief of which is the fact that it may be hard to show the trade-mark in publication advertisements.

How to create a trade-mark. A trade-mark needs to be distinctive so that it may overcome confusion with competing articles, help the reader recollect the advertised brand when he thinks of buying the product, and assist him to recall previous advertisements whenever he sees or hears the trade-mark.

The trade-mark should be simple. It should require no explanation. If a design is used, it should have one distinguishing feature easy to remember and to put into words.

If a picture is adopted, it should be one that will not soon become obsolete. No element that the normal progress of time and custom may make obsolete should be introduced in a new trade-mark. If pictures of people are to be used, beware of the changes that take place in the style of hairdressing and of clothing.

In the designing of a trade-mark, cognizance must also be taken of the method whereby it is to be reproduced. Automobiles usually carry their trade-marks on their radiators and on the hubs of their wheels. Simple, open-faced designs are here particularly necessary. For jewelry, a trade-mark even more simple is required to permit of reduction in size. For most package goods, a trade-mark with its width three-fifths its height will be found adaptable to the container and to advertisements alike.

The use of broadcasting influences the choice of a trade-mark. A word that can be dramatized, or a name that suggests a radio personality, is preferable to a colorless combination of words or numbers or syllables or designs.

Copy demands of a trade-mark word. The suitability of a word for use as a trade-mark can well be decided by good copy sense. The word should be as adaptable as some of the patented reading lamps, which can be hung, clamped, or stuck anywhere and still give forth their light.

The following qualifications help a trade-mark in its work. A single trade-mark may not embody all of these virtues, but it may at least strive to achieve them. Words chosen for trade-mark purposes should be:

1. *Simple and crisp.* Such words are typified by *Crisco*, *Ritz*, *Sanka*, *Lux*, *Zonite*, *Mazda*.

2. *Easy to say, spell, and recognize.* What is the average reader to do with names such as *Hexylresorcinol*, *Houdailles*, *Hyomei*, *Telekathoras*, *Glycothymoline*, *Sempre Giovine*? Advertisers of products with such names may find it necessary to run an explanatory line spelling the name phonetically. This is one of the two ways out of the difficulty. The other way is to change the name before the product is advertised. Trade-marks must be easy for people to recognize when they hear them over the radio, and easy to spell. Lehn & Fink, makers of *Pebeco*, have received mail calling their produce *Pebigle*, *Pedalgo*, *Pebisco*, *Publico*.

3. *Pronounceable in one way only.* Is *Olivilo* to be pronounced "Ah-leev-eye-lo," or "Olive-eelo," *Pall Mall*, "Pawl Mawl" or "Pal Mal"? The public's pronunciation may be corrected by a simple expedient, such as was used by the Standard Oil Company. Their name, *Socony*, was mispronounced "sock-ohnee" and "soak-ohnce." The desired pronunciation was *So-co'-ny*, which they impressed by printing their name *SoCOny* and *Socony*. But new trade-marks should be so created that they do not need such assistance. It is also well to guard against the selection of a word that can be punned, or unpleasantly rhymed, or mispronounced by competitors' salesmen.

4. *Distinctive.* A great fault of many new trade-marks is that they are commonplace. One directory of commercial names lists *National* 95 times; *Champion*, 122; *Star*, 134; *Ideal*, 142; *Universal*, 149; and *Standard*, 184. What claim to individuality could any new trade-mark make if it consisted of, or included, one of these terms?

5. *Suggestive of the product.* The trade-mark must not describe the product literally, but it can suggest the nature, use, action, or quality of an article; for example, *Rinso* Soap, *Caterpillar* Tractors, *Zerone* Anti-freeze, *Sunkist* Oranges. In contrast, *Electrolux* is a poor name for a gas refrigerator being sold in competition with electric refrigerators. (Serval, Inc., makers of *Electrolux* refrigerators, recognizing that fact, have changed the emphasis from *Electrolux* Refrigerators to *Serval* Gas Refrigerators.)

As previously indicated, the word must not be deceptively mis-descriptive.

7. COPYRIGHT PROCEDURE

Outline of copyright procedure. Copyright procedure is relatively simple. The three requirements to be met are:

1. Published works that are copyrighted must bear the copyright notice.
2. Application for registration of a copyright claim should be made to the Register of Copyrights, Library of Congress, Washington 25, D. C., on a form supplied by the Register of Copyrights. A different form is used for each class of copyrightable material. To obtain the proper application form for the class of material that it is desired to copyright, write to the Register of Copyrights. When the application for registration of copyright is filed, it should be accompanied by the stipulated fee, which in most cases is \$4.
3. A number of copies of the work should be deposited with the Register of Copyrights, at the time the application is made. The number of copies required to be deposited is usually two, although in some cases only one copy is required.

Classification of copyrightable material. Under the United States Copyright Law, copyrightable material is classified as:

1. Books, including composite and cyclopedic works, directories, gazetteers, and other compilations. The term "book" includes pamphlets, leaflets, or single pages.
2. Periodicals, including newspapers.
3. Lectures, sermons, addresses, prepared for oral delivery.
4. Dramatic or dramatico-musical compositions.
5. Musical compositions.
6. Maps.
7. Works of art; models or designs for works of art.
8. Reproductions of a work of art.
9. Drawings or plastic works of a scientific or technical character.
10. Photographs.
11. Prints and pictorial illustrations, including prints or labels used for articles of merchandise.
12. Motion-picture photoplays.
13. Motion pictures other than photoplays.

Requirements of Copyright Office governing works reproduced in copies for sale or public distribution. The following are the requirements of the Copyright Office governing this type of copyrightable material:

1. *Publish work with copyright notice.* In connection with the copyright notice, the following rules should be observed:

(a) *Form of copyright notice.* Since September 16, 1955, the United States copyright law has required the use of the symbol © instead of the word "Copyright" in the copyright notice. The symbol complies with the requirements of the Universal Copyright Convention. However, it is recommended that both the symbol and the word "Copyright" be used, because many people are not familiar with the symbol ©.

The additional phrase "All Rights Reserved" should also be used, to insure protection under other international pacts to which the United States is a party. A notice and statement such as the following are desirable:

COPYRIGHT © 19— BY PRENTICE-HALL, INC. ALL RIGHTS RESERVED.
NO PART OF THIS WORK MAY BE REPRODUCED IN ANY FORM, BY
MIMEOGRAPH OR ANY OTHER MEANS, WITHOUT PERMISSION IN
WRITING FROM THE COPYRIGHT PROPRIETOR.

(b) *Special form of copyright notice permitted in certain cases.* In the case of works (6)-(11), specified in the classification list above, the copyright notice may consist of the symbol ©, accompanied by the initials, monogram, mark, or symbol of the copyright proprietor. However, the name of the copyright proprietor must appear on some accessible part of the copies.

(c) *Place where copyright notice should appear.* In a book or other printed publication, the copyright notice should be placed on the title page or on the back of the title page. In a periodical the notice should appear either on the title page or on the first page of text of each separate number, or under the title heading. In a musical work the copyright notice should be placed either on the title page or on the first page of music.

(d) *Use of fictitious name in copyright notice undesirable.* The name of the copyright owner given in the notice should be the real name of a living person, or his trade name if he always uses one.

or the name of the firm or corporation owning the copyright, and no other. The use of a fictitious or pen name is not prohibited and might suffice in certain cases but is not desirable.

2. *Deposit copies of the work with Register of Copyrights.* In connection with the deposit of copies, the following information will be useful:

(a) *Number of copies to be deposited.* Immediately after publication, generally, two copies of the work should be sent to the Register of Copyrights, Library of Congress, Washington 25, D. C. However, if the work is by a foreign author, and has been published abroad in a foreign language, only one copy is required to be deposited with the Register of Copyrights. For a work published abroad in English, only one copy need be deposited to secure temporary (*ad interim*) copyright protection. In the case of a contribution to a periodical, one complete copy of the periodical containing the contribution should be deposited. The form of application for each different class of copyrightable material states the number of copies required to be deposited.

(b) *Affidavit required in certain cases.* In the case of books published in the United States, the application for copyright is required to be accompanied by an affidavit as to manufacture in the United States. A different form of application is used for each class of copyrightable material; if an affidavit is necessary, provision is made for it in the application form.

(c) *Free mailing privilege.* The copies of works sent to be registered for copyright may be mailed to the Copyright Office free, if directly delivered for that purpose to the postmaster. The Copyright Office does not furnish franking labels, and the copies cannot be mailed by deposit in a street mail box; they must be taken to the post office and delivered to the postal authorities; a receipt may be obtained upon request.

Requirements of Copyright Office governing works not reproduced in copies for sale or public distribution. Copyright may be secured on certain classes of works, copies of which are not produced for sale or public distribution:

1. *Lectures and oral addresses, dramatic or musical compositions.* One complete manuscript or typewritten copy of the work should be deposited with the Register of Copyrights.

2. *Photographs.* In the case of photographs reproduced in copies for sale or otherwise published, one photographic print should be deposited.

3. *Works of art.* This includes paintings, drawings, sculpture, models or designs for works of art, and drawings or plastic works of a scientific or technical character. One photograph or other identifying reproduction of the work should be deposited.

4. *Motion-picture photoplays.* A title and description, together with one print taken from each scene or act, should be deposited.

5. *Motion pictures other than photoplays.* A title and description, together with not less than two prints taken from different sections of a complete motion picture, should be deposited.

In the case of each of the works listed above, if they are subsequently reproduced in copies for sale or distribution, a second deposit, application for registration, and the payment of a second fee must be made.

Term of copyright in the United States. The original term of copyright in the United States is 28 years. Within one year prior to the expiration of the original term, the copyright may be renewed for an additional 28 years. The total of 56 years (original term plus renewal term) is the longest possible period for which a work can be copyrighted in the United States.

Copyright fees. The following are the fees required by the Register of Copyrights:

For registration of a claim to copyright in any published or unpublished work (except a print or label used for article of manufacture), including certificate	\$4.00
For registration of a claim to copyright in a print or label used for article of manufacture, including certificate	6.00
For recording the renewal of copyright, including certificate	2.00
For every additional certificate of registration	1.00
For certifying a copy of an application for registration of copyright, and for all other certifications	2.00
For recording every assignment, agreement, power of attorney, or other paper not exceeding six pages	3.00

(For each additional page or less, 50 cents; for each title over one in the paper recorded, 50 cents additional)

For recording each notice of use containing not more than five titles	2.00
(For each additional title, 50 cents)	
For each hour of time consumed in searching Copyright Office records, indexes, or deposits, or services rendered in connection therewith	3.00

Remittances should be made by money order or bank draft, payable to the Register of Copyrights, Library of Congress, Washington 25, D. C. Checks may not be accepted by the Register in payment of copyright fees unless certified.

Copyright on a new edition of a copyrighted work. If a work which has previously been copyrighted is reissued with changes or revisions, application should be made for copyright protection on the new material contained in the work. A mere reprinting of a work previously copyrighted needs no additional protection and cannot be recopyrighted, but if substantial changes have been made, these changes should be protected by an application form with two copies of the revised edition and the required fee. The application should include a brief statement of the new material on which copyright is claimed, and the title and author of the original edition if different from the title and author of the revised edition. It has been found helpful, also, to list the copyright registration number of the original edition. The fee is the same as that for registration of an original edition (\$4, except for a commercial print or label, where it is \$6).

Copyright on an unpublished manuscript. Copyright may be obtained on a manuscript or typewritten copy of a dramatic composition, a musical composition, or a lecture, sermon, or address prepared for oral delivery. However, text matter in general is classified under the broad category of "book," and is not copyrightable until *after* it has been printed and *published* with the copyright notice. Hence, the answer to the question "Can a manuscript be copyrighted before publication?" is "No—unless the manuscript is a dramatic composition, a musical composition, or a lecture, sermon, or address prepared for oral delivery." Prior to publication literary manuscripts are protected under the common law without the need

for observing any formalities, provided authorship and date of creation are established.

Quotations from a copyrighted work. The utmost caution should be observed in the quotation or use of copyrighted material in a new work. It is not generally understood that quotation from or use of material from a copyrighted work can be made only upon written permission of the copyright owner. Suit for damages, and enforced withdrawal of the infringing work from circulation, may be the penalty for infringement of copyright. Publishers require the author of a manuscript to obtain written permission to quote from another work. Quotations from publications of the Government and other official bodies can be made without permission, unless the publication contains material otherwise copyrighted. In all cases where quotations are made, the following information should be cited:

1. Name of the author.
2. Title of the work from which the quotation is made.
3. Name of the publisher, and the city of publication.
4. Date of publication.

It may also be advisable to include the copyright notice that appears upon the work from which the quotation is taken.

Copyright on prints and labels. Prints and labels published in connection with the sale or advertisement of articles of merchandise may be copyrighted for 28 years, with the privilege of renewal for an additional 28 years. Promptly after publication with the copyright notice, two copies should be sent to the Register of Copyrights, together with application Form KK and the registration fee of \$6. In the case of prints published as advertisements in periodicals, send either two copies of the periodical or one copy of the periodical with one tear sheet or proof copy of the print. If a print or label is first published without the copyright notice, it cannot subsequently be copyrighted.

Prints and labels include advertisements in words, pictures, or design, or a combination thereof, that constitute original artistic or literary composition. No registration can be made in the Copyright Office if the *only* distinctive element is one of the following: a trade name, a business slogan, a well-known symbol or standard printer's

ornamentation, typography or coloring, or a mere listing of the contents of the article of merchandise. Prints or labels that have been registered and later revised are registrable only if the revisions are in themselves copyright matter or so alter the composition as to make it a new work.

The Copyright Office will not register a print or label that is no more than trade-mark subject matter, which can only be registered at the Patent Office, but will register a claim in a print or label that contains copyrightable matter even though it also includes a trade-mark. However, it should be clearly understood that copyright registration does not give the claimant rights available only by trade-mark registration at the Patent Office.

Copyright in Great Britain. The term of a British copyright (except in the case of photographs and sound records) is the life of the author, plus 50 years from the date of his death. In the event that the work is that of joint authors, the copyright is in force for the life of the one who dies first and either another 50 years or the life of the one who dies last, whichever period is the longer. The term of copyright for photographs and sound records is 50 years from the date on which the original negative or the original plate was made.

Registration of copyright is not required in Great Britain. The British Copyright Act provides that copyright shall subsist:

1. In the case of a published work, if it was first published within such parts of the British Dominions to which the Act applies.
2. In the case of an unpublished work, if the author was, at the date of the making of the work, a British subject or a resident within the British Dominions.

If a work is published in Great Britain, the only formal requirement that has to be met is delivery of a copy of the work, within one month after publication, to the Library of the British Museum and, on demand (with some exceptions) to the Bodleian Library at Oxford, the University Public Library at Cambridge, the Library of the Faculty of Advocates at Edinburgh, the Library of Trinity College, Dublin, and the Welsh National University Library at Aberystwyth.

The absence of a copyright notice in a work published in Great Britain does not mean that the work is not copyrighted. The copyright notice is not required under the British Copyright Act

HOW TO PROTECT IDEAS LEGALLY IN THE UNITED STATES

From *Kleppner, "Advertising Procedure."* New York: Prentice-Hall, Inc.

IDEA	SPECIAL METHOD OF PROTECTION	REQUIREMENTS FOR THIS PROTECTION	DURATION	REMARKS
Regarding the Product and the Business				
1. PRODUCT (construction or composition)	Patent from Patent Office, Washington, D. C.	Must be a new invention of an art, machine, manufacture, composition of matter, or else a new and useful improvement in one.	17 years, not renewable.	The idea becomes public property when patent expires.
2. PRODUCT (appearance)	Design Patent from Patent Office.	Must be new, ornamental, and original.	3½, 7, or 14 years at option when patent is issued. Not renewable.	1. Idea becomes public property when patent expires. 2. Refers to design or appearance, not to construction or composition of product.
3. TRADE-MARK; SERVICE MARK; CERTIFICATION MARK (certifying origin, quality, etc.); COLLECTIVE MARK (showing membership in group)	Registration with Patent Office. (Trade-marks can be registered also in individual states.)	1. Must not resemble another mark, if confusion will arise. 2. Must not be primarily merely a surname. 3. Must not be merely descriptive or deceptively misdescriptive. See p 187 for 8 more must-nots	Perpetual if used. Registration, 20 years. Renewable for similar periods upon expiration.	1. A word may be a trade-mark. 2. A registered trade-mark may become incontestable after 5 years of undisputed use. 3. Registration is constructive notice of a claim of ownership. 4. The phrase "Reg. U.S. Pat. Off." or ® should appear.

4. TRADE NAME (name that applies to a business as a whole, and not to an individual product)	First user can restrain infringer in court on grounds of unfair competition.	Unfair practice involving use of trade name.	As long as name is used.	A trade-mark is not a trade-name. "Wheaties" is a trade-mark; "General Mills" is a trade name, protected differently.
5. PERSONAL NAME	See Trade-Mark.			1. Poor trade-mark. 2. Can't be registered as trade-mark if primarily merely a surname. 3. Can't adopt name of living person without consent. 4. Name of deceased President requires widow's consent.
6. PACKAGE CONSTRUCTION	Patent.	See requirements for patenting Product (No. 1 above).	17 years, not renewable.	
7. PACKAGE DESIGN	1. Design patent. 2. Registration as trade-mark (sometimes possible). 3. Infringers can be restrained in court on grounds of unfair competition.	See requirements under Product (appearance) (No. 2 above). 3½, 7, or 14 years at option when patent is issued. Not renewable.		1. If a design of the package meets all the requirements of a trade-mark, it may be registered as a trade-mark. 2. If people, deceived by purposeful similarity in appearance between two products, buy the infringer's product thinking they are buying the original, this provides basis for court action . . . whether or not package design has been patented or registered.

HOW TO PROTECT IDEAS LEGALLY IN THE UNITED STATES—Continued

IDEA	SPECIAL METHOD OF PROTECTION	REQUIREMENTS FOR THIS PROTECTION	DURATION	REMARKS
8. PACKAGE INSERT (leaflet wrapped with product, but not attached to it)	Copyright.	See Copyright, at end of table		Write to Register of Copyrights for application form.
9. LABEL	"	1. Must be an artistic or intellectual creation. 2. Must be attached to product or its container. 3. Must be descriptive of product. 4. For other requirements see Copyright, at end of table	28 years, renewable once.	1. A label to be copyrightable must be descriptive 2. Must be attached to product.
10. TITLE OF PERIODICAL (as "The Saturday Evening Post")	Registration (as a trademark).	Title of the periodical is really its identifying device and is regarded as its trade-mark See Trade-Mark (No. 3)	See Trade-Mark (No. 3 above).	
11. TITLE OF SINGLE BOOK (as novel or text book)	No special form of protection. Might be protected in court on grounds of unfair competition.			

Regarding the Advertisement

12. PUBLICATION ADVERTISEMENTS (as a whole)	Copyright.	See Copyright, at end of table.		Write to Register of Copyrights for application form
13. CAR CARDS	"	"	"	Write to Register of Copyrights for application form.
14. OUTDOOR POSTERS	"	"	"	Write to Register of Copyrights for application form.
15. DIRECT MAIL (subject matter)	"	"	"	Write to Register of Copyrights for application form.
16. DIRECT MAIL (special construction)	Patent.	See patent requirements under Product No. 1 above.	17 years, not renewable.	Write to Register of Copyrights for application forms.
17. RADIO AND TELEVISION PROGRAMS	Copyright.	See Copyright, at end of table.		
18. TITLE OF RADIO AND TELEVISION PROGRAMS	Service mark may be a title. (See No. 3.)			
19. SLOGAN	A slogan cannot be copyrighted or registered.			Write to Register of Copyrights for application form.
20. ILLUSTRATIONS	Copyright.	"		Write to Register of Copyrights for application form.
21. COPY	"	"		Write to Register of Copyrights for application form.
22. RADIO—TELEVISION (commercial)	"	"		Write to Register of Copyrights for application form.

HOW TO PROTECT IDEAS LEGALLY IN THE UNITED STATES—Concluded

IDEA	SPECIAL METHOD OF PROTECTION	REQUIREMENTS FOR THIS PROTECTION	DURATION	REMARKS
23. MERCHANDISING IDEA, selling plan, advertising idea	No special way to protect such ideas in the abstract.			If the idea is sufficiently concrete, it may provide the basis of a contract with someone to pay for it <i>if it is original</i> .
24. PHYSICAL MATERIAL and forms for use in such plans as in No. 23 above	Copyright possible. Patent possible.	See Copyright, at end of table. See requirements for patenting under No. 1 above.		
25. COLOR	An advertiser cannot reserve the exclusive right to use a particular color, but he may register as his trademark an arbitrary combination of colors used with his label.			An advertiser may restrain another from imitating the color scheme, package design or label arrangement so as to be mistaken for his, on the ground of unfair competition.

COPYRIGHT	APPLICATION FORMS
1. Must be an artistic or intellectual creation. 2. In case of booklet, book, dramatic and musical composition, copyright notice <i>must</i> appear on title page or page following, and must read Copyright (or Copr.) 19 by . 3. In case of photographs and illustrations, or other works of art which may be defaced by above copyright notice, it may be abbreviated as follows, provided somewhere on print name appears in full: © (initials). 4. Duration, 28 years; renewable once.	Write to Register of Copyrights for forms as follows: Class A — Books. Class B — Periodicals, newspapers (Form B) Class C — Lectures, addresses, for oral delivery Class D — Dramatic or dramatic-musical compositions Class E — Musical compositions. Class F — Maps. Class G — Works of art or their designs. Class H — Reproductions of works of art. Class I — Drawings of technical character Class J — Photographs. Class K — Prints and pictorial illustrations (Form K). Prints or labels used for merchandise (Form KK). Class L — Motion picture photoplays. Class M — Other motion pictures.

For Further Information

Regarding trade-marks and patents, write Commissioner of Patents, Washington 25, D. C. Regarding copyrights, write to Register of Copyrights, Washington 25, D. C.

From Kleppner, "Advertising Procedure." New York: Prentice-Hall, Inc.

8. PRINTING AND TYPOGRAPHY

Printing processes. Of the three types of printing processes, (1) letterpress, (2) intaglio, and (3) lithography, the first two are most commonly used for advertising purposes.

Letterpress covers all types of printing from raised surfaces in which the type or design stands out in relief and comes in direct contact with the paper. In the intaglio process the printing surface is depressed, or etched, thus producing a raised impression on the paper. A common use of the intaglio process is in the printing of "engraved" visiting cards. Rotogravure is a form of intaglio printing in which the plate etching is done by a photochemical process.

Lithographic printing, sometimes called planographic printing, is printing from a plane surface, one which is neither intaglio nor relief. This type of process has three broad classifications: direct lithography, offset lithography, and photo-offset lithography. In *direct* lithography, the printing plate or surface comes in direct contact with the paper. In *offset*, or indirect, lithography, the printing plate or surface transfers its impression to an intermediary rubber roller, which in turn prints on the paper. *Photo offset* is merely an elaboration of this latter method, employing a photographic negative in preparing the printing plate.

Another process of photolithography is called *photolith*. It is used for reproducing short runs (small quantities) of simple black-and-white copy, including testimonial letters, sales bulletins, and pages for a sales manual. The process is inexpensive in small quantities and it is fast; but it does not reproduce photographic subjects sharply.

Because of the increased use of photo offset in recent years in the advertising field, the advantages and uses of this method are described more fully below.

Advantages of photo offset. The following advantages of the photo-offset process show why this method of printing has replaced letterpress work to a considerable extent in the advertising field:

1. Saves typesetting costs. Photo offset permits high-speed quantity reproduction of copy without the typesetting costs incurred by letterpress printing.

2. Saves storage space. Photo-offset plates do not require much storage room. It is standard practice among lithographers to keep plates for one year, particularly if these plates have half tones. Negatives are kept indefinitely.

3. Saves engraving costs. In the photo-offset process, screening is necessary only for half tones. Black-and-white drawings or illustrations are pasted on the copy page and photographed, without necessitating the extra time and expense of making engravings or line cuts.

4. Permits use of fancy-finish papers. Rippled, pebble stock, and other fancy-finish papers that are impractical in letterpress printing because the type impression does not fill in the paper crevices can be offset with perfect results. The rubber blanket of the offset press fills in the paper crevices and leaves a clean-cut type impression.

5. Permits enlargement or reduction of all sorts of copy, including type. Photo offset permits effects that could not be obtained without exorbitant expense by other printing processes. Copy can be reduced to miniature size and still be legible. An advertising agency reverses this process for an eye-catching sales letter. The typewritten letter is "blown up" to giant size and sent to prospects.

6. Permits tone and shade control of half tones. The offset process permits a control of printing shade and tone that is not possible in letterpress. Such control is particularly effective in the offset printing of half tones.

Uses of photo offset. The photo-offset process has become popular principally because of its expense-saving features and its adaptability to the forms of advertising used by large and small concerns. Broadsides, testimonials, letters, labels, package inserts, post cards, folders, and other types of mailing pieces have been printed effectively and cheaply by photo offset. By this process magazine and newspaper advertisements can be reproduced in direct-mail pieces such as folders and broadsides. Bulletins for salesmen, distributors, or consumers can be turned out in quantity inexpensively by this method.

Preparation of copy for photo offset. The one point to bear in mind when preparing copy that is to be photo offset is to lay it out *exactly* as it is to appear in the finished piece. If the copy is composed of previously printed illustrations and printed type matter (proofs or clipped pages), the copy can be mounted in exact proportion and printed in its original size or reduced or enlarged. If the illustrations are in varying colors or require reduction or enlargement, separate negatives will be required. In such a case the layout should indicate the exact size and position of the illustrations.

If typewritten copy is to be photographed, clean copy from a black ribbon will serve. However, it may be advisable to use a special carbon-paper ribbon in an electric typewriter, which provides an evenness in the weight of each stroke. If the copy is written in this manner on a sheet of paper backed up by a sheet of carbon paper, with the carbon side facing the back side of the sheet, the copy will have the greater density desirable for photographing.

How to plan a printing job. The businessman whose printing requirements are too small or too occasional to necessitate the em-

ployment of an advertising manager or an agency to handle the work will save time, money, and energy if he outlines the problem of buying printing as follows:

1. Determines what the printed job is to accomplish.
2. Determines the form it is to take.
3. Prepares the copy and artwork.

Step number one is the crystallization of the idea that a piece of printing is to fulfill a definite need, accomplish a definite purpose, or do a certain job better than anything else can do it. At this stage only the rough idea of the finished job is known.

Step number two requires an expert knowledge of printing—its possibilities and its limitations—or expert advice. This is the stage at which the format is decided; the stage at which the type, illustrations, colors, size, shape, paper, binding, and other details are settled. All this work should be done with the co-operation of the printer. A mistake too often made by the inexperienced is that of neglecting to call in the printer until after much of the work is done. Only the buyer who is thoroughly familiar with printing—who knows the printer's processes and tools—can eliminate this consultation with the printer or defer it until a later time.

The third and final step is the preparation of the copy and art work. This should always be the last step. The specifications of the finished job are now known, and the copy can be written to fit the allotted space, and the proper illustrations correctly made. To write the copy before knowing where it is to go often means rewriting, padding, or cutting, or changing the layout, to the detriment of the job in general. If the illustrations are prematurely made, they may fit haphazardly into the final plan, or new illustrations or alterations in the old ones may be necessary.

The new printing buyer who has never before dealt with printers may wonder about the choice of a printer to do the work. For the first job, the best choice is a printer of sound reputation for good work and service to the customer. Succeeding jobs may be taken to the same printer if he proves satisfactory, or the buyer may take his work to several printers and obtain competitive bids. He should be sure that where prices vary, the results will be the same. Giving business to a printer whose chief virtue is low prices is a questionable economy, since cheap printing is usually money wasted; good print-

ing is not necessarily expensive printing, but poor printing is expensive at any price.

How type is set. The buyer of printing, and particularly the occasional buyer, ordinarily need not concern himself with the technical aspects of printing; such, for example, as the way in which the type is set in the printer's plant, the kind of machines used and the method of their operation, and so forth. However, the following very brief statement of how type is set may assist the new printing buyer to understand the printer's end of the work and some of the terms that he may use when talking to the customer.

Type used in printed matter is principally of two kinds: (1) foundry type, (2) machine type.

Foundry type is set by hand, in single letters, and is redistributed after the job is printed, to be used again. Display faces are commonly set in foundry type; for example, the headlines in advertisements, set in large type, are commonly foundry type. The body matter in expensive advertising pieces is also sometimes set in foundry type. Hand setting, it is usually considered, has finer points than machine setting; it is, however, considerably more expensive.

Machine type is cast by a machine and is re-melted after the job is done. Machine type is of two kinds: (1) single types, (2) slugs. The monotype casts and sets single letters that are very similar to foundry type. Monotype is generally used in advertising pieces, where the columns of body matter are of irregular widths.

The linotype (or the intertype, a machine almost identical to the linotype) casts a line of type at a time, on a single slug. Linotype is generally used for extensive pieces of copy; a booklet, for example, would ordinarily be set on the linotype.

The monotype and the linotype are both operated from keyboards, roughly similar to the keyboard on a typewriter.

Another machine, the typograph, is sometimes used. This machine, which may be used to set display faces, is not operated from a keyboard, but is manually operated.

Phototypography is a new photographic process that eliminates the use of metal type. It is a series of related processes wherein the letters or type images are composed by being photographed or projected onto film or paper.

Choosing a type face. Pages 216-220 illustrate some of the better known type faces. The characteristics of each are described briefly

This type is CASLON

THIS PARAGRAPH IS SET IN CASLON. An old proverb of typography is, "When in doubt, use Caslon." Caslon is warm and sympathetic, yet impersonal. It is one of the most serviceable of all types, one of the most easily read, and one of the most widely used. There are a number of varieties of Caslon; this is Caslon Old Style. *Caslon Old Style italic is illustrated by this sentence.*

This type is KENNERLEY

THIS PARAGRAPH IS SET IN KENNERLEY. Kennerley, like the Caslon Old Style face illustrated above, combines beauty of form with a high degree of legibility. And legibility is, of course, the primary consideration in the choice of a type face. Printed matter has but one function: it is meant to be read. *Kennerley italic is illustrated by this sentence.*

This type is GARAMOND

THIS PARAGRAPH IS SET IN GARAMOND. Garamond is one of the most useful and beautiful of type faces, and is one of the faces most frequently used by advertisers. Its grace and beauty make it suitable for use where the beauty of the product itself is one of the points featured in the advertisement. *Garamond italic also has a good appearance; the italic is illustrated by this sentence.*

This type is CLOISTER

THIS PARAGRAPH IS SET IN CLOISTER. As will be seen from this paragraph, Cloister sets a slightly darker page than either Caslon or Garamond. Cloister is a good type for the body matter of advertisements, and it also gives excellent results when used for display; its appearance in display may be judged from the line set in 24 point. *Cloister italic is illustrated by this sentence.*

This type is BODONI

THIS PARAGRAPH IS SET IN BODONI. The types previously illustrated — Caslon, Kennerley, Garamond, and Cloister — are all so-called Old Style faces. Bodoni is a so-called Modern face. Old Style types can be distinguished by their slanting serifs (serifs are the little bars or finishing strokes at the tops and bottoms of letters) and by their slight contrast between light and heavy strokes. Modern type faces have greater contrast between light and heavy strokes, and have precise but graceful lines. Bodoni comes in a number of varieties; this is Bodoni Book. The headline is set in Bodoni Bold. *Bodoni italic is illustrated by this sentence.*

This type is CENTURY

THIS PARAGRAPH IS SET IN CENTURY. Century, like Bodoni, is a Modern type face. It is not an especially good looking face, particularly in the larger sizes, but its legibility in the smaller sizes is to be recommended. Where it is necessary to fit a large message into a comparatively small space, Century is a good choice. *Century italic is illustrated by this sentence.*

This type is SCOTCH

THIS PARAGRAPH IS SET IN SCOTCH ROMAN. Scotch Roman may be considered a Modern face, although it has certain of the characteristics of Old Style faces. While it is not especially beautiful, Scotch Roman is a very legible, useful face for both display and text purposes. Its appearance in display may be judged from the line set in 24 point. *Scotch Roman italic is illustrated by this sentence.*

This type is FUTURA

THIS PARAGRAPH IS SET IN FUTURA. Futura is an example of a so-called Sans Serif face. Sans Serif faces have straight lines, with no contrast between light and heavy strokes, and they have no serifs. Sans Serif faces are popular because they strike a modern note. Futura may be used as either a body or a display type. However, although it is a good looking type, it is not very easily read, and hence should not be used except where only a few lines have to be set. Futura comes in a number of weights; this is Futura Medium. *Futura italic is illustrated by this sentence.*

This type is KABEL

THIS PARAGRAPH IS SET IN KABEL. Kabel, like the Futura type illustrated above, is a Sans Serif face. It has the modern styling of a streamlined automobile. As in the case of other Sans Serif faces, Kabel should be used sparingly. Kabel comes in a number of weights; this is Kabel light. *Kabel italic is illustrated by this sentence.*

This type is GIRDER

THIS PARAGRAPH IS SET IN GIRDER. Girder is an example of a so-called Square Serif face. Square Serif faces have simple, square serifs of the same weight as the type lines. Square Serif faces, like Sans Serif faces, create a modern atmosphere. Girder comes in a number of weights; this is Girder light.

beneath the illustrations. Each face is illustrated in two sizes, 24 point and 12 point leaded (see page 224). The number and variety of type faces seem endless and the novice is at a loss to know which type to choose for his particular work, but the illustrations in the preceding pages will dispel some of the mysteries associated with type faces and their uses.

The type faces illustrated in the preceding pages are only a few of the almost innumerable varieties available. However, the businessman who is not an expert in typography will do well to restrict his choice to one or other of the faces shown; he can then be reasonably sure that the results obtained will be satisfactory. Only the expert should attempt the striking or unusual.

The types shown are illustrated in only two sizes, but it should not be forgotten that a wide range of sizes is available (as illustrated in Figure 15). Also type of the same face and size can be set in capitals, in capitals and small capitals, in italic, and so on. Some of these variations are illustrated in Figure 16 on page 223.

THIS LINE IS SET IN CAPITALS (OR CAPS)

THIS LINE IS SET IN CAPS AND SMALL CAPS

THIS LINE IS SET IN SMALL CAPS

This Line is Set in Caps and Lower Case

this line is set in lower case

This line is set in italic

This line is set in boldface

Capitals are well suited to short headlines, but not to lines of body type. THIS SENTENCE IS AN ILLUSTRATION OF THE DIFFICULTY FOUND IN READING PRINTED MATTER THAT IS SET COMPLETELY IN CAPS; THE LINES OF TYPE ARE TOO EVEN, AND THERE IS TOO LITTLE TO CATCH THE EYE. In contrast, it is at once apparent that this sentence, set in lower case, is much easier to read.

Caps and small caps are suitable chiefly for subheadings; they are not sufficiently striking to serve as headlines. Italic type is graceful, but it, too, is not easily read; it is best to use italic sparingly. Bold-face may be used for headlines or, when emphasis is desired, for short paragraphs of text matter or even for complete advertisements.

How type is measured. Type matter has its own peculiar system of measurement. Until recent times type sizes were known by names. Now a standard system, known as the point system, is used. There are approximately 72 points to the inch, and all type sizes are given in points. Sizes from 72 point down to 4 point are available; some of the more commonly used sizes are illustrated in Figure 15. Figure 16 shows the basic resemblance in the various members of a type "family."

Although the size of the type itself is indicated in points, the dimensions of the space which the type is to occupy (the length of the lines and the depth of the space) are not indicated in points but in

THE SIZE of

48 point

THE SIZE of ty

42 point

THE SIZE of type

36 point

THE SIZE of type

30 point

THE SIZE of type

24 point

THE SIZE of type

18 point

THE SIZE of type

14 point

THE SIZE of type

12 point

THE SIZE of type

10 point

THE SIZE of type

8 point

Figure 15. Common Type Sizes (Caslon Old Style).

From Kleppner, "Advertising Procedure." New York: Prentice-Hall, Inc.

A FAMILY OF TYPE

Caslon Old Style

A FAMILY OF TYPE

Caslon Old Style italic

A FAMILY OF TYPE

Caslon Bold

A FAMILY OF TYPE

Caslon Bold italic

A FAMILY OF TYPE

Caslon Condensed

A FAMILY OF TYPE

Caslon Shaded

a family of type

Caslon Old Style

a family of type

Caslon Old Style italic

a family of type

Caslon Bold

a family of type

Caslon Bold italic

a family of type

Caslon Condensed

a family of type

Caslon Shaded

Figure 16. A Family of Type.

From Kleppner, "Advertising Procedure." New York: Prentice-Hall, Inc.

picas. The pica (or pica em, as it is sometimes called) is $\frac{1}{6}$ of an inch, or 12 points. For example, this book is set 25×42 picas; that is, the pages are 25 picas wide and 42 picas deep. Since a pica is one-sixth of an inch, a page 25×42 picas is $4\frac{1}{6}$ inches wide and 7 inches deep.

In newspaper advertising still a third term, the agate line, is used. The agate line always means $\frac{1}{14}$ of an inch deep and one column wide. There are 14 agate lines in every inch of space, measured from the top of the page to the bottom, regardless of the number of printed lines actually set up within that space.

To summarize: there are 72 points to the inch, 6 picas to the inch, 14 agate lines to the inch.

Use of leading. By leading is meant space between the lines of type. If type is set without any space between the lines, it is said to be set solid. For the sake of appearance and legibility, it is generally advisable to insert space between the lines. The printer does this by inserting so-called leads, which are thin strips of metal separating the lines of type. Leading is specified in points. Figure 17 is an illus-

Leaded 1 point:

The citizen is inevitably nation-conscious nowadays, inevitably conscious, too, of the reaction of foreign and international events upon his purse and his larder, his home and his employment. Man is more and more identified with his country and its fortunes. Is there then a philosophy of international life in which patriotism—this identification of the man with his country—has its part?

Leaded 2 points:

The citizen is inevitably nation-conscious nowadays, inevitably conscious, too, of the reaction of foreign and international events upon his purse and his larder, his home and his employment. Man is more and more identified with his country and its fortunes. Is there then a philosophy of international life in which patriotism—this identification of the man with his country—has its part?

Figure 17. A Piece of Copy Leaded 1 Point, and the Same Piece of Copy Leaded 2 Points.

tration of the difference in appearance and legibility between a paragraph set leaded 1 point and a paragraph of the same type leaded 2 points (the type used is Electra, the face in which this book is set. The body type of this book is leaded 2 points).

The amount of lead that should be used depends upon a number of factors, such as the type face in which the copy is to be set, the size of type to be used, and the length of the lines. In general, small faces need less lead than large ones; light faces need less lead than heavy ones; and short lines need less lead than long ones. On the bottom of this page two tables are given that will be useful in this connection.

The first shows column widths for easy reading, and the second the amount of lead that it is advisable to use with various sizes of body types.

COLUMN WIDTHS FOR EASY READING

<i>Size of Type</i>	<i>Column Width, in Picas</i>
6	8 to 10
7	8 " 12
8	9 " 13
9	10 " 14
10	13 " 16
11	13 " 18
12	14 " 21
14	18 " 24
18	20 " 34

AMOUNT OF LEAD TO USE BETWEEN LINES OF BODY TYPE FOR EASY READING

<i>Size of Type</i>	<i>Minimum Lead</i>	<i>Maximum Lead</i>
6	Solid	1 Pt.
7	Solid	1 "
8	Solid	2 "
9	1 Pt.	2 "
10	1 "	4 "
11	1 "	4 "
12	2 "	6 "
14	3 "	8 "
18	4 "	8 "

Preparing copy for the printer. In the printing business the material that the printer is to set in type is referred to as the "copy." The copy sent to the printer should be carefully prepared. If the copy is "dirty"—if, for example, part is typewritten and part handwritten, or if the copy is interlined with changes, or if, in general, it is difficult to follow—the printer will take this into account in figuring his price for the job. Clean, neat copy, therefore, results in a saving to the customer.

All copy should be typewritten. Be sure, also, that your copy is correct. The printer makes a separate charge for all changes made on the proofs. Hence it pays to spend time in revising the copy before it is sent to the printer, rather than to rewrite it on the proofs.

Detailed specifications should always accompany the copy. The printer will want to know the dimensions (width and depth), the type face to be used, the type size, the leading, and any other details that may be required in a particular case. It often pays to prepare a layout, or sketch, for the printer; the layout will indicate exactly how the customer wants the finished job to appear.

Computation of space and copy-fitting. One of the necessary steps in the preparation of a piece of advertising for the printer is the computation of the space that a particular piece of copy will occupy, or the fitting of the copy to the amount of space available in the layout.

If the customer has consulted his printer early in the procedure, the layout and specifications are known before the copy is written; the type face and size are determined, and the problem is one of knowing how much copy to write. If the customer has already written his copy and does not want to change it, the problem is one of knowing how much space the copy will fill if it is set in a certain face and size, or of knowing what face and size to use in order to have the copy fit a certain area.

Copy fitting by word count. Given a certain amount of space and the size of type that is to be used, the approximate number of words can be found by the following method.

1. Reduce the dimensions of the space to points by multiplying the number of inches by 72 or the number of picas by 12. Thus, a space 4 inches, or 24 picas wide, is 288 points in width ($4 \times 72 =$

288, or $24 \times 12 = 288$). If the depth of the space is 6 inches, or 36 picas, the space is 432 points deep ($6 \times 72 = 432$, or $36 \times 12 = 432$).

2. The next step is to calculate the number of ems * of type in the space which, in step (1), was determined to be 288 points wide and 432 points deep. This is done by dividing the number of points in the width by the size of the type in points, dividing the number of points in the depth by the size of the type in points, and then multiplying the two figures obtained; the result is the number of ems of type in the space. Thus:

If the type to be used is 10 point:

$$\begin{aligned} 288 \div 10 &= 28.8, \text{ length} \\ 432 \div 10 &= 43.2, \text{ depth} \\ 28.8 \times 43.2 &= 1244.16, \text{ ems of type} \end{aligned}$$

If the type to be used is 11 point:

$$\begin{aligned} 288 \div 11 &= 26.1, \text{ length} \\ 432 \div 11 &= 39.2, \text{ depth} \\ 26.1 \times 39.2 &= 1023.12, \text{ ems of type} \end{aligned}$$

If the type to be used is 12 point:

$$\begin{aligned} 288 \div 12 &= 24, \text{ length} \\ 432 \div 12 &= 36, \text{ depth} \\ 24 \times 36 &= 864, \text{ ems of type} \end{aligned}$$

If the type to be used is 14 point:

$$\begin{aligned} 288 \div 14 &= 20.5, \text{ length} \\ 432 \div 14 &= 30.8, \text{ depth} \\ 20.5 \times 30.8 &= 631.40, \text{ ems of type} \end{aligned}$$

3. For convenient figuring, the average word is taken to be 3 ems in length. To complete the computation and find the number of words that will fill the given space, divide the number of ems in the space by 3:

In 10 point,	$1244.16 \div 3 = 414.72$	words will fill the space
11 “	$1023.12 \div 3 = 341$	“ “ “ “
12 “	$864 \div 3 = 288$	“ “ “ “
14 “	$631.4 \div 3 = 210.4$	“ “ “ “

The above computations are for type that is set *solid*—that is, with-

* The *em* is approximately the space occupied by the capital M in the size of type used.

out any extra space between the lines of type. When type is leaded, the space computation must take the leading into consideration. The leading has the effect of increasing the depth of the lines of type, but does not increase the width. Thus, if the type to be used is 12 point, and it is to be leaded 2 points, for the width the 12 point computation is used, but for the depth the type is considered to be 14 points. For example, assume that a space 4 inches (or 24 picas) wide, and 6 inches (or 36 picas) deep, is to be set in 12 point type leaded 2 points; then the number of words in the space is calculated as follows.

$$\begin{aligned}
 4 \text{ inches (or 24 picas)} &= 288 \text{ points} \\
 288 \div 12 &= 24, \text{ width} \\
 6 \text{ inches (or 36 picas)} &= 432 \text{ points} \\
 432 \div 14 &= 30.8, \text{ depth} \\
 24 \times 30.8 &= 739.2, \text{ cms of type} \\
 739.2 \div 3 &= 246.4, \text{ words in space}
 \end{aligned}$$

For the convenience of their customers, many printers prepare tables showing the number of words of type per square inch. Such a table is illustrated below. The figures are, of course, only approximate, and apply to the average type face.

To illustrate the use of the table, assume that a space 4 inches by 6 inches is to be set in 12 point type, solid. In this space there are $4 \times 6 = 24$ square inches. According to the table, there are 12 words to the square inch in 12 point type set solid; then the number of words that will fit the space is $24 \times 12 = 288$. According to the table, there are 11 words to the square inch in 12 point type leaded 2 points; hence, if the space 4 inches by 6 inches were to be set in 12 point type leaded 2 points, there would be $24 \times 11 = 264$ words.

NUMBER OF WORDS OF TYPE PER SQUARE INCH

<i>Size of Type</i>	<i>Set Solid</i>	<i>Leaded Two Points</i>
5	69	49
5½	55	45
6	48	37
7	36	27
8	30	23
9	25	20
10	20	15
11	15	12
12	12	11
14	10	9

Some printers go further, and, when preparing tables for the use of their customers, take into consideration the fact that the number of words per square inch varies with different type faces. The table given on this page is a portion of a table used by one printer to show the number of words per square inch for some of the more commonly used type faces.

NUMBER OF WORDS PER SQUARE INCH FOR VARIOUS TYPES

	6 Point	8 Point	10 Point	12 Point	14 Point
Bodoni	52	29	19	15	11
Bodoni Bold	48	26	17	13	10
Bookman	43	27	17	12	9
Caslon No. 471	53	36	23	15	11
Caslon No. 540	58	32	21	14	10
Cloister Old Style	53	32	22	15	13
Cloister Bold	45	30	20	14	11
Futura Light	—	32	22	15	12
Futura Medium	—	31	19	14	12
Futura Bold	—	28	17	11	8
Garamond Old Style	50	32	21	16	12
Garamond Bold	44	28	18	14	10

Copy fitting by character count. Word-count methods of copy fitting are not always accurate enough for careful work. Where exactness is necessary, the character-count method is preferable. As an illustration of the character-count method, assume that a space 3 inches by 4 inches is to be set in 11 point Caslon No. 540, leaded 1 point. How many lines of typewritten copy will be required to fill the space? The calculation is made as follows:

1. The printer will supply the customer with specimens of type faces, and, after the face to be used has been chosen, the customer can determine the average number of characters to an inch by counting the characters per inch in the specimen of the type chosen. The number of characters per linear inch for 11 point Caslon No. 540 is found to be 15; the number of characters in a line 3 inches long is, therefore, $15 \times 3 = 45$.

2. The next step is to find the number of lines in the depth. Since the type is 11 point leaded 1 and there are 72 points to the inch, there will be 6 lines in one inch and 24 lines in the space 4 inches deep $[(72 \div 12) \times 4 = 24]$.

3. The number of characters in the space 3 inches by 4 inches is now found by multiplying the number of characters per line by the number of lines; $45 \times 24 = 1080$.

4. A typewriter with pica type types 10 characters to an inch; a typewriter with elite type types 12 characters to an inch. Suppose that the typewriter has elite type, and that it is set to type lines 5 inches in length. Then the number of typewriter characters per line is $12 \times 5 = 60$.

5. The number of characters of 11 point Caslon No. 540 leaded 1 in the space 3 inches by 4 inches was found to be 1080. The number of typewriter characters per line was found to be 60. The number of typewriter lines, each 5 inches in length, which will be required to fill the space 3 inches by 4 inches is found by dividing 1080 by 60 ($1080 \div 60 = 18$). Hence the copywriter should write 18 lines of copy, 5 inches in length, to fill the space on the layout.

Many printers provide their customers with character-count tables, showing the number of characters per linear inch for various type faces. The following is a portion of a table of this kind.

CHARACTERS PER LINEAR INCH

<i>Type Face</i>	<i>Size of Type</i>				
	<i>10</i>	<i>11</i>	<i>12</i>	<i>14</i>	<i>18</i>
Bodoni	16	15	14	13	10
Caslon No. 540	16	15	13	10	9
Scotch Roman	17	16	13	11	8
Century	14	13	12	11	10
Cloister	20	18	17	16	12
Garamond	18	17	16	14	11

Always use the tables provided by the printer who is to do the work. If your printer has no such tables, reliable tables can be obtained from the Mergenthaler Linotype Company, Brooklyn, New York; the Intertype Corporation, Brooklyn, New York, or the Lanston Monotype Machine Company, Philadelphia, Pennsylvania.

Proofreader's marks. After the printer has set the copy, he submits a proof to the customer. Since the printer is not responsible for errors in the finished job unless they have been marked on the proof, the customer should read the proof with the utmost care. For convenience, a standard set of proofreader's marks is used to indicate

the changes to be made; these marks are illustrated in Figures 18 and 19 on pages 232 and 233.

Illustrations. Illustrations are of two kinds: half tones and line cuts. The half tone is used to reproduce photographs and drawings that have gradations in tone between black and white. The half tone breaks the illustration into small dots, known as the screen, which by their comparative size render all the intermediate tones. Half tones can be made in many screens—that is, with various numbers of dots to a given area. The finer the screen, the more dots, and the truer the reproduction. Before you have your half tones made, it is wise to consult your engraver. He will advise you what screen to use in order to obtain the best possible results on your paper; the proper screen to use is determined by the paper to be used.

Line cuts reproduce only black lines. They are used for simple illustrations that have no intermediate shadings. However, a semblance of shades or tones can be introduced into line cuts by mechanical processes, such as the Ben Day, which adds patterns of dots or cross-hatchings to indicate the various gradations.

There are many variations of line cuts and half tones, each suited to certain kinds of jobs; nearly all are adaptable to color work. It is also possible to make combination plates—half tones and line cuts together. A number of different types of illustrations are shown in Figures 20-27, pages 234-237.

Paper. The small or occasional buyer of printing will seldom be confronted with the necessity of buying paper. The printer can recommend the proper paper to use and can secure it for the customer. Paper may be roughly divided into three classifications:

1. Writing.
2. Book.
3. Cover.

The chart on pages 238-241 summarizes much useful information with regard to each of these three types of paper.

Jobs are usually printed on large sheets, which are cut to the proper size after printing. Since paper comes in standard sizes, most of which are kept in stock by large paper houses, certain sizes for the finished job are more economical than others, as there is less waste in the cutting. Here, again, the advice of the printer is valuable. The tables on page 242 give recommended paper sizes for booklets and catalogues and recommended paper sizes for unstitched circulars.

^	Make correction indicated in margin.	□	Raise to proper position.
<i>Stet</i>	Retain crossed-out word or letter; let it stand.	□	Lower to proper position.
....	Retain words under which dots appear; write "Stet" in margin.	///	Hair space letters.
<i>Stet</i>		<i>W.F.</i>	Wrong font; change to proper font.
x	Appears battered; examine.	<i>Qu?</i>	Is this right?
≡	Straighten lines.	<i>l.c.</i>	Put in lower case (small letters).
<i>WV</i>	Unevenly spaced; correct spacing.	<i>s.c.</i>	Put in small capitals.
//	Line up; i.e., make lines even with other matter.	<i>Caps</i>	Put in capitals.
<i>run in</i>	Make no break in the reading; no ¶	<i>Crsc</i>	Put in caps and small caps.
<i>no ¶</i>	No paragraph; sometimes written "run in."	<i>rom.</i>	Change to Roman.
<i>out see copy</i>	Here is an omission; see copy.	<i>ital.</i>	Change to Italic.
<i>¶</i>	Make a paragraph here.	≡	Under letter or word means caps.
<i>tr</i>	Transpose words or letters as indicated.	=	Under letter or word, small caps.
<i>h</i>	Take out matter indicated; dele.	—	Under letter or word means Italic.
<i>h</i>	Take out character indicated and close up.	~	Under letter or word, bold face.
<i>℄</i>	Line drawn through a cap means lower case	o/	Insert comma.
⊖	Upside down; reverse.	i/	Insert semicolon.
∩	Close up; no space.	:/	Insert colon.
#	Insert a space here.	⊙	Insert period.
⊥	Push down this space.	/?	Insert interrogation mark.
□	Indent line one em.	(!)	Insert exclamation mark.
[	Move this to the left.	/=	Insert hyphen.
]	Move this to the right.	✓	Insert apostrophe.
		<i>q.e.</i>	Insert quotation marks.
		<i>e</i>	Insert superior letter or figure.
		<i>l</i>	Insert inferior letter or figure.
		<i>[/]</i>	Insert brackets.
		<i>(/)</i>	Insert parenthesis.
		<i>—</i>	One-em dash.
		<i>—</i>	Two-em parallel dash.

Figure 18. Proofreader's Marks.

6. e. It ~~does~~ not appear that the earliest printers had any method of e/
 ✓✓✓ correcting errors before the form was on the press. The learned ~~The~~ o d
 & learned correctors of the first two centuries of printing were not
 # ;/ proofreaders in our sense; they were rather what we should term d 9
 not/ office editors. Their labors were chiefly to see that the proof corre- /
 sponded to the copy, but that the printed page was correct in its
 Cap/ / latinity ~~that the words were there~~, and that the sense was right. stet
 & They cared but little about orthography, bad letters or purely printer's / tr
 errors, and when the text seemed to them wrong they consulted fresh
 authorities or altered it on their own responsibility. Good proofs in,
 not # the modern sense, were impossible until professional readers were x
 m/ employed men who [had] first a printer's education, and then spent tr
 i/ many years in the correction of proof. The orthography of English,
 which for the past century has undergone little change, was very
 rr. f. = fluctuating until after the publication of Johnson's Dictionary, and
 capitals, which have been used with considerable regularity for the
 Spell past (80) years, were previously used on the [miss or hit] plan. The d led
 9 approach to regularity, so far as we have, may be attributed to the it/
 growth of a class of professional proof readers, and it is to them that
 we owe the correctness of modern printing. More errors have been d rd
 found in the Bible than in any other one work. For many generations
 it was frequently the case that Bibles were brought out stealthily, lead
 from fear of governmental interference. They were frequently printed out, see copy
 [from imperfect texts, and were often modified to meet the views of
 h/ those who published them. The story is related that a certain woman □
 & in Germany, who was the wife of a printer, and had become disgusted c. c/ who
 8. / f/ with the continual assertions of the superiority of man over woman rom.
 which she had heard, hurried into the composing room while her
 husband was at supper and altered a sentence in the Bible, which he inf.
 was printing, so that it read Narr instead of Herr, thus making the v v
 verse read "And he shall be thy fool" instead of "And he shall be thy d
 lord." The word not was omitted by Barker, the king's printer in f
 England in 1632, in printing the seventh commandment. He was fined o
 4000 on this account.

Figure 19. A Piece of Corrected Proof.

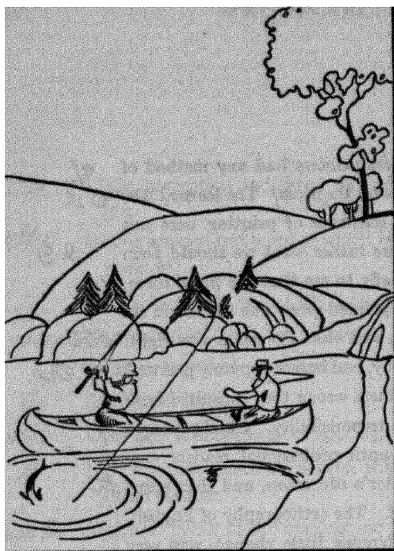


Figure 20.

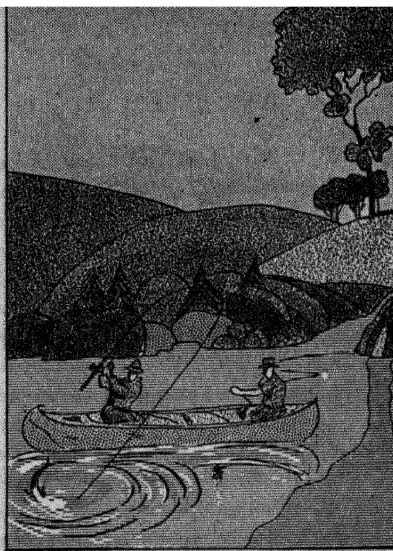


Figure 21.

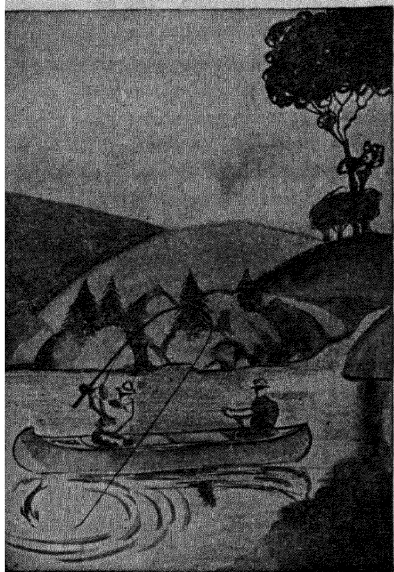


Figure 22.



Figure 23.

Figure 20: Line Plate. The line plate (or line cut, as it is frequently called) is the simplest form of photoengraving. Note that there are no gradations of tone between black and white; shading can be suggested only by lines of various weights and by areas of solid black. A line plate cannot be made from a photograph, a painting, or a wash drawing; it can be made only from a drawing that consists of lines and of areas of solid black. The drawing from which this line plate was made was a pen-and-ink sketch. A line plate is the least expensive form of photoengraving and can be printed on even the roughest papers with good results.

Figure 21: Line Plate With Ben Day. The Ben Day process, named after the man who perfected it, adds life and sparkle to a line plate, and gives it some of the gradations of shading found in a half tone. Ben Day is available in various "screens"; a pattern book may be obtained from your engraver. In the line plate shown in Figure 21, five screens have been used; close study of the picture will reveal where the different screens were "laid on." Ben Day is a hand operation, and hence is expensive. Compare the line plate with Ben Day with the line plate illustrated in Figure 20 and with the square-finish half tone illustrated in Figure 22.

Figure 22: Square-Finish Half Tone. There are various kinds of half tones. The simplest is the so-called square-finish half tone. The term "square-finish" does not refer to the shape of the picture or to the shape of the plate, for a picture which is oval or circular may be reproduced as a square-finish half tone. The term refers to any half tone on which the screen covers the entire area. A square-finish half tone is the least expensive type. Comparison of Figure 22 with Figure 20 shows the obvious difference between a half tone and a line plate. The half tone has subtle gradations of shading between the black and white areas.

Figure 23: Half Tone Showing Screens. The term "screen" refers to the fact that when the picture is being photographed, a screen is placed in the camera in front of the plate. Screens are known by numbers; those most commonly used are 55, 60, 65, 85, 100, 110, 120, 133, 150. In Figure 23 three screens are illustrated; namely, 85, 55, and 110. The fineness of the screen affects the fidelity of the results obtained. The proper screen to use depends upon the quality of the paper on which the half tone is to be printed. Smooth-finish paper can "take" a fine-screened half tone; the coarser grades of paper require coarse-screened half tones.

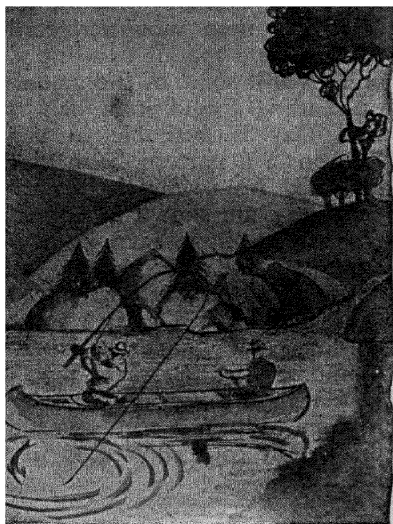


Figure 24.



Figure 25.

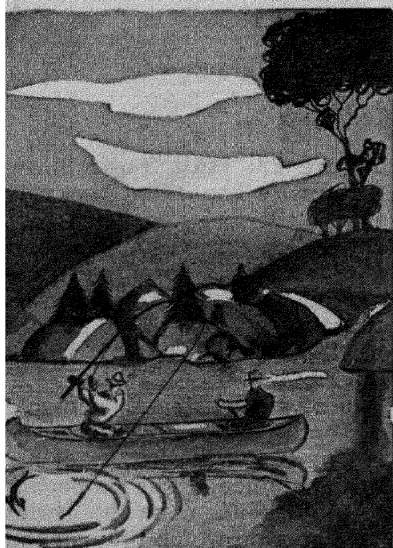


Figure 26.

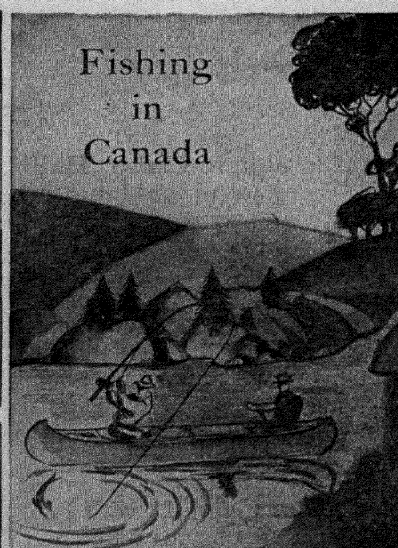


Figure 27.

Figure 24: Vignette Half Tone.

The so-called vignette half tone, illustrated in Figure 24, shows the object against a background that fades away with soft, cloudlike effect. Vignette half tones can be used very effectively in advertisements or advertising literature, but paper of good quality, and first-class presswork, are required. On paper of the coarser grades, a vignette half tone tends to smudge rather than fade. Thus, a vignette half tone can seldom be employed in a newspaper; it can be used, however, in a magazine that is printed on good paper stock. A vignette half tone costs approximately 50 per cent more than a square-finish half tone.

Figure 25: Silhouette Half Tone.

In the square-finish half tone illustrated in Figure 22, the screen covers the entire area of the picture. There are times, however, when a screen over the background is not desired. When all that is wanted is the object, a silhouette half tone (sometimes called an outline-finish half tone) may be ordered. In Figure 25, everything but the subject is cut away, and hence the background is pure white. A silhouette half tone has more character than a square-finish half tone; the objects silhouetted stand out clearly on the page. A silhouette half tone costs about 50 per cent more than a square-finish half tone.

Figure 26: Highlight Half Tone.

A highlight half tone (also sometimes called a drop-out half tone) is one in which certain areas of the picture are highlighted or cut away. In the highlight half tone illustrated in Figure 26, the area around the fish is highlighted; so also is the fisherman's white shirt and a part of the sky in the background. When the half tone is made, the white areas in the original illustration are covered by the screen; the screen covering the areas that are to be highlighted is then tooled out by hand, and the areas so tooled are pure white. A highlight half tone is approximately three times as expensive as a square-finish half tone.

Figure 27: Surprint. It may be desired to combine a half tone and a line plate in a single engraving. This can be done in either of two ways. In a surprint, the line plate material (Fishing in Canada) is made to appear superimposed upon the half tone picture. In a so-called combination plate (see Figure 23) the line plate and the half tone adjoin each other. These figures could have been made square half tones, but the screen would then have covered the entire area, and the printed material would have been less legible. There is a slight extra charge for a surprint; a combination plate costs about twice as much as a square-finish half tone.

COMPARISON CHART OF PAPER STOCKS

including only the better known writing, book, and cover papers

PAPER	SPECIFICATION	DESCRIPTION	PHOTO-ENGRAVING RECOMMENDED	COMMENTS
WRITING Basic size: 17 x 22	Flat Writing.	This is the paper used in the making of inexpensive school writing tablets and notebooks. Better grades of it are used in correspondence stationery.	A. Line plates.	I. Not used extensively for advertising purposes. II. As the quality of a Flat Writing stock becomes better, it moves into the class of Bonds.
	Bonds.	Most letters received in the business office are on this stock. Its grades vary from that in which wood pulp and sulphite are used, to the better qualities made of linen rags. The weight in most common use is 20 lbs. (17 x 22-20).	A. Line plates. B. 100-screen halftones. C. Highlight halftones.	I. Bonds provide a large variety of tints. II. Some come in finishes such as "crash," simulating the cloth; also glazed. Most bonds come in a plain unglazed finish. III. Engraving plates for use on bonds should be etched deep.
	Ledger.	A very fine quality sheet of writing paper, used mostly for documents and accounting work. Has a tough, sturdy body, and a surface finish which has been plated (compressed between sheets of metal).	A. Line plates. B. 100-screen halftones.	I. Comes mostly in white and buff.

BOOK Basic size: 25 x 38	LEDGER (Cont.)	Is heavier, as a class, than bonds, also more expensive. In its lighter weights it is also used for executive stationery.		
	Newsstock.	Received its name from its use for newspapers. The least expensive of book papers and sometimes considered as a class by itself. Has a thin, porous body and a rough surface.	A. Line plates. B. 65-screen half-tones, tooled well. C. Quarter tones.	I. Comes mostly in white (which varies in its tones). II. Qualities vary. Finish does not have to be specified.
	Antique.	A book paper whose body is of higher quality and heavier weight than that of news, but that likewise has a rough, uneven surface.	A. Line plates only.	I. Limited range of colors. II. Has a number of different finishes, as <i>eggshell</i> , <i>antique wove</i> , <i>antique laid</i> .
	Machine Finish. (M. F.)	The least expensive of the book papers which can take half tones dependably well. Represents an additional process through which antique paper goes. The stock is "sized," or immersed in chemicals, which fill up the pores, making the paper less absorbent. It is then "calendered" or ironed, the surface obtaining the smooth finish which permits the use of half tone. Sometimes known as "S. & C." (Sized and Calendered.)	A. 120-screen halftones.	I. Moderate range of colors. II. A very utilitarian paper. permits reproduction of wash drawings and photographs. Greases well. Especially good for booklets and catalogues to be issued in quantity.
(Cont.)				

COMPARISON CHART OF PAPER STOCKS—Continued

including only the better known writing, book, and cover papers

PAPER	SPECIFICATION	DESCRIPTION	PHOTO-ENGRAVING RECOMMENDED	COMMENTS
BOOK (Cont.)	English Finish.	A grade smoother than Machine Finish, but not as high as the one next described. For most purposes in which a halftone is to be used, this offers a serviceable, attractive stock.	A. 120-screen halftones	I. Moderate range of colors. II. Folds well. Can withstand fingering and usage. Good for leaflets and booklets. house organs, and moderately high-class catalogues.
	Sized and Super ("S.&S.C."). Calendered	This is a machine-finished paper which has been "sized," like Machine Finish and English Finish, but that has been given an additional ironing. The surface is consequently glossy.	A. 133-screen halftones	I. Moderate range of colors. II. Folds well. Suited for uses similar to those of English Finish, when a more attractive effect is sought.
	Enamel Coated ("Coated").	The smoothest of book papers. This is a machine-finish paper that has been given a coating of clay and glue, then passed through the calender rolls at high speed. The result is a hard surface, dull, or glossy. Is brittle. Does not fold well. Otherwise shows reproductions to very best advantage.	A. 133, 150-screen halftones. Can take vignette finish.	I. Most expensive of the book papers. Looks good. Good for extra fine work. Cannot stand much fingering and usage.

COVER Basic size: 20 x 26	Antique.	This cover has a rough-surfaced finish. Antique cover is usually rougher than antique book.	A. Line plates.	I. Broad range of finishes, including <i>ripple linen</i> , <i>crash</i> , and many fancy-finish patterns. II. Good for folders, and for booklet covers.
	Plated.	The surface has been pressed, as in ledgers.	A. 120-screen halftones.	I. Good for booklet covers.
	Enamel Coated ("Coated").	A cover stock that has been given a treatment similar to book coated stock.	A. 133, 150, 175-screen halftones.	I. The acme of cover stocks in appearance.

From Kleppner, "Advertising Procedure." New York: Prentice-Hall, Inc.

RECOMMENDED PAPER SIZES FOR BOOKLETS AND CATALOGUES

THIS PAGE SIZE	IN THE FOLLOWING NUMBER OF PAGES	CUTS ECONOMICALLY OUT OF THESE SHEET SIZES
3×6	4, 8, 16, 24, 48	25×38 — 38×50
4×9	4, 6, 8, 16, 24, 48	25×38 — 38×50
$4\frac{1}{2} \times 6$	4, 8, 16, 32, 64	25×38 — 38×50
$6 \times 9\frac{1}{8}$	4, 8, 16, 32	25×38 — 38×50
$9\frac{1}{4} \times 12\frac{1}{8}$	4, 8, 16, 32	25×38 — 38×50
$3\frac{1}{2} \times 6\frac{3}{8}$	4, 8, 16, 24, 48	$30\frac{1}{2} \times 41$ — 41×61
$5 \times 7\frac{1}{4}$	4, 8, 16, 32, 64	$30\frac{1}{2} \times 41$ — 41×61
$7\frac{3}{8} \times 9\frac{7}{8}$	4, 8, 16, 32	$30\frac{1}{2} \times 41$ — 41×61
$10 \times 14\frac{7}{8}$	4, 8, 16	$30\frac{1}{2} \times 41$ — 41×61
$3\frac{3}{4} \times 5\frac{1}{8}$	4, 8, 16, 32, 64	32×44 — 44×64
$3\frac{3}{4} \times 6\frac{7}{8}$	4, 8, 16, 24, 48	32×44 — 44×64
$5\frac{1}{4} \times 7\frac{5}{8}$	4, 8, 16, 32, 64	32×44 — 44×64
$7\frac{1}{2} \times 10\frac{3}{8}$	4, 8, 16, 32	32×44 — 44×64
$10\frac{3}{4} \times 15\frac{5}{8}$	4, 8, 16	32×44 — 44×64

RECOMMENDED PAPER SIZES FOR UNSTITCHED CIRCULARS

THIS PAGE SIZE	IN THE FOLLOWING NUMBER OF PAGES	CUTS ECONOMICALLY OUT OF THESE SHEET SIZES
$3\frac{1}{8} \times 6\frac{1}{4}$	4, 6, 8, 12, 16, 24	25×38 — 38×50
$4\frac{1}{8} \times 9\frac{1}{2}$	4, 6, 12, 16, 24	25×38 — 38×50
$4\frac{3}{4} \times 6\frac{1}{4}$	4, 8, 16, 32	25×38 — 38×50
$6\frac{1}{4} \times 9\frac{1}{2}$	4, 8, 16, 32	25×38 — 38×50
$9\frac{1}{2} \times 12\frac{1}{2}$	4, 8, 16, 32	25×38 — 38×50
$3\frac{3}{4} \times 6\frac{3}{4}$	4, 6, 8, 12, 16, 24	$30\frac{1}{2} \times 41$ — 41×61
$5\frac{1}{8} \times 7\frac{5}{8}$	4, 8, 16, 32	$30\frac{1}{2} \times 41$ — 41×61
$7\frac{3}{8} \times 10\frac{1}{4}$	4, 8, 16, 32	$30\frac{1}{2} \times 41$ — 41×61
$10\frac{1}{4} \times 15\frac{1}{4}$	4, 8, 16	$30\frac{1}{2} \times 41$ — 41×61
$4 \times 5\frac{1}{2}$	4, 8, 16	32×44 — 44×64
$4 \times 7\frac{1}{4}$	4, 8, 16, 24	32×44 — 44×64
$5\frac{1}{2} \times 8$	4, 8, 16, 32	32×44 — 44×64
8×11	4, 8, 16, 32	32×44 — 44×64
11×16	4, 8, 16	32×44 — 44×64

9. GLOSSARY OF ADVERTISING PROCEDURE

From Kleppner, "Advertising Procedure." New York: Prentice-Hall, Inc.

The following is a list of selected advertising terms with definitions drawn from authoritative sources or based upon general acceptance. In many instances this glossary does not confine itself to a definition of a term, but indicates the practices connected with it as well.

A.A.A.A. The 4 As. American Association of Advertising Agencies. The national organization of advertising agencies.

A.A.W. The Advertising Association of the West. An organization of West Coast advertising groups.

A.B.C. Audit Bureau of Circulations. The organization sponsored by publishers, agencies, and advertisers for securing accurate circulation statements.

A.B.P. Associated Business Publications, an organization of trade, industrial and professional papers.

A.C.A. American Communications Association.

Account executive. That member of an advertising agency staff who directs the handling of a client's advertising. He serves as the liaison man between the agency and the advertiser—one of the highest positions in an agency. Known also as *contact man*.

Acetate. Incorrect name for cellulose-nitrate for a radio recording disc.

Across the board. Scheduling a radio or television program at the same time on at least five consecutive weekdays, usually starting Monday.

Adjacencies. The programs on the same radio or television station immediately preceding and following the one under consideration.

Ad lib. To extemporize lines not written into the script, or music not in the musical score. Music or lines so delivered.

Advertising agency. A professional organization rendering advertising service to two or more clients.

Advertising Council. The joint body of the A.A.A.A. and the A.N.A., through which public-service projects are developed and channeled to advertisers for their support.

Advertising Research Foundation. A joint body created by the A.A.A.A. and the A.N.A., devoted to media research.

A.F.A. Advertising Federation of America, a federation of member divisions representing different advertising activities.

Affiliate. An independent radio station that carries programs provided by a network.

A.F.M. American Federation of Musicians.

A.F.R.A. American Federation of Radio Artists.

Agate line. A unit measurement of publication advertising space, one column wide (no matter what the column width) and one-fourteenth of an inch deep.

Agent. (1) Same as advertising agency.
(2) A representative of radio performers or commercial artists who makes business contracts for them with advertisers or advertising agencies.

Aided-recall method. A method used in testing memory of advertisements. Some clue, such as the campaign theme, is given that may assist in recalling the brand name.

Allocation. The assignment of frequency and power made by the Federal Communications Commission to a broadcasting station.

Amplitude Modulation (A.M.). The method of transmitting sound by varying the size of the electro-magnetic wave, in contrast to varying its frequency (F.M.). Also called *Standard Broadcasting*.

A.N.A. Association of National Advertisers.

Animation. Can refer to animated cartoons or to animated objects, like packages or marionettes. May be limited animation on silent films only, or regular animation with a sound track, a costly process.

Announcement. A short advertising message in a radio or television broadcast; a brief commercial. *Straight announcement*, usually about 100 words, runs about one minute; *spot announcement*, about 50 to 75 words; *station break*, 20- to 30-word statements in the pause between programs; *cut in*, usually a local announcement inserted into a network program; *participating announcement*, usually 100 to 150 words incorporated into a local entertainment or informative

program containing announcements of other participating advertisers.

Announcer. The member of a radio or television station staff assigned the duty of introducing and describing program features to the radio audience.

A.N.P.A. American Newspaper Publishers' Association, the major trade association of daily and Sunday newspaper publishers.

Antique-finish paper. Book or cover paper that has a rough, uneven surface. It can reproduce illustrations from line plates but not from half tones.

Appeal. Asking the prospect for a decision in favor of the advertiser's product or service; usually by a plea to a desire that will be satisfied by the benefit bestowed by the advertised product or service.

Applause mail. Letters of comment or appreciation received by radio stations or sponsors from the listening audience, fan mail.

Area sampling. See *sampling*.

A.S.C.A.P. American Society of Composers, Authors, and Publishers. An organization that protects the copyrights of its members and collects royalties in their behalf.

Ascending letters. Those with a stroke or line going higher than the body of the letter—*b, d, f, h, k, l*, and *t*—and all capitals. The *descending* letters are *g, j, p, q*, and *y*.

Aspect ratio. The numerical ratio of the television frame width to the frame height, 4:3.

Association test. A method of measuring the degree to which people are familiar with brand names. A commodity is mentioned, and respondents are asked to tell which brand name

comes to mind first. Can also be conducted for trade-mark design, slogan, package, layout.

Audience composition. The number and kinds of people listening to a radio or television program, classified by their age, sex, income, and the like.

Audience flow. The statistical composition of the total audience of a specific radio program showing: the fractions of the whole (a) "inherited" from the same station's previous program, (b) transferred from another station, and (c) tuned in for the first time.

Audience participation show. A radio program in which the studio audience takes part—especially quiz shows and the like.

Audience turnover. The total number of different listeners to a given radio or television program over a specific number of consecutive broadcasts; or the rate at which a program increases its audience of different listeners over a given span of performances.

Audimeter. An electromechanical device patented by Nielsen attached to home radio receivers that records set operation and station tuning; its records supply the data for the Nielsen Radio Index.

Audition. A tryout of artists or musicians or programs under broadcasting conditions.

Author's corrections, author's alterations. (Abbreviated *a.a.*) Alterations or changes made in proofs (called *author's proofs*) not due to printer's errors and so chargeable to whoever is paying for composition. Unnecessary expense for this item can be reduced by careful editing of copy before it is sent to the printer.

Background. A broadcasting sound effect, musical or otherwise, used behind the dialogue or other program

elements for realistic or emotional effect.

Backing up. Printing the second side of a sheet as a separate process. In fine printing it is necessary for the ink to dry on one side of the sheet before the other side is printed.

Balance. The placing of instruments, voices, or sound effects in relation to each other and to the microphone to produce the best tonal or dramatic effect.

Balloons. A visualizing device with the words of a person pictured coming right from his mouth; borrowed from the newspaper comic pages.

Balopticon (balops). A type of television animation made possible through the use of a Balopticon machine.

Basic network. The minimum grouping of stations for which an advertiser must contract in order to use the facilities of a radio or television network.

Basic weight. The weight of a ream of paper if cut to the standard or basic size for that class of paper. The basic sizes are: writing papers, 17×22 inches; book papers, 25×38 inches; cover stocks, 20×26 inches.

Batter. Type injured or broken in a form or the damaged part of a printing plate.

Bearers. (1) Excess metal left on an engraving to protect and strengthen it during the process of electrotyping. (2) strips of metal placed at the sides of a type form for protection during electrotyping.

Bed. The part of a printing press upon which the type or form is placed.

Ben Day process. The process invented by Benjamin Day whereby an engraver can produce mechanically a great variety of shaded tints and mottled effects in line plates.

Billboard. (1) A poster panel for outdoor advertising. (2) The announcement at the beginning of a broadcast which lists the people starred or featured.

Billboard commercial. A television commercial that appears briefly before a television viewer in the form of a poster.

Billing. (1) Amount of business done by an advertising agency. (2) Name credit of talent on the air in order of importance.

Bit. A small part in a dramatic program is a *bit* part, and the performer who plays it is a *bit* player.

Bite. The depth of the etch attained in engraving by each separate application of the etching acid.

Bleeding. Printed matter trimmed so that the type or plates run over the edges of a sheet and the illustration as printed has no margin but runs to the edge of the paper.

Block. (1) A set of consecutive time periods on the air; or a strip of the same time on several days. (2) Wood or metal base on which the printing plate is mounted. (3) British term for photoengraving or electrototype.

Blow-up. Photo enlargement of written, printed, or pictorial materials, as of a publication advertisement to be used as a poster or transmitted through television.

Blueprint. A quick, low-price photographic print, in white on a dark blue background that enables the advertiser to prepare a type layout while the engraving is still being made.

B.M.B. Broadcasting Measuring Bureau, cooperative organization to measure audiences of radio stations and networks.

B.M.I. Broadcast Music, Inc. Chief function: to provide music to radio

and television shows with minimum royalty fees, if any.

Body type. The type commonly used for reading matter, as distinguished from *display* type used in the headlines of advertisements. Usually type 14 points in size, or smaller.

Bogus work. Newspaper or other compositors' resetting of advertisements for which the publication has received complete mats or plates; required by union contracts. The resetting is not used.

Boiler plate. Pages in stereotype supplied by news agencies or other syndicates to country weeklies to cut their costs of composition. Also called *patent insides*. These pages often include news and advertisements. Boiler plate originally meant any thin metal sheet.

Boldface type. A heavy line type, for example, the headings in these definitions.

Bond paper. The writing paper most frequently used in commercial correspondence, originally a durable quality used for printing bonds and other securities. The weight in most extensive use for letterheads is 20 lb. (17 × 22-20).

Book paper. A paper used in printing books, as well as for lightweight leaflets and folders, distinguished from *writing papers* and *cover stocks*. Basic size, 25 × 38.

Box-top offers. An invitation to the consumer to get a gift or premium by sending in the label or box top from a package of the product (with or without an additional payment).

B.P.A. Business Publications Audit of Circulation, Inc. (formerly CCA, Controlled Circulation Audit, Inc.). A tripartite, nonprofit membership corporation which audits the circu-

lations of both paid and nonpaid business publications.

Brand. A product sold under a trade-mark, grade-mark, or quality mark.

Brand name. The spoken trade-mark, a part of a trade-mark, in contrast to the pictorial mark; a trade-mark word.

Bridge. Music or sound effect cue linking two scenes in a radio show.

Brightness control. Control knob on the television receiver that varies the amount of illumination of the reproduced image.

Broadcast spectrum. That part of the range of frequencies of electromagnetic waves assigned to broadcasting stations.

Brochure. A fancy booklet or monograph.

Bugs. Cause of trouble in broadcasting equipment that is working imperfectly.

Bulldog edition. That edition of a morning paper that is printed early the preceding evening and sent to out-of-town readers on the night trains. If an advertiser does not get his copy in early, he misses this edition.

Burnishing (engraving). The mechanical act of making the dark areas in a half tone appear still darker. It is accomplished by smoothing over the dots in a half tone with a tool which causes those dots to spread and fill up the areas between them.

Buying space. Buying the right to insert an advertisement in a given medium, such as a periodical, a program, or an outdoor sign; *buying time* is the corresponding term for purchase of radio or television broadcast privilege.

Bye-bye. The radio script line beginning: "We now leave our studio . . ."; or "We now take you to . . ."; "We return you to . . ."; and the like.

Calendered paper. A paper with a smooth, burnished surface, secured by passing the paper between heavy rolls, called calenders.

Call letters. The combination of letters assigned by the Federal Communications Commission to a broadcasting or other radio station, which serves as its official designation and establishes its identity, as WJZ, WOR, KGN.

Camera light. Pilot light on television cameras indicating which camera is on the air.

Camera lucida. Familiarly *lucy*. An optical device having a prism that enables the eye to bring an original to be copied into focus with the drawing paper on which it is to be copied. A phantom image of both in one plane permits tracing the image in different scale for reduction or enlargement.

Caption. The heading of a chapter, section, or page; the descriptive matter accompanying an illustration.

Carbro. A photographic process for color printing on paper from separation negatives. Prints on yellow, red, and blue sensitized carbon tissue are made by contact with special bromide prints from the separation negative. (Hence the name *carbro*.) After development the three separate color prints are transferred in register to a permanent support.

Casting off. Estimating the amount of space a piece of copy will occupy when set in type of a given size.

Centering control. The knob on a television receiver for properly framing the picture on the television screen.

Center spread. The space occupied by an advertisement on the two facing center pages of a publication. The two pages will always be a continuous sheet, so that printing is better and reading is easier than on other kinds

of double-page spreads. Often it is possible to print such an advertisement without losing the space usually taken up by the center margins or gutters.

Chain. (1) A group of advertising agencies that cooperate, although they are owned individually. (2) A group of retail outlets with the same ownership, management, and business policy. (3) A regularly established system of radio stations interconnected by high-grade wire telephone circuits over which program features are distributed for simultaneous broadcasting through the associated stations. (4) A network of television stations.

Channel. A band of radio frequencies assigned to a given radio or television station.

Chase. The iron or steel frame in which the type is locked up for the press or to make plates.

Checking copy. A copy of a publication sent to an advertiser or to his agency so that he may see that his advertisement appears as specified.

Class A rates. Rates for the most costly radio or television time, usually between 6 P.M. and 11 P.M., are called Class A rates; the next most costly are Class B, and so on. Each station sets its own rules for rate classification.

Clear. To obtain legal permission from responsible sources to use a photograph or quotation in an advertisement or to use a certain musical selection in a broadcast. To *clear time* is to arrange with a station to provide time for a commercial program.

Clear-channel station. A radio station that is allowed the maximum power is given a channel on the frequency band all to itself, with possibly one or

two sectional- or local stations far removed from it, so as not to interfere. (See *Local-channel station*; *Regional-channel station*.)

Closing date; closing hour. (1) The day or hour when all copy and plates must be in the publisher's hands if the advertisement is to appear in a given issue. The closing time is specified by the publisher. If proof is to be seen, all material has to be in when *first forms close*. (2) The last hour or day that a radio program or announcement may be submitted for approval to a station or network management to be included in the station's schedule.

Clubbing offer. An arrangement whereby subscriptions to two or more different publications are offered at a reduced combination price. Considered in judging the character of the circulation of a publication.

Coarse-screen half tone. A half tone with a comparatively low, or coarse, screen; usually 60, 65, or 85 lines to the inch.

Coated paper. A paper to which a coating has been applied, giving it a smooth, hard finish, suitable for the reproduction of fine half tones.

Coaxial cable (television). A special metallic cable size for transmitting the visible part of a telecast.

Coined word. An original and arbitrary combination of syllables forming a word for which the advertiser prescribes the meaning. Extensively used for trade-marks, as *Kodak*, *Gro-Pup*, *Zerone*, *Ami-dent*.

Color proof. Combined impressions from separate color plates.

Column-inch. A unit of measure in a periodical one inch deep and one column wide, whatever the width of the column.

Combination plate. A half tone and line plate in one engraving.

Combination rate. (1) A special space rate for two papers, such as a morning paper and an evening paper, owned by the same publisher. Applies also to any other special rate granted in connection with two or more periodicals. A *forced combination* is the rate for two or more papers in which space cannot be bought separately—with no rate but the combination rate. (2) The rate paid for a combination plate.

Comic strip. A series of cartoon or caricature drawings.

"Coming up." The cue given by the director or engineer of a program warning the cast that in 10 seconds the program will go on the air.

Commercial program. A sponsored program from which radio broadcasting stations derive revenue on the basis of the time consumed in broadcasting it.

Competitive stage. The advertising stage a product reaches when its general usefulness is recognized, but its individual superiority over similar brands has to be established in order that it shall secure the preference. (Compare *Pioneering stage*; *Retentive stage*. See *Spiral*.)

Composition. Typesetting.

Comprehensive. A layout accurate for size, color scheme, and other necessary details.

Consumer advertising. Advertising directed to those people who will personally use the product, in contrast to trade advertising, industrial advertising, professional advertising.

Consumer goods. Products that directly satisfy human wants or desires, like food and clothing; also products sold to an individual or family for use

without further processing; as distinct from *industrial goods*.

Continuity. A written radio script including spoken lines and cues for musical numbers used by artists and directors in rehearsing and presenting radio features.

Continuous tone. Shading in a negative that is not formed by screen dots.

Contract year. The period of time, in space contracts, running for one year beginning with the insertion of the first advertisement under that contract. It is usually specified that the first advertisement shall appear within thirty days of the signing of the contract.

Convenience goods. Those consumer goods that are bought frequently at near-by (convenient) outlets without comparing prices, styles, qualities; as distinct from *shopping goods*.

Conversion table. Table showing what the equivalent weight of paper stock of a given size would be if the sheet were cut to another size.

Cooperative advertising. (1) Joint promotion through a trade association for firms in a single industry. (2) Joint promotion of a national advertiser (manufacturer) and local retail outlet in behalf of the manufacturer's product on sale in the retail store.

Cooperative program. A radio network program sponsored in each station area by a local advertiser who usually pays for the time at local rates and shares the cost of talent pro rata.

Copy. (1) The text of an advertisement. (2) Matter for a compositor to set. (3) Illustrations for an engraver to reproduce. (4) Any material to be used in the production of a publication.

Copy approach. The method of opening the text of an advertisement.

Copyholder. An assistant who reads copy aloud to the proofreader (word for word, capitals, initials, and punctuation marks), who reads and corrects the proof itself.

Copyright. Legal protection afforded an original intellectual effort. Application blanks are procurable from the Copyright Office, Library of Congress, Washington, D. C.

Copy writer. A person who creates the text of advertisements and often the idea to be visualized as well.

Cover. The front cover of a publication is known as the *first cover*; the inside of the front cover is the *second cover*; the inside of the back cover is the *third cover*; the outside of the back cover is the *fourth cover*. Extra rates are charged for cover positions.

Coverage. (1) The portion of an area, community, or group reached by an advertising medium. (2) The area in which a radio station or network of stations *can* be heard according to engineering standards; or the portion of the area that the station or network reaches most effectively.

Cover stock. A paper made of heavy, strong fiber; used for folders and for booklet covers. Some cover stocks run into the low weights of paper known as *book paper*, but most cover stocks are heavier. Basic size 20 × 26 in.

Crash finish. A surface design on paper, simulating the appearance of rough cloth.

Cream plan. The tactics of directing the advertising to the most potential class of buyers first, then to the next best market, and so on, "taking the cream off first." Used in selling specialties. (Compare *Zone plan*; *National plan*.)

Cropping. Trimming part of an illustration to enable the reproduction to fit into a specific space. Cropping is

done either to eliminate nonessential background in an illustration or to change the proportions of the illustration to the desired length and width.

CU. Close-up (in television).

Cue. (1) The closing words of a radio actor's speech and a signal for another actor to enter. (2) A sound, musical or otherwise, or a manual signal calling for action or proceeding. (3) A phrase designating the transfer of the point of program origin; or, as in the case of network identifications, a line such as, "This is the Columbia Broadcasting System," "This is the National Broadcasting Company," "This is the Mutual Broadcasting System," as a signal to radio and telephone operators for switching channels.

Cue sheet. An orderly tabulation of radio program routine containing all cues.

Cut. A photoengraving, electrotype, or stereotype; derived from the term *woodcut*. In England called a *block*.

Cut. (1) To stop transmission or any part of the radio or television program abruptly, either by stopping performers or by use of an electrical switch on the control board. (2) The deletion of program material to fit a prescribed period of time.

Cut-out. A window or store counter sign with a design literally cut out of it.

Cylinder press. A press with a rotating cylinder under which a flat bed containing type or plates slides forward and backward. Used for large-quantity work, or for advertisements of large size.

Dead metal. Excess metal left on an engraved plate for protection during electrotyping. Such metal portions are sometimes called *bearers*.

Dealer imprint. The name and address of the dealer, printed or pasted on an advertisement of a national advertiser. In the planning of direct mail, space is frequently left for the dealer imprint.

Decalcomania. A transparent gelatinous film bearing an advertisement, which may be gummed onto the dealer's window. Also known as *transparency*.

Deckle edge. The untrimmed ragged edge of a sheet of paper.

Definition. Clean-cut radio and television transmission and reception.

Delete. "Omit." Used in proofreading.

Depth of columns. The dimension of a column space measured from top of the page to the bottom, in agate lines, or in inches.

Die-cut. An odd-shaped paper or cardboard for a direct-mail piece or for display purposes, cut with a special knife-edge die.

Direct advertising. Any form of advertising reproduced in quantity by or for the advertiser and issued by him or under his direction directly to definite and specific prospects by means of the mails, canvassers, salesmen, dealers, or otherwise—as through letters, leaflets, folders, or booklets.

Direct half tone. A superior type of half tone made by photographing an object itself instead of a picture of it.

Direct-mail advertising. That form of direct advertising sent through the mails.

Director. (1) The person who writes or rewrites, then casts and rehearses, a radio program, and directs the actual air performance. (2) Head of an agency art department or of a manufacturer's advertising department.

Direct process. In two-, three-, and four-color process work, color separation and screen negative made simultaneously on the same photographic plate.

Direct-view receiver. A type of television receiver in which the picture is viewed directly on the face of the cathode-ray tube.

Disc. Electrical recording on an 8-to-10-inch platter for use in broadcasting.

Disc jockey. The master of ceremonies of a radio program of transcribed music (records).

Display. Attention-attracting quality. (1) *Display type* uses sizes larger than 14 point. Italics, boldface, and sometimes capitals are used for display; so are hand-drawn letters and script. (2) *Display advertisements* are set in different type sizes and styles, with varying line widths, various leading between lines, considerable white space, and sometimes illustrations. Newspaper space rates distinguish between *display* and *undisplay*, the latter being set in one size type. *Display* space in newspapers usually is not sold in units of less than 14 column lines; there is no such minimum requirement for *undisplay* classified advertisements. A *display order* from a department store to a newspaper requires the newspaper to set up an advertisement according to layout and instructions furnished and to supply the store with proofs; sometimes called a *wait order*, since it does not authorize insertion of the advertisement. (3) *Window display*, *interior display*, and *counter display* are different methods of advertising by showing the actual goods to be promoted. *Open display* puts the goods where they can be actually handled and examined by the customer; *closed display* has the goods in cases and under glass. (See *Traveling display*.)

Dissolve. The overlapping of an image produced by one camera over that of another, and the gradual elimination of the first image.

Dolly. A mobile truck on which the television or moving-picture camera is mounted.

Double-decker. Outdoor advertising that stands erected one above another.

Double-leaded. See *Leading*.

Double-page spread or double truck. Two facing pages; called a center spread if the pages are in the center of a publication.

"Down-and-under." A direction given to a musician or sound effects man playing solo in a broadcast to quiet down from his present playing level to play under the lines of dialogue that follow.

Drop-out half tone. See *Half tone*.

Dry-brush drawing. A drawing made with a brush using ink or paint extra thick and dry.

Dubbing. Recording made by re-recording from one or more records.

Dubbing in. The addition of one television film to another; as, for example, the part containing the advertiser's commercial to the part that carries the straight entertainment.

Due bill. Acknowledgment of a debt for which the debtor will give goods or services. For example, a hotel may contract for advertising space in a newspaper with the understanding that it will be paid for by the use of the hotel's rooms by various people sent to the hotel by the newspaper.

Dummy. (1) Blank sheets of paper cut and folded to the size of a proposed leaflet, folder, booklet, or book, to indicate weight, shape, size, and general appearance. On the pages of the dummy the layouts can be drawn. Useful in designing direct-mail advertisements. A dummy may also be made from the proof furnished by the printer. (2) An empty package or carton, used for display purposes.

Duotone. An ink that on drying gives the printed page the appearance of having been printed in two colors.

Duplicate plates. Photoengravings made from the same negative as an original plate.

Ears of newspaper. The boxes or announcements at the top of the front page, alongside the name of the paper, in the upper right- and left-hand corners. Sold for advertising space by some papers.

Electrical transcription. A form of high-fidelity recording made especially for broadcasting and allied purposes; its surface noise is very low.

Electric spectaculars. Outdoor advertisements in which electric lights are used to form the words and design. Not to be confused with illuminated posters or illuminated *painted bulletins*. Space on electric spectaculars is sold by the individual stand.

Electrotype. A metal facsimile of another plate made by the electrotype process. When several identical plates of a reproduction are required, one original can be made, and electrotypes can be made from that. Electrotypes cost less than original plates. They are made from a wax mold unless otherwise specified; a lead mold is more costly. Sometimes faced with steel for long runs.

Em. The square of a body of any given type face, the letter M being as wide as it is high. Usually short for *pica em*.

Enameled paper; enamel-coated stock. A book or cover paper that can take the highest-screen half tone. It is covered with a coating of china clay and a binder, then ironed under high-speed rollers. This gives it a hard, smooth finish too brittle to fold well. Made also in dull and semidull finish.

English finish (E.F.). A hard, even, and unpolished finish applied to book papers.

Engraving. Cutting a design (picture or type) in hard metal. The printing plate thus made now usually has a raised (not incised) surface. The impression from such a plate also is called an engraving.

Equivalent weight of paper. The weight of a given paper stock in terms of its basic weight.

Ethical advertising. (1) Advertising that comports with the standard of equitable, fair, and honest content. (2) Advertising of a preparation addressed to physicians only, in contrast to advertising a similar product addressed to the general public.

Extended covers. A cover that is slightly wider and longer than the pages of a paper-bound booklet or catalogue; one that extends or hangs over the inside pages. Also called *overhang* and *overlap* (See *Trimmed flush*)

Face. (1) The printing surface of type or a plate. (2) The style of type.

Facing text matter. The position of an advertisement in a periodical opposite reading matter.

Facsimile broadcasting. A process of transmitting and receiving by radio such graphic material as pictures and printed matter.

Fade. To diminish or increase the volume of sound on a radio broadcast. *Cross-fading* is gradually increasing volume of sound from one source while gradually decreasing the volume of sound from another source—*fading in* of sound while *fading out* the other. In television, *fading in* is the gradual appearance of the screen image brightening from black to full visibility.

Fading. The variation in the intensity of a radio or television signal received over a great distance, arising from transmission conditions.

Fading area. The area in which a broadcasting station suffers from the widest variations in fading, usually extending from fifty to seventy-five miles beyond the transmitter to points three or four hundred miles distant.

Family of type. Type faces related in design, as Caslon Bold, Caslon Old Style, Caslon Bold Italics, Caslon Old Style Italics

Fanfare. A few bars of music (usually trumpets) to herald an entrance or announcement in broadcasting.

F.C.C. Federal Communications Commission, the Federal authority empowered to license radio stations and to assign wave lengths to stations "in the public interest."

Field intensity contour map. A map upon which field intensities delivered by a broadcasting station are plotted, with points receiving equal levels of significant values joined by a continuous line.

Field intensity measurement. The measurement of a signal delivered at a point of reception by a radio transmitter in units of voltage per meter of effective antenna height, usually in terms of microvolts or millivolts per meter.

15 and 2. The terms on which recognized advertising agents secure space from the publishers: 15 per cent commission from publishers on the gross amount of space used, plus 2 per cent (for the client) on the net for cash payment.

Fill-in. (1) The salutation and any other data to be inserted in the individual letters after they have been printed. (2) The blurring of an illustration due to the closeness of the lines or dots in the plate or to heavy inking.

Film rush. A print quickly made for inspection of a television film that has

just been taken, to see if it is necessary to retake any part of the picture while the actors are still available and while the props are still in place.

Film transmission. The transmission of the sound and picture of motion picture film by television.

Firm order. A definite order for space (especially in magazines) that is not cancellable after a given date known as a *firm order date*. The *firm order date* is the latest date at which the advertisement can be cancelled.

Flat-bed. A printing press (for letterpress printing) containing a flat metal bed on which forms of type and plates are locked for printing.

Flat proofs. Ordinary rough proofs, or *stone* proofs, taken of type when it is on the compositor's workbench, in contrast to *press proofs* made after the type has been carefully adjusted to give the best possible impression.

Flat rate. A uniform charge for space in a medium, without regard to the amount of space used or the frequency of insertion. When *flat rates* do not prevail, *time discounts* or *quantity discounts* are offered.

F.M. or frequency modulation. A method of broadcasting to provide reception comparatively free of interference day and night to a service area apparently limited to about twice the radius to the horizon from the transmitter. It permits a large number of stations to use a wave length.

Following, next to, reading matter. The specification of a position for an advertisement to appear in a publication. Also known as *full position*. This *preferred position* usually costs more than *run-of-paper* position.

"Follow style." Instruction to compositor to set copy in accordance with a previous advertisement or proof.

Font. An assortment of type in one size and face, including numerals, punctuation marks, and all letters and symbols in proper proportions.

Font, wrong. See *Wrong font*.

Foreign advertising. (1) Newspaper advertising paid for directly or indirectly by a manufacturer or national distributor (usually nonresident), as contrasted with *local advertising*, which is paid for by the local retailer, at a lower rate. Also known as *national advertising*. (2) Advertising in another country.

Foreign-language advertising. Domestic advertising printed in a language other than English.

Form. (1) Pages of type locked in place in a strong, rectangular iron frame known as a *chase*. Usually holds 1, 2, 4, 8, 16, 32, or 64 pages (hence it is uneconomical to print booklets with 10, 12, 20, 26, or 50 pages). (2) The general style of a book, as opposed to its subject.

Format. The size, shape, style, and appearance of a book or publication.

Forms close. The date on which all copy and plates for a periodical advertisement must be in.

Foundry proofs. The proofs of a typographical setup just before the material is sent to the foundry for electrotyping; identified by the heavy funeral-black border (foundry rules).

4 As. American Association of Advertising Agencies (A.A.A.A.).

Four-color process. The photoengraving process for reproducing color illustrations by a set of plates, one of which prints all the yellows, another the blues, a third the reds, the fourth the blacks (sequence variable). The plates are referred to as *process plates*.

Free lance. An independent artist or copy writer who takes individual as

signments from different accounts, but is not otherwise in their employ, or associated with any of them.

Frequency. The number of alternations per second that a transmitter radiates. Frequency is measured in kilocycles or *thousands* of alternations per second.

Frequency Modulation (F.M.). The method of transmitting sound by varying the *frequency* of the electromagnetic wave, in contrast to varying its *size* (A.M., amplitude modulation).

F.T.C. Federal Trade Commission.

Full position. A special preferred position of an advertisement in a newspaper: Either (1) the advertisement both follows a column or columns of the news reading matter and is completely flanked by reading matter as well, or else (2) the advertisement is at the top of the page and alongside reading matter.

Full showing. In car cards, one card in each car of a line, or of the city, in which space is bought. In an outdoor poster schedule, a 100-intensity showing.

Furniture. Pieces of wood and metal designed to fill blank spaces between pages and around type forms when locked in a chase. Sizes are usually multiples of 12-point or pica.

Galley proofs. Proofs on sheets usually 20 to 22 inches long, printed from type as it stands in *galley trays* before the type is made up into pages.

Gang. A group of plates, type pages, or the like arranged in a form for printing with a single impression; a sheet thus printed. In photoengraving, a group of repeated originals set up or negatives stripped in for multiple reproduction—especially for labels or folding boxes.

Ghost. An unwanted image appearing in a television picture; for example, as a result of signal reflection.

Ghosted view. An illustration giving an X-ray view of a subject.

Grain. In machine-made paper the direction of the fibers, making the paper stronger across the grain and easier to fold with the grain.

Gutter. The space composed of the two inside margins of facing printed pages.

Group discount. A special discount in radio station rates for the simultaneous use of a group of stations.

Hairline. A fine or delicate line in type, rule, or engraving; any type character that is very light throughout, or the lighter parts of modern types with serifs.

Half showing. One half of a full showing of car cards; a 50-intensity showing of outdoor posters or panels.

Half tone. A photoengraving plate, photographed through a glass screen (in the camera) that serves to break up the reproduction of the subject into dots and thus makes possible the printing of half-tone values, as of photographs. Screens vary from 45 to 300 lines to the inch. The most common are 120- and 133-line screens for use in magazines; 65- to 85-line screens for use in newspapers. *Square half tone*—one in which the corners are square and which has an all-over screen; *Silhouette* or *outline half tone*—one in which a part of the background is removed; *Vignette half tone*—one in which background fades away at the edges; *Surprint*—a plate in which a line-plate negative is surprinted over a half-tone negative, or vice versa; a *Combination plate*—one in which line-plate negative is adjacent to (but not upon) half-tone negative; *Highlight* or *drop-out half*

tone—one in which dots are removed from various areas to get greater contrast.

Hand composition. Type set up by hand, as distinguished from type set up by machine. (Compare *Linotype composition*; *Monotype composition*.)

Hand lettering. Lettering that is drawn by hand, as distinguished from type that is regularly set.

Hand tooling. Handwork on an engraving or plate to improve its reproducing qualities, charged for by the hour. Unless the plate is a *highlight half tone*, hand tooling is needed to secure pure white in a half tone.

Haphazard sampling. See *Sampling*.

Head. Display caption to summarize contents and get attention. *Center heads* are centered on type matter; *side heads*, at the beginning of a paragraph; *box heads*, enclosed by rules; *cut-in heads*, in an indentation of the text.

Head-on position. An outdoor advertising stand that directly faces traffic on a highway.

"Hold." Instruction indicating what part of copy is to be reproduced; warning to stop after some preliminary operation as "Send blueprint and hold"; instruction to keep in type matter that is set up but not to be used immediately.

Hooperating. A term for a radio program's audience-rating as determined by C. E. Hooper, Inc., quantitative audience-measurement service.

House organ. A publication issued periodically by a firm to further its own interests, inviting attention on the strength of its editorial content. Also known as *company magazine* and *company newspaper*.

Iconoscope. The special television camera that picks up the image to be sent.

Identification. The radio voice that periodically tells (in the "pause for station identification") what station is broadcasting—as: "This is Station WCBS, New York," or "This is CBS . . . the Columbia Broadcasting System."

Impose. To place in order on a flat surface (an *imposing stone* or *table*) type matter, cuts, et cetera, and to lock them up in a chase.

Inch. The unit of advertising measurement, a space one inch deep and one column wide, a *column inch*.

Individual location. The location of an outdoor advertisement in which there is but a single panel, and not several adjacent ones.

Industrial goods. Commodities (raw materials, machines, et cetera) destined for use in producing other goods; also called *producer goods*; distinct from *consumer goods*.

Inherited audience. The portion of a radio program's audience that listened to the preceding program on the same station.

Insertion order. Instructions from an advertiser authorizing a publisher to print an advertisement of specified size on a given date at an agreed rate; accompanied or followed by the copy for the advertisement.

Inserts. (1) In letters or packages, an enclosure usually in the form of a little slip bearing an advertisement. (2) In periodicals, a page printed by the advertiser, or for him, and forwarded to the publisher, who binds it up in the publication. Usually in colors and on heavier stock (if the publisher permits).

Intaglio printing. Printing from a depressed surface, such as from the copper plate or steel plate that produces *engraved* calling cards and announcements. *Rotogravure* is a form of intaglio printing. Compare *Letterpress printing* and *Lithographic printing*.

Interference. The reception of an undesired radio or television program or extraneous electrical noise simultaneously with a desired program.

Island position. Position in a newspaper entirely surrounded by reading matter. Not generally procurable.

Job ticket. A sheet or an envelope that accompanies a printing job through the various departments, bearing all the instructions and all records showing the progress of the work.

Judgment sampling. See *Sampling*.

Justification of type. Arranging type so that it appears in even-length lines, with its letters properly spaced.

"Keep standing." Instructions to printer to hold type for further instructions after it has been used on a job. Where it may be necessary to hold type for any length of time, it is better to have an electrotpe of the set-up made.

Kennelly-Heaviside layer. A canopy or layer that forms at night in the upper atmosphere, against which A.M. radio signals are reflected back to earth. Television waves penetrate the Kennelly-Heaviside layer and do not reflect back.

Keying an advertisement. Giving an advertisement a code number or letter so that when people respond, the source of the inquiry can be traced. The key may be a variation in the address, or a letter or number printed in the corner of a return coupon.

Key plate. The plate in color process with which all other plates must register.

Key station. The point at which a radio network's principal programs originate. There may be several.

Kinescope. The television picture tube in which electrical impulses are translated into picture elements at the receiver. The face of the tube is commonly called *the television screen*.

Kinescope recording. A motion picture film of a television program direct from the face or screen of the Kinescope receiver tube.

Known-probability sampling. See *Sampling*.

Kodachrome. A one-exposure color-photographic process yielding color transparencies without visible color grains or screens and requiring no color registration of elements.

Kraft. A strong paper used for making tension envelopes, wrappers for mailing magazines, and the like.

Laid paper. Paper showing a regular water-marked pattern, usually of parallel lines.

Lanham Act. The Federal Trade-Mark Act of 1946, supplanting the previous Federal trade-mark acts.

Layout. A working drawing showing how an advertisement is to look. A *printer's layout* is a set of instructions accompanying a piece of copy showing how it is to be set up.

l.c. Lower-case letters.

Leaders. A line of dots or dashes used to guide the eye across the page, thus:

Leading (pronounced *ledding*). The insertion of metal strips (known as *leads*) between lines of type, causing greater space to appear between these lines. The usual size is 2 points. Leaded type requires more room than type that is not leaded but set *solid*.

Ledger papers. A high-grade writing paper of tough body and smooth, plated surface. Used for accounting work and for documents.

Legend. The title or description under an illustration. Sometimes called cut-line.

Letterpress printing. Printing from a raised or relief surface, like a rubber stamp or metal type. Most advertisements are printed by the letterpress method. Exceptions are *lithography* (and *offset*); *intaglio* (and *rotogravure*).

Limited time station. A radio station that is assigned a channel for broadcasting for a specified time only, sharing its channel with other stations at different times.

Linage. The total number of lines of space occupied by one advertisement or a series of advertisements.

Line. A unit for measuring space one-fourteenth of a column-inch.

Line drawing. A drawing made with brush, pen, pencil, or crayon, with such shading as occurs produced by variations in size and spacing of lines, not by tone.

Line plate. A photoengraving made without the use of a screen from a drawing composed of lines or masses, which can print on any quality stock.

Linotype composition. Mechanical type setting by molding a line of type at a time. The Linotype machine is operated by a keyboard resembling that of a typewriter. (Compare *Hand composition*; *Monotype composition*.)

Lip-synchronization (lip-sync). The method in television of having the voice of the performer recorded as he speaks. Requires more rehearsal and equipment and costs more than narration.

Lithographic printing. The process of printing from a flat surface, usually a stone, on which the design has been drawn. Invented in 1796 by Alois Senefelder of Munich. Used for color work of large quantities, such as labels and package inserts. (See *Offset printing*. Compare *Intaglio printing* and *Letterpress printing*.)

Live. A broadcast by actual musicians and speakers, in contrast to a transcribed or recorded broadcast, and used to mean the opposite of *dead*.

Local advertising. Newspaper advertising paid for by the local retailer at a *local* or lower rate than that charged the *national advertiser*.

Local-channel station. A radio station that is allowed just enough power to be heard near its point of transmission and is assigned a channel on the air wave set aside for local-channel stations. (Compare *Regional-channel station*; *Clear-channel station*.)

Locking up. Tightening up the type matter put into a chase preparatory to going to press.

Log. A record of every minute of radio broadcasting, including all errors. An accurate journal required by law.

Logotype, or logo. Two or more letters, or a whole word, or distinctive setting of a name, cast on one body.

Lower case (l.c.). The small letters in the alphabet, such as those in which this is printed, as distinguished from *UPPER CASE OR CAPITAL LETTERS*. Named from the lower case of the printer's type cabinet in which this type was formerly kept.

Machine-finish (M.F.) paper. The cheapest of book papers that take half tones well. A paper which has had its pores filled ("sized") but which is not ironed. Thus it possesses a mod-

erately smooth surface. Smoother than *antique*, but not so smooth as *English-finish* or *sized and supercalendered paper*.

Mail-order advertising. That method of selling whereby the complete sales transaction is negotiated through advertising and the mails, and without the aid of a salesman. Not to be confused with *direct-mail advertising*.

Make good. A free re-run of an advertisement in which there has been a serious error in reproduction or transmission.

Make-ready. The process of adjusting the form of type or the plates for the press to insure good printing. A preliminary proof of the form on the press is inspected for those letters or plates that appear lighter than the rest of the material. *Overlays* and *underlays* of paper are inserted under the printing surfaces to secure the uniform pressure necessary to obtain even effects. The skill and care in this work represent one of the hidden elements that serve to make a good printing job.

Make-up of a page. The general appearance of a page; the arrangement in which the editorial matter and advertising material are to appear.

Marketing. Those business activities that aid the movement of goods and services from production to consumption.

Matrix; "mat." (1) A mold of paper pulp, or similar substance, made by pressing a sheet of it into the type setup or engraving plate. Molten lead is poured into it, forming a replica of the original plate known as a *stereotype*. (2) The brass molds used in the Linotype.

Mat shot. A motion picture within the main television picture—as a boy swinging a bat in a picture frame being held by another.

Matter. Composed type, often referred to as: (1) *dead matter*—of no further use; (2) *leaded matter*—having extra spacing between lines; (3) *live matter*—to be used again; (4) *solid matter*—lines set close to each other; (5) *standing matter*—held for future use.

M.C. Master of Ceremonies.

Medium. (1) The vehicle that carries the advertisement, as newspaper, magazine, letter, car card, radio, television, and so on. (2) The tool and method used by an artist in drawing illustrations, as pen and ink, pencil, wash, or crayon.

Megacycle (radio). 1,000 kilocycles. For example, 50,000 kilocycles = 50 megacycles.

M.F. Machine-finish paper.

Microphone. An instrument for converting sound-wave impulses into corresponding electrical impulses, used in broadcasting for "picking up" programs from studios and other points.

Milline rate. A unit for measuring the rate of advertising space in relation to circulation; the cost of having one agate line appear before one million readers. Calculated thus:

$$\text{Milline rate} = \frac{\text{Actual line rate} \times 1,000,000}{\text{Circulation}}$$

Modern type. See *Old style type*.

Modulation. The process of combining or impressing the sound, program, or audio-frequency energy upon the carrier of a broadcasting station.

Moiré. A pattern formed by two or more conflicting screens, or screen angles, as in making a half tone from another half tone or from a steel engraving. It resembles the watered silk fabric, called *moiré* (French, *watered*).

Monitor. A loudspeaker and its associated amplifier used in the control

room to listen to the radio program being transmitted, and to stand vigil on a program as it is broadcast to see what is said and done and what the program sounds like.

Monotype composition. Type set by a machine in which the individual letters are separately molded and automatically assembled into lines, as distinguished from *Hand composition* and *Linotype composition*.

Month preceding. *First month preceding* publication means that the closing date falls on the given day during the month that immediately precedes the publication date of a periodical. "Closing date is the 5th of the first month preceding" means that the forms of the March issue, for example, close February 5. *Second month preceding* would mean that forms close January 5; *third month preceding*, December 5.

Mortise. An opening cut through a plate, block, or base, to permit insertion of other matter, usually type.

National advertising. (1) The advertising of any trade-marked product that potentially could be sold by dealers throughout the nation. (2) The advertising of a manufacturer or producer in contrast to the local advertising of a retailer. (3) Any advertising appearing in a medium with nationwide circulation.

National brand. A manufacturer's or producer's brand that has wide distribution through many outlets; distinct from a private brand.

National plan. The tactics in advertising campaigns of trying to get all the business that can be secured all over the country at one time. When rightfully used, it is the outgrowth of numerous *Zone plans*. Compare *Cream plan*.

Natural fold. That method of folding a direct advertisement whereby the continuity of the copy is preserved as the advertisement is opened.

NBP. National Business Publications, Inc. National association of publishers

ers of technical, professional, scientific, industrial, merchandising, and marketing periodicals that are audited by either the Audit Bureau of Circulations or the Business Publications Audit of Circulation.

Network. A permanent setup interconnecting broadcasting stations for the purpose of distributing radio or television programs for simultaneous broadcasting by such stations.

Next to reading matter (n.r.). The position of an advertisement immediately adjacent to editorial or news matter in a publication.

Nielsen food-drug service. A dealer panel reporting flow of goods by type and brand in food and drug stores.

Nielsen Radio Index. A reporting service for broadcasters and advertisers based on the use of the Audimeter. Operated by the A. C. Nielsen Co., this service regularly reports program ratings, trends, and the amount and distribution of radio listening by periods of the day.

Off-screen announcer. The effect of having the voice of an unseen speaker on a television commercial.

Offset. (1) The method of lithographic printing whereby the impression is not transferred directly to the paper, but to a rubber blanket and then to the sheet. Gives a softer effect than direct lithography. Makes possible the use of rough-surfaced stock in the reproduction of lithographic illustration. (2) The blotting of a wet or freshly printed sheet against an accompanying sheet. Can be prevented by slip-sheeting. Antique paper absorbs the ink and prevents offsetting.

Old English. A style of black-letter or text type, now little used except in logotypes of trade names or names of newspapers.

Old style type (o.s.). Originally the face of Roman type with slight difference in weight between its different strokes, as contrasted with *modern type*, which has sharp contrast and

accents in its strokes. Its serifs for the most part are oblique; modern serifs are usually horizontal or vertical.

100-intensity showing. A standard showing of outdoor panels, enough to provide even and thorough coverage. The number of panels varies with each city. Also known as a 100-showing.

One-time rate. The rate paid by an advertiser who uses less space than that necessary to earn a time or rate discount, when such discounts are offered. Same as *transient rate*.

One-way screen. A half tone with the screen in one direction only; it does not have the cross-section that gives the dot effect. Good for odd effects. Makes tooling difficult.

Opticals. The visual effects that are put on a television film in a laboratory, in contrast to those that are included as part of the original photograph.

Order-of-merit method. Testing a piece of copy or an illustration, advertisement, trade-mark, design, or package, giving first place to the one with the highest vote, and rating the others in order of their votes.

Originate. (1) To send a broadcast from a specific location. (2) To create a radio program.

O.S. Old style type.

Overlapping circulation. The extent to which two or more media duplicate one another in reaching the same prospect. Sometimes this is a desirable feature, providing an immediate cumulative effect.

Overrun. The number of pieces of matter printed in excess of the specified quantity. According to the trade custom, an advertiser agrees to accept an overrun of no more than 10 per cent at pro rata cost.

P.; pp. Page; pages.

Package. A special radio or television program or series of programs, bought by an advertiser (usually for a lump sum), that includes all components all ready to broadcast with the addition of the advertiser's commercial.

Page proof. A proof of type matter and plates arranged by pages, as they are finally to appear. Usually is made ("pulled") after *galley proof* has been shown and corrections are made.

Panel. (1) A permanent board or jury maintained by an advertiser, agency, or medium to secure comparable data on product acceptance, use, and the like. *Consumer* panels report purchases of food, drugs, et cetera. In *dealer* panels representatives of a research organization check stocks of certain stores to determine relative flow of goods. (2) The part of an outdoor sign board on which posters are pasted.

Participating program, or show. A radio or television show in which a number of advertisers can have their products featured or mentioned. Also see *Audience participation show*.

Pattern plate. (1) An electrotype of extra heavy shell used for molding in large quantities to save wear on the original plate or type. (2) An original to be used for the same purpose.

Photoengraving. (1) An etched, relief printing plate made by a photo-mechanical process—as a half tone or line cut. (2) A print from such a plate. (3) The process of producing the plate.

Pica; pica-em. The unit for measuring width in printing. There are 6 picas to the inch. Derived from *pica*, the old name of 12-pt. type ($\frac{1}{6}$ inch high), and the letter M of that series, whose width likewise is $\frac{1}{6}$ inch. A

page of type 25 picas wide is $4\frac{1}{6}$ inches wide ($25 \div 6 = 4\frac{1}{6}$).

Picture resolution. The clarity with which the television image appears on the television screen.

Pi or pied type. A type setup that has become disarranged.

Pioneering stage. The advertising stage of a product in which the need for such product is not recognized and must be established, or when the need has been established but the success of a commodity in filling those requirements has to be evidenced. See *Competitive stage*; *Retentive stage*; *Spiral*.

Plant owner. In outdoor advertising, the person who arranges to lease, erect, and maintain the outdoor sign and to sell the advertising space on it.

Plate. Any piece of metal, electrotypes or stereotype, including type matter, line engraving, or half tone (or any two or all of these) from which impressions are made by a printing operation. The contents may be a page unit or an advertisement or other unit.

Plated stock. Paper with a high gloss and a hard, smooth surface, secured by being pressed between polished metal sheets.

Platen. The part of a printing press that holds the paper and presses it against the type or plate.

Playback. The playing of a recording for audition purposes.

Point; pt. (1) The unit of measurement of type, about $\frac{1}{72}$ inch in depth. Type is specified by its point size, as 8 pt., 12 pt., 24 pt., 48 pt. (2) The unit for measuring thickness of paper, one-thousandth of an inch.

Poll. An enumeration of a sample (see *Sampling*) to get data that may be projected for the whole market. *Pantry polls*, conducted by the Mil-

waukee Journal and other newspapers, take inventories on foods, toilet articles, et cetera, on consumers' shelves to analyze brand preferences, frequency of purchase, and the like. *Presidential preference polls* attempt to forecast the results of presidential elections by gathering data on political preferences in representative areas

Poster. An outdoor advertising sheet or series of sheets.

Poster panel. A standard surface on which outdoor posters are placed. The posting surface is of sheet metal. An ornamental molding of standard green forms the frame. The standard poster panel is 12 feet high by 25 feet in length (outside dimensions)

Poster plant. The organization that provides the actual outdoor advertising service.

Poster showing. The unit of sale for poster service. The number of panels in a showing varies from city to city

P.P.A. Periodical Publishers' Association, a group of magazine publishers that recommends agency recognition. For newspaper recognition, see A N P.A.

Precision sampling. See *Sampling*.

Pre-date. In larger cities, a newspaper issue that comes out the night before the date it carries, or a section of the Sunday issue published and mailed out during the week preceding the Sunday date.

Preferred position. A special desired position in a magazine or newspaper for which the advertiser must pay a premium. Otherwise the advertisement appears in a *run-of-paper* position, that is, wherever the publisher chooses to place it.

Primary service area. The area to which a radio broadcasting station delivers a high level of signal of unflin-

steadiness and of sufficient volume to override the existing noise levels both day and night at all seasons of the year. The limits of the primary service area as determined by field-intensity measurements are usually considered to be the 5-millivolt-per-meter contour.

Principal Register. The main register for recording trade-marks, service marks, collective marks, and certification marks under the Lanham Federal Trade-Mark Act. (See *Supplementary Register*.)

Printers' Ink Model Statute. The act directed at fraudulent advertising, prepared and sponsored by *Printers' Ink*, the advertising journal.

Private brand. A wholesaler's or retailer's product labeled and sold under his own trade-mark in his territory, in contrast to the *national* or nationally advertised brand.

Process plates. Photoengraving plates for printing two, three, or four colors, one over the other, to produce the final desired effect.

Process printing. Letterpress color printing in which one color is printed over the other by means of a set of process plates.

Producer. (1) One who originates and presents a radio program. (2) The individual or the broadcasting company that offers a program for observation or consideration, or who brings a performance before the public.

Production. (1) The conversion of an advertising idea into an advertisement, mainly by a printing process. (2) The building, organization, and presentation of a radio or television program.

Production department. (1) The department of an advertising agency responsible for the mechanical production of an advertisement, dealing with printers and engravers. In some

agencies it includes the copy and art departments. (2) The department responsible for the proper broadcasting of a radio program.

Production director. Individual in charge of a radio studio program.

Program following. The radio program that follows a given program. Important in deciding upon the desirability of the station and hour.

Program opposite. The radio programs that are running over other stations at the same time as the given program and broadcasting to the same territory; the competition for the radio audience that a program experiences.

Program preceding. The radio program that is on directly before a given program. A good "program preceding" enhances the desirability of the time on the air.

Progressive proofs. A set of photoengraving proofs in color, in which: the yellow plate is printed on one sheet and the red on another; the yellow and red are then combined; next the blue is printed and a yellow-red-blue combination made. Then the black alone is printed, and finally all colors are combined. The sequence varies. In this way the printer matches up his inks when printing color plates.

Projection. The application to an entire market of data (quantitative, usually in percentage form) derived from a representative sample.

Proof. (1) An inked impression of composed type or of a plate for inspection or for filing. (2) In engraving and etching, an impression taken to show the condition of the illustration at any stage of the work. Taking a proof is *pulling a proof*.

Publisher's statement. The statement of circulation issued by a publisher.

Quads. Blank pieces of metal (not type-high) used by the printer to justify (or fill out) lines where the amount of type does not do so.

Quarter showing. One fourth of a *full* showing in car cards or outdoor advertising.

Quarter tones, or double-process tones. A development of the half-tone plate for use in reproducing illustrations on newspaper and other rough stock; made in a coarse screen by a process that retains more detail than the ordinary coarse-screen half tone.

Quota. A set goal for sales or other effort (including *sampling*), in terms of dollars, sales units, or a percentage of the total goal. See *Sampling*.

Railroad showing. An outdoor advertisement conspicuously placed so that it can be seen by passengers on trains.

Randomization. In consumer research a method of securing random (unbiased) selection of respondents. See *Sampling*.

Rate card. A card giving the space rates of a publication and data on mechanical requirements and closing dates.

Rate-holder. The minimum-sized advertisement that must appear during a given period if an advertiser is to secure a certain time or quantity discount. It holds a lower rate for an advertiser.

Reading notices. Advertisements in newspapers set up in a type similar to that of the editorial matter. Must be followed by "Adv." Charged for at rates higher than those for regular ads. Many publications will not accept them.

Ream. In publishing and advertising, 500 sheets of paper (not 480). Thousand-sheet counts have been introduced.

Rebroadcast. A radio program repeated at a later hour to reach the parts of the country in a different time belt.

Recognized agency. An advertising agency recognized by the various publishers or their associations and granted a commission for the space it sells to advertisers. The commission is usually 15 and 2, 15 per cent on the gross with 2 per cent on the net for cash—the 2 per cent going to the advertiser, not to the agency.

Recorded program. Any radio program consisting of phonograph records or electrical transcriptions and not depending upon the presence of artists in the studio at the time of the actual broadcast.

Regional-channel station. A radio station that is allowed more power than a local station but less than a clear-channel station. It is assigned a place on the frequency band set aside for regional channel stations. (See *Local channel and Clear channel*.)

Register. Perfect correspondence in printing; of facing pages when top lines are even; of color printing, when there is correct superimposition of each plate so that the colors mix properly.

Registering trade-mark. In the United States, the act of recording a trade-mark with the Commissioner of Patents.

Register marks. Cross lines placed on a copy to appear in the margin of all negatives as a guide to perfect register.

Release. A statement by a person photographed authorizing the advertiser to use that photograph. In the case of minors, the guardian's release is necessary.

Relief printing. Printing in which the design reproduced is raised slightly above the surrounding, nonprinting

areas. Letterpress is a form of relief printing contrasted with *Intaglio printing* and *Lithography*.

Remote control. The operation of broadcasting a program from a point removed from the regular studios of the station.

Remote pickup. A broadcast originating outside the studio, as from a hotel ballroom, football field, or the like.

Representation. Space (or time) salesman or sales organization, usually independent of the medium owner. A station representative may sell time for several stations.

Repro proofs, or reproduction proofs. Exceptionally clean and sharp proofs from type for use as copy for reproduction.

Respondent. One who answers a questionnaire or is interviewed in a research study.

Retentive stage. The third stage of a product, reached when its general usefulness is everywhere known, its individual qualities thoroughly appreciated, when it is satisfied to retain its patronage merely on the strength of its past reputation. (See *Pioneering stage*; *Competitive stage*; *Spiral*.)

Retouching. The process of correcting or improving art work, especially photographs.

Reversed plate. (1) A line-plate engraving in which whites come out black, and vice versa. (2) An engraving in which right and left, as they appear in the illustration, are transposed.

Roman type. (1) Originally, type of the Italian and Roman school of design, as distinguished from the black-face Old English style. Old style and modern are the two branches of

the Roman family. (2) Type faces that are not italics are called roman.

R.O.P. Run-of-paper position; any location in a publication convenient to publisher.

Rotary press. A press possessing no flat bed, but printing entirely with the movement of cylinders.

Rotation. Repeating a series of advertisements by beginning again with No. 1 after all have been run.

Rotogravure. The method of *intaglio printing* in which the impression is produced by cylinder plates chemically etched and affixed to rollers of a rotary press; useful in large runs of pictorial effects.

Rough. The first pencil draft of an illustration executed in crude style, submitted to the advertiser for O.K. before it is finished.

Routing out. Tooling out dead metal on an engraving plate.

R.P.M. Revolutions per minute, speed at which a radio transcription or phonograph record is played. Most transcriptions run $33\frac{1}{3}$ r.p.m.; most phonograph records, $33\frac{1}{3}$ or 45 r.p.m.

Rule. A strip of type-high metal (usually brass) with a line or lines on its face, used in tabular composition vertically (column rule) or to set off matter horizontally (cut-off rule).

Run of paper. See *r.o.p.*

Saddle stitching. Binding a booklet by stitching it with wire through the center, passing through the fold in the center pages and the backbone. Enables the booklet to lie flat. When a booklet is too thick for this method, *side stitching* is used.

Sales promotion. (1) Those sales activities that supplement both personal selling and marketing, co-ordinate the two, and help to make them effective;

for example, displays. (2) More loosely, the combination of personal selling, advertising, and all supplementary selling activities.

Sales-promotion department. The liaison department between the sales department and the advertising department which investigates new markets, inquiries resulting from advertisements, and follows up salesmen's visits with proper letters and literature.

Sampling. (1) The method of introducing and promoting merchandise by distributing, free or at a reduced price, miniature or full-size trial packages of the product. (2) Studying the characteristics, attitudes, buying habits, et cetera, of a selected part of an entire market that is truly representative in order to apply to the entire market the data secured from the miniature part. *Haphazard* sampling (also called *accidental* or *opportunistic*) takes respondents wherever they are found—the quickest, least scientific method. *Quota* sampling leaves the actual choice of respondents to the investigator (and for this reason is called a *judgment sample*), specifying that such and such proportions of the total response be in certain strata (economic, educational, vocational, sex, marital condition). Any example based on such strata specification is a *stratified* sampling. *Randomization*—the means of securing a *random* sample—selects the respondents by mathematical tests that assure an equal chance of being selected to each respondent of the total being studied. *Precision* sampling and *known-probability* sampling are almost synonymous with random sampling. *Area* sampling is stratified random sampling, with different areas scientifically selected to represent the different strata or cells that make up the whole body to be studied. *Systematic* sampling is a less exact sort

of random sampling, in which the prescribed respondents are chosen by taking every tenth, twentieth (or some other designated how-many-th) of the total number to be studied—such as interviewing the twentieth family in every street. So sampling may be classified as *controlled* and *uncontrolled* (or *judgment*) sampling.

S.C. (1) Single column. (2) Small caps.

Scale rate. In photoengraving, the standard cost rate.

Scaling down. Reducing illustrations to the size desired.

Scanning. The television process of changing a light image into an electrical signal, or vice versa.

Score. To crease cards or thick sheets of paper so that they can be folded.

Script show. A serial radio program, usually 15 minutes, on the air three or five times a week at the same hour and station; a television serial.

Secondary service area. The area beyond the primary service area where a broadcasting station delivers a steady signal of sufficient intensity to be a regular program service of loudspeaker volume by both day and night and at all seasons of the year.

Segue. (Pronounced segway; Italian, "it follows.") The transition from one musical theme to another without a break or announcement.

Self-mailer. A direct-mail advertisement folder, booklet, or book that requires no envelope for mailing.

Separation, color. Isolation on separate negatives by the use of color filters (or by applying acid-resisting paint to the plate) of the parts of an illustration to be printed in the given colors.

Service the script. To cast, rehearse, and present the material set down in the manuscript for a radio program.

Shallow half tone. An inferior half tone in which the dots have not been deeply etched so that the detail of the illustration is lost. When half tones have been overdeveloped, they may have their dots undermined.

Sheet. The old unit of poster size, 26 × 39 inches. The standard-size poster is called a 24-sheet.

Shopping goods. Products that the consumer buys infrequently and usually in an outlet not a neighborhood store, and that are selected after comparing price, style, and quality of different items—for example, jewelry, apparel, millinery, and furniture; distinct from *convenience goods*.

Short rate. The difference between the low contract rate for a planned advertising campaign and the higher rate actually earned on space or time used that is less than that contracted for.

Shoulder. The space between the upper or lower extremes of a type letter and the edge of the body on which it is mounted. The shoulder does not print. The type size, as given in points, includes the shoulder, thus accounting for the fact that a 36-point type letter, for example, does not appear exactly ½-inch in height.

Side stitching. The method of wire-stitching from one side of a booklet to the other. Wiring can be seen on front cover and on back. Used in thick booklet work. Pages do not lie flat. See *Saddle stitching*.

Signature. (1) The name of an advertiser. (2) The musical number or sound effect that regularly identifies a radio program. (3) A sheet folded ready for stitching in a book, usually sixteen pages, but with thin paper

thirty-two pages; a mark, letter, or number is placed at the bottom of the first page of every group of sixteen or thirty-two pages to serve as a guide in folding.

Silhouette half tone. One in which all background is eliminated, the product alone appearing. Also known as *Outline half tone*.

Silk screen. A method of printing posters by forcing ink (or inks) through the meshes of a silk cloth that has the design to be reproduced imposed on it.

Sized and supercalendered paper (s. and s. c.). Machine-finish book paper that has been given extra ironings to insure a smooth surface. Takes half tones very well.

Sized paper. Paper that has received a chemical bath to make it less porous. Paper sized once and ironed (calendered) is known as *machine-finish*. If it is again ironed, it becomes *sized and supercalendered (s and s. c.)*.

Slip-sheeting. Placing a sheet of paper (tissue or cheap porous stock) between the sheets of a printing job to prevent them from offsetting or smudging as they come from the press.

Slug. Notation placed on copy to identify it temporarily, and not to be reproduced in final printing.

Small caps (abbreviated *s.c.* or *sm. caps*). Letters shaped like upper case (capitals) but about two-thirds their size—nearly the size of lower-case letters. In body text small caps (with initial caps) look better than all caps for single words, phrases, or sentences. THIS SENTENCE IS SET WITH A REGULAR CAPITAL LETTER AT THE BEGINNING, THE REST IN SMALL CAPS.

Sniping. The mounting of an outdoor advertisement wherever space and opportunity permit, as against rocks,

barrels, fences, and the like. Organized advertising is opposed to this.

Sound effects. Various devices or recordings used in radio to produce lifelike imitations of sound, such as walking up stairs, ocean waves, phone bells, and auto horns.

Space buyer. The officer of an advertising agency responsible for the selection of printed media for the agency's clients.

Space discount. A discount given by a publisher for the lineage an advertiser uses. Compare *Time discount*.

Space schedule. A schedule showing the media in which an advertisement is to appear, the dates on which it is to appear, its exact size, and the cost.

Special representative. An individual or organization that represents a certain publisher in selling space outside the city of publication. The same special representative may serve two or more publishers of different cities. Also known as *foreign representative*.

Spectacular. A large electric sign, usually with motion and changing lights.

Spiral. The advertising evolution through which a product passes in its acceptance by the public. The stages are the *pioneering*, the *competitive*, and the *retentive*.

Split channel. Two or more radio network sections working simultaneously with different programs.

Split run. A method of testing the relative value of two advertisements by running each in one-half of all copies of a newspaper or magazine issue.

Sponsor. The firm or individual that pays for talent and broadcasting station time for a radio or television feature; the advertiser on the air.

Spot broadcast. A radio program issued directly from a station in behalf of a national advertiser, in contrast to a *network* broadcast, which is broadcast over a series of connected stations; or a *local* broadcast, which is a program sent out by a local advertiser over a station in his city.

Spread. (1) Two facing pages, a double-page advertisement. (2) Type matter set full measure across a page, not in columns. (3) Stretching any part of a broadcast to fill the full allotted time of the program.

Stage. See *Spiral*.

Staggered schedule. A schedule of space to be used in two or more periodicals, arranged so that the insertions alternate.

"Stand by." Cue that the radio program is about to go on the air.

Station announcement. The announcement made to identify a radio transmitter.

Station break. The interval of time between two radio programs, usually on the hour, half-hour, or quarter hour, used for the station identification required by the FCC; and the announcement broadcast during that interval.

Station director. The radio executive in charge of the operation and management of a broadcasting station.

Steel-die embossing. Printing from steel dies engraved by the *intaglio process*, the sharp, raised outlines being produced by stamping over a counter die. Used for monograms, crests, stationery, and similar social and business purposes.

Stereotype. A plate cast by pouring molten metal into a matrix. One of the least expensive forms of duplicate plates. Lacks the strength and sharpness of detail of an electrotpe.

Newspapers are printed from stereotypes. Should not be used in magazine advertisements.

Stet. A proofreader's term—"Let it stand as is; disregard change specified." A dotted line is placed underneath the letter or words to which the instructions apply.

Stock cut. An electro of an engraving, ornament or other design kept in stock by dealers, furnished by typefounders, electrotypers and engraving houses, and costing less than original engravings.

Stone. Printer's stand or table with flat, smooth top (formerly of stone) for composing type.

Stone proof. See *Flat proofs*.

Storecasting. The broadcasting of radio programs and commercials in stores; usually supermarkets.

Story board. The former in which the television film commercial is planned, including pictures, action, and narrative.

Studio. A room especially adapted by suitable acoustic treatment and by the installation of microphones and associated equipment, signaling lights, and other essentials to the presentation and picking up of sound programs for broadcasting purposes.

Substance No. (Usually followed by a figure, as *Substance No. 16, Substance No. 20, Substance No. 24.*) In specifying paper stock, the equivalent weight of a given paper in the standard size.

Superimposition. Showing a trademark or package in television right over live action at a moment when the excitement in the action has subsided, as at time out in a game.

Supplementary Register. A record of trade-marks that do not qualify un-

der the Principal Register, useful chiefly for export advertising purposes.

Surprint. (1) A photoengraving in which a line-plate effect appears over the face of a half tone, or vice versa. (2) Printing over the face of an advertisement already printed.

Sustaining program. Entertainment or educational feature performed at the expense of a broadcasting station or network; in contrast to a *commercial program*, for which an advertiser pays.

T. Time, or times, as 1-t, 5-t, the frequency with which an advertisement is to appear.

T.A.B. Traffic Audit Bureau.

Tear sheets. Copies of advertisements torn from newspapers.

Telecast. A sound and pictorial image that has been sent by television.

Television. The method of broadcasting both sound and pictorial effects.

T.F. (1) Till-forbid. (2) To fill. (3) Copy is to follow.

TV. Television.

Till-forbid; run T.F. Instructions to publisher meaning: "Continue running this advertisement until instructions are issued to the contrary."

Time buyer. The member of an advertising agency responsible for making the proper selection of radio coverage for the agency's clients, corresponding to the space buyer for advertisements in publications.

Time discount. A discount given to an advertiser for the frequency or regularity with which he inserts his advertisements. Distinguished from *quality discount*, for amount of space used.

Tint block. Usually a solid piece of zinc, used to print a light shade of ink for a background.

To fill (T.F.). Instructions to printer meaning: "Set this copy in the size necessary to fill the specified space indicated in the layout."

Tr. Transpose type as indicated, a proofreader's abbreviation.

Trade advertising. Advertising directed to the wholesale or retail merchants or sales agencies through whom the product is sold.

Trade-mark. Any device or word that identifies the origin of a product, telling who made it or who sold it. Not to be confused with *trade name*.

Trade name. A name under which a business is conducted; applies to a business as a whole, not to a product.

Traffic Audit Bureau (T.A.B.). An organization designed to investigate how many people pass and may see a given outdoor sign, to establish a method of evaluating traffic and measuring a market.

Traffic department. The department in an advertising agency responsible for the prompt execution of the work in the respective departments and for turning over the complete material for shipment to the forwarding department on schedule time. When one person handles this work, he is called an *accelerator*.

Transcription. See *Electrical transcription*.

Transcription program library. A collection of transcription records from which the radio advertiser may draw. Stations subscribe to various transcription libraries, and the advertiser need merely find out to which library a station subscribes and specify which numbers from the library service he wishes.

Transient rate. Same as *one-time rate* in buying space.

Transit radio. The broadcasting of radio programs and commercials in buses.

Transparency. Same as *decalcomania*.

Traveling display. An exhibit prepared by a manufacturer of a product and loaned by him to each of several dealers in rotation. Usually based on the product and prepared in such a way as to be of educational or dramatizing value.

Trimmed flush. A booklet or book trimmed after the cover is on, the cover thus being cut flush with the leaves. Compare with *Extended covers*.

25 X 38—80. Read *twenty-five, thirty-eight, eighty*. The method of expressing paper weight, meaning that a ream of paper 25 × 38 inches in size weighs 80 lbs. Similarly, 25 × 38—60, 25 × 38—70, 25 × 38—120, 17 × 22—16, 17 × 22—24, 20 × 26—80, 38 × 50—140.

Type face. The design and style of a type letter. Type faces are usually named after men, as, Caslon, Della Robbia, Jensen, Goudy. In machine composition, the faces are known also by code numbers.

Type page. The area of a page that type can occupy; the total area of a page less the margins.

Up. Number of times a cut or page is duplicated in a form; one page two "up" is a two-page form; four pages two "up" is an eight-page form.

Video. Currents or equipment for transmitting television pictures (from Latin meaning *see*); television, as contrasted with audio or radio.

Vignette. A half tone in which the edges (or parts of them) are shaded off gradually to very light gray.

Visual show. A radio program presented before a studio audience.

"Wait order." Instructions to a periodical to set up an advertisement and hold it for an insertion order.

Warm-up. The 3- or 5-minute period immediately preceding a broadcast in which the announcer or star puts the studio audience in a receptive mood by amiably introducing the cast of the program, or discussing its problems

Wash drawing. A brush-work illustration, usually made with diluted India ink or water color so that, in addition to its black and white, it has varying shades of gray, like a photograph. Half tones, not line plates, are made from wash drawings. Wash drawings are extensively used to picture merchandise, as they can emphasize details better than photographs.

Wax engraving. The process of coating a plate with wax upon which the design is drawn, photographed, or impressed, and which is then cut through to the metal base. Used in making maps.

Wax-mold electrotpe. An electrotpe made from an impression taken in a sheet of wax; less expensive than lead mold. See *Electrotpe*.

Wet printing. Color printing on specially designed high-speed presses with one color following another in immediate succession before the ink from any plate has time to dry.

W.F. See *Wrong font*.

Window envelope. A mailing envelope with a transparent panel, permit-

ting the address on the enclosure to serve as a mailing address as well.

Wire circuits. A metallic conducting path connecting for communication purposes two or more points, such as broadcast transmitter, broadcasting studios, and remote sources of programs.

Woodcuts. Wooden printing blocks the design of which is carved by hand; in common use before photoengraving.

Work-and-turn. Printing all the pages in a signature from one form and then turning the paper and printing on the second side, making two copies or signatures when cut.

Wove Paper. Paper having a very faint, cloth-like appearance when held to the light.

Wrong font (w.f.). Letter from one series mixed with those from another series, or font. See if you can pick out the wrong font in this sentence.

Zinc etching. A photoengraving in zinc. Term is usually applied to line plates.

Zone plan. The tactics in an advertising campaign of concentrating on a certain limited geographical area rather than trying to cover the entire country at once, as in the *national plan*, or picking the choice prospects from different parts of the country at the same time, as in the *cream plan*.

Zooming. The effect in television of having a title or trade-mark grow bigger on the screen, like the locomotive of a train rushing right at you.

SECTION 3

Sales Management

1. DETERMINING SALES TERRITORIES

What is a sales territory? . . .	275
Why establish sales territories? . . .	276
Why salesmen are not restricted to territories . . .	276
Establishing basic sales territories . . .	277
Sources of sales-territory data . . .	281
Allocating sales territories . . .	281
Reallocating sales territories . . .	282

2. SALES QUOTAS

What is a sales quota?	282
Division of sales quotas	283
Advantages of sales quotas	283
Weaknesses of sales quotas	284
Essentials of a good quota	284
Bases for sales quotas	285
Securing acceptance of quotas by salesmen	288

3. RECRUITING AND SELECTING SALESMEN

The recruiting problem	289
The recruiting process	289
Determining type of salesman wanted	290
Establishing standard personal qualifications	291
Sources of salesmen	291
Other sources of salesmen	292
Selecting salesmen	294
Process of selection	294
Application forms	295
Personal interviews	298
References	298
Intelligence and aptitude tests	300
Physical examinations	300
Observation on the job	303
Summary of selection methods	303

4. EQUIPPING SALESMEN

Need for sales equipment	303
Qualities of good sales equipment	303
Types of selling equipment	304
Applications of selling equipment	305
Getting salesmen to use equipment	314

5. TRAINING SALESMEN

Why train salesmen?	315
Who should be trained?	316
Training apprentices	316
Training new experienced salesmen	316
Training present salesmen	316
Training sales supervisors	317
Training field sales-management executives	317
Training wholesale and retail dealers and their sales managers	317
Training wholesale and retail salesmen	317
Subject matter of training	317
Tools for sales training	318
Sales-training meetings	319
Types of sales training	320
Where to conduct training	321
Sources of training material	322

6. METHODS OF COMPENSATING SALESMEN

Aims of a compensation plan	322
Factors in the choice of a plan	323
Testing the compensation plan	324
Types of plans	325
Salary compensation	325
Commission compensation	326
Variations of the commission compensation plan	328

Drawing account	328
The bonus plan	330
The point system	333
Use of the point system in a sliding-scale bonus plan	334
Variations and combinations of basic compensation plans	335

7. CONTRACTS FOR SALE OF MERCHANDISE

What a contract is	336
What a sale is	338
Contract of sale and contract to sell	339
When a sales contract must be in writing; statute of frauds	339
Essential provisions of sales contracts	340
Legal precautions when selling goods	342
Contract to sell in form of letter of proposal and acceptance	343
Output and requirements contracts	345
Sale of merchandise through brokers	346
Conditional sales contracts	346
Form of conditional sales contract	348
Bills of sale	352

8. CONTRACTS APPOINTING SALES AGENTS

Agency contracts in general	353
Exclusive agency contracts	355
Contract appointing exclusive retail dealer for designated territory to sell company's products	357
Resale price-maintenance agreements	359
Form: Manufacturer-retailer contract form for use under state	

resale price-maintenance laws	360
Unfair practices acts	362

9. CONTRACTS EMPLOYING SALESMEN

Essential provisions of employment contracts	362
Form: Contract appointing exclusive retail dealer for designated territory to sell company's products	363

10. FOREIGN TRADE TERMS OF SALE

"Ex factory," "ex mill," "ex mine," "ex plantation," "ex warehouse," etc. (named point of origin)	365
F.o.b. (named inland carrier at named inland point of departure)	366
F.o.b. (named inland carrier at named inland point of departure) freight prepaid to (named point of exportation)	367
F.o.b. (named inland carrier at named inland point of departure) freight allowed to (named point)	367
F.o.b. (named inland carrier at named point of exportation)	367
F.o.b. vessel (named port of shipment)	368
F.o.b. (named inland point in country of importation)	368
F.a.s. vessel (named port of shipment)	370
C.&f. (named point of destination)	371
C.i.f. (named point of destination)	372
"Ex dock" (named port of importation)	375

SECTION 3

Sales Management

1. DETERMINING SALES TERRITORIES

What is a sales territory? A sales territory is the geographical area in which a salesman's activities are conducted. Most wholesale salesmen are confined to the territory to which they are assigned, whereas salesmen selling direct to consumers are often not restricted to definite territories but are permitted to sell wherever they wish. Frequently no territories are assigned to commission salesmen or to those engaged in the introduction of new products when the market is undeveloped or when the goods are highly competitive specialties or intangibles.

Certain functional types of salesmen, such as missionary salesmen engaged in sales promotional work, or specialty salesmen concentrating on the introduction of a new item or on reviving the sale of an inactive product, are usually not assigned a territory of their own but are transferred from territory to territory as the need for their specialized service demands.

Occasionally salesmen are assigned to a definite territory but given freedom to operate wherever they wish, subject to certain restrictions. In such cases a salesman is generally held responsible for production in his assigned territory, receives credit for all sales in his territory, and has referred to him all inquiries that originate in his territory. However, sales may be made to prospects or customers outside of a salesman's assigned territory through a mutual understanding with all salesmen in the organization to the effect that compensation for sales made outside of an assigned territory shall be divided with the salesmen in whose territory the sale is made. Commission salesmen "split" their commissions on such extraterritorial sales. Salesmen who are paid a bonus receive corresponding adjustments in quota.

Definite territories may be assigned to wholesale distributors and

retail dealers as well as individual salesmen, and similar protection plans are devised to give the distributors protection within their territories. Moreover, there appears to be a trend toward the establishment of definite territorial assignments for both salesmen and wholesale and retail outlets.

Why establish sales territories? Sales territories are established for the following reasons:

1. To fix definite responsibility on salesmen for desired performance.
2. To save a salesman's time.
3. To insure maximum service to customers.
4. To make comparisons between the performance of salesmen in various territories.
5. To avoid conflicts between salesmen and overlapping of sales efforts.
6. To equalize more nearly the opportunities for all salesmen.
7. To adapt the personality of the salesman to the prevailing type of buyer in a territory.
8. To facilitate control and operation of salesmen by the management.
9. To effect reductions in traveling expenses.
10. To avoid aimless traveling and needless backtracking by salesmen.
11. To insure a salesman ample sales opportunities.
12. To prevent a salesman from having more work than he can do efficiently.
13. To insure adequate coverage of the potential market.
14. To meet competition more effectively.

Why salesmen are not restricted to territories. Salesmen are not restricted to territories for the following reasons:

1. Sales territories are difficult to establish fairly.
2. Some salesmen may operate more effectively when they are not restricted to a definite area.
3. Some salesmen prefer to operate where they can get the best results, irrespective of territory.
4. Territory reductions arouse resentment on the part of salesmen and create dissatisfaction.

5. The security of territorial protection is not conducive to maximum activity on the part of some salesmen.

Establishing basic sales territories. The first step in a scientific determination of a sales territory is to consider the market potential and the number of salesmen needed in the distribution of the product. This insures each salesman in the organization equal opportunities from the standpoint of potential sales.

Use of indexes. To determine the potential for each territory, a market index or indexes relating to the product or service being sold is first selected. Some factors to be considered in selecting a market index are: the price of the product; whether it is a luxury or a necessity; and whether it is an industrial or individual consumption item. For such lines as refrigerators, washing machines, ranges, and other products where industry sales figures are available by states, the industry figures may form the base of the index. In addition to the current sales index, other indexes measuring potential consumption should be selected. In the case of products for individual consumption, the factors of population, buying power, standards of living, and distributive outlets should be considered and indexes relating to these factors employed.

The consumption factor of population may be expressed by the following specific indexes: foreign-born population, colored population, literate population, native whites, families, rural population, urban population, adult population, dwellings, and so forth.

The basic consumption factor of buying power may be expressed by any one or several of the following indexes: income tax returns, value of farm crops, value of livestock, individual bank deposits, check transactions, per capita wholesale and retail sales, automobile ownership, and so forth.

The factor of standards of living may be expressed by the following indexes: telephones, wired homes, radio ownership, life insurance sales, magazine circulation, and so on.

Indexes of distributive outlets include: number of wholesalers and retailers in the case of companies distributing through middlemen.

These market indexes may be weighted according to their relative importance in respect to the potential of the market being measured.

Using indexes in determination of a basic sales territory. The next

step in using a market index or indexes in the determination of a sales territory is to convert the index figures selected, which may be available in county, city, state or trading area units, to a percentage of the United States total of the index factors. For example, a manufacturer of agricultural implements selects the market index "rural population" for determining the potential of a basic sales territory. By consulting the latest United States census, the percentage of the total national rural population for each county and state can readily be determined and used as the index of potential for each county and state in the country. Other index factors may be combined with "rural population" to obtain a combined index and each factor may be weighted according to its relative importance.

Determination of number of salesmen needed according to potential market. After the potential of each county, state, or trading area in the country has been determined, the total number of customers and prospects to be contacted by salesmen is ascertained for each area.

The call frequency of the salesman as affected by the frequency of purchase, density of the market, extent of sales development, competition, and cost of coverage should next be determined. In some cases, salesmen must call daily; in others, monthly, and in selling many products an annual visit is sufficient.

By dividing the total number of customers and prospects in the United States by the number of contacts a salesman can make in a year, the number of salesmen needed to cover the national market is ascertained.

Allotment of potential market to salesmen. When the number of salesmen required to cover the national market potential has been decided upon, the national sales potential is divided into as many potentially equal sales territories as there are customers and prospects and salesmen needed to develop them. If one hundred salesmen are needed to develop the country, each salesman is assigned one per cent of the national potential, comprising all or a part of one or more counties, cities, states, or trading area units expressed in percentile of the national total of the index selected to express potential sales.

For example, the national manufacturer of agricultural implements has 500,000 selected farmer customers and prospects in the United States. Assuming that a salesman can contact four farmers a day

while working 250 days a year, he can make a total of 1,000 contacts annually. On a call frequency of once a year, the number of salesmen needed to cover the country in this case is the 500,000 contacts divided by 1,000 contacts per man, or 500 salesmen. The basic potential territory of each salesman would be one five-hundredth of the national rural population expressed in all or part of one or more counties.

If a limited number of salesmen is needed, the state unit may be the minimum unit for basic territory establishment. In sales organizations cultivating the country more intensively the county unit may serve as a basis. Salesmen of consumer goods sold through wholesale and retail outlets may have territories established on the "trading-area"-unit basis.

Adjusted basic sales territories. After sales territories based on market potential, number of prospects, and number of accounts a salesman can handle have been established, it is necessary to adjust these basic territories to conform to purely local conditions, taking into consideration transportation facilities, competition, existing demand, extent of sales development, cost of coverage, method of distribution, economic conditions, type of product, ability of the salesman assigned to the area, and other factors affecting the ability of the company to attain its share of the potential volume of sales in the area. Basic sales territories in practically all cases must be adjusted to take into consideration these factors.

Adjustment to method of travel. Basic sales territories must be reshaped to conform to the transportation lines and method of travel used by the salesmen in covering the areas. When a salesman travels by automobile, the territory may conform to highway lines. When railroads are used, a territory must necessarily be shaped by the prevailing lines of railroads. A careful study should be made of all train, trolley, air, bus, boat, and automobiles routes in shaping the sales territory for most economical and efficient coverage.

Adjustment to competition. The amount and character of competition are important factors to be considered in expanding or contracting a basic sales territory. If competition is localized and intense within a basic sales territory, the size of the area may be restricted to permit more frequent coverage and to meet existing competition more effectively. When competition is limited, the

basic territory may be expanded, since frequent coverage to meet competition is not necessary.

If, on the other hand, competition is so firmly entrenched in a sales territory that there is little likelihood that a salesman can secure a profitable volume, the basic area may be expanded to enable the salesman to obtain a profitable volume, or the salesman may be withdrawn from the territory, and it may be turned over to a broker or sold direct by mail.

Adjustment to existing demand. The existing demand for a product or service has a direct bearing on the adjustments that must be made in the size of a basic territory. If a strong demand exists for an item, selling progress is slow, and the basic sales territory may be restricted to insure thorough coverage. If, however, a new product is being introduced for which there is little existing demand, the basic territory may be expanded to enable the salesman to secure a profitable volume of sales.

Adjustment for extent of sales development. If the policy of a company favors intensive distribution, basic sales territories will be restricted to permit thorough coverage. If, on the other hand, a policy of broad, national distribution is pursued, expanded, basic territories must result.

Adjustment for profitable operation. The size of a sales territory must be regulated by the cost of travel in relation to the sales volume that may be secured therein. If, for example, the maximum ratio of direct selling expense to expected sales is 3 per cent, and anticipated sales are \$100,000, the cost of covering the area must not exceed \$3,000. Accordingly, the basic territory must be adjusted in area to permit coverage for this figure.

Adjustment for method of distribution. If a product is sold through wholesale outlets exclusively, the basic territory may be larger than would be the case if the product were sold direct to the consumer. Salesmen calling on retail grocers should have smaller territories than men calling on retail hardware outlets.

Adjustment for type of product. Basic territories for salesmen of repeat essentials may be relatively small in comparison with those of salesmen of novelties or luxuries.

Adjustment for ability of salesmen. The basic territory of an able salesman may be expanded, while the territory of a mediocre sales-

man may have to be contracted. A new and inexperienced salesman may require a more limited area than a more experienced man.

Adjustment for individual factors. The basic territories of salesmen with family responsibilities may be so arranged as to enable these men to live at home. Other salesmen who prefer continuous travel may be assigned to larger areas where more travel is involved. Some salesmen are more successful with intensive cultivation of their territories, and these men should be assigned restricted areas.

All of these factors should be taken into consideration in expanding or contracting basic sales territories so that each territory may be adjusted in area to afford maximum sales and profits.

Sources of sales-territory data. In determining basic sales territories and adjusting them to the various factors affecting the sales potential of an individual concern, there is a wealth of information available. Valuable information is published by the U. S. Census Bureau, the U. S. Bureau of Foreign and Domestic Commerce, and other Government bureaus, as well as various trade associations, state governments, colleges and universities, and commercial organizations. Publications of the Bureau of Foreign and Domestic Commerce of the U. S. Department of Commerce are excellent sources of territory information. The census of distribution made by the U. S. Census Bureau is an accurate source of market data available for the establishment of sales territories.

In addition to these sources, the following publishing organizations provide excellent territory information: Sales Management, Incorporated, New York City; Hearst Magazines, Inc., New York City; Curtis Publishing Company, Philadelphia; The Crowell Publishing Company, New York City; Printers' Ink Publications, New York City; and Industrial Marketing, Chicago.

Allocating sales territories. A sales territory may be allocated along political lines as state, county, township, city, or ward; or by transportation lines or buying habits that take no cognizance of political boundaries. Salesmen of consumer goods distributed through wholesale and retail outlets should have territories allocated by trading-area lines rather than by political boundaries. The same is true of wholesale and retail distributors of consumer goods: A salesman of industrial goods, insurance, securities, and other prod-

ucts or services not distributed through retail or wholesale outlets may have territories allocated by county lines.

Reallocating sales territories. Sales territories must be examined at least annually and adjustments made in the size of the area to meet shifting demand, competition, and economic conditions affecting the potential of the area; to equalize the opportunities of all salesmen; and to secure a fair ratio of expense to the sales volume.

There is an urgent need in many sales organizations for consolidating or reducing the area of sales territories and for insuring thorough cultivation at a savings in time and expense. Restricted territories result in better service to customers, more frequent contacts, more new prospects, lower freight costs, and greater sales volume and profits than larger territories. When the factual evidence of market potential and sales volume is compared in a sales territory, both management and salesmen are usually quick to concede that the area can be reduced with a saving in expense and an increase in efficiency and profit.

2. SALES QUOTAS

What is a sales quota? A sales quota answers the question "What sales should I expect to secure?" From the management standpoint, it is the proportional part or share of the total sales volume that may be expected from a given market. In other words, it is a goal of sales accomplishment, a task, objective, or standard that a sales organization strives to attain.

There are four distinct types of sales quotas, the most common of which is the estimated volume of sales that a company expects to secure within a definite period of time. As sales volume is one of the most important as well as the most conveniently computed factors of sales accomplishment, a majority of quotas are of this type. The estimate may be expressed in terms of dollars and cents or in units such as pounds, cases, gallons, and so forth.

The growing interest in profitable sales is contributing to an increasing use of "profit quotas," which are established to estimate the profit expectancy from a given territory. Profit quotas may be expressed in percentages of gross profit sought from the sale of single items or groups of items in given markets.

The necessity of curtailing sales expense has resulted in the establishment of "expense quotas" in some sales organizations. The maximum expense that may be expected from operations in a given market is established, and expenses are controlled by this standard. A large industrial manufacturer established an expense quota of $\frac{1}{2}$ of 1 per cent of total net sales in small, thickly settled territories and 4 per cent of total net sales in large, thinly settled territories.

To encourage performance of specific sales operations, "activity quotas" are established on "number of calls," "number of interviews," "number of prospects secured," "number of service calls," "number of new customers," and so forth, which may be expected from a given territory in a specified time. Quotas may be set for such activity as "hours spent in the field daily," "miles traveled by automobile," "miles walked," and so on.

Division of sales quotas. Sales quotas are prepared for wholesale and retail salesmen, retail dealers, wholesale distributors, branches or sales divisions, as well as for individual products, groups of products, and types of customers.

While quotas for salesmen are the most common, many organizations also establish quotas for retail dealers and wholesale distributors as the basis of evaluation of distributor and dealer activities.

Product quotas are established for individual products and principal-product lines in order to obtain better co-ordination of production and sales, to insure that each product or product line will receive its share of sales efforts, and to enable the distribution of advertising for each product more equitably.

To provide for seasonal variations and to set the incentive closer to the salesman or distributor, quotas are usually broken down into quarterly, monthly, or weekly periods. Variables in seasonal activity and territorial conditions can thus be reflected in these breakdowns.

Advantages of sales quotas. Organizations using sales quotas find that they have the following advantages:

1. Permit measurement of sales ability.
2. Aid in co-ordinating production and sales.
3. Serve as a basis for sales compensation.
4. Set definite goal for accomplishment.

5. Enable comparisons between salesmen, distributors, retailers, branches, and so on.
6. Provide incentive.
7. Serve as the basis for sales budgets.
8. Enable the proper distribution of advertising, sales promotion effort, warehouse stocks, and manpower.
9. Increase the efficiency of the distributing system.

Weaknesses of sales quotas. The limitations of sales quotas are as follows:

1. Arbitrary establishment without taking into consideration enough factors to insure an accurate estimate of expected sales volume.
2. Arbitrary increases in quotas at periodic intervals without sufficient consideration of the factors involved.
3. Complex statistical methods for establishing quotas that are not understood by the salesman and arouse suspicion as to their accuracy.
4. Time and expense involved in making necessary research to establish a quota accurately.
5. Inadequate rewards for attainment of quotas.
6. Failure to consider the human element, especially the particular ability of the salesman or the distributor, and to secure his co-operation.

Essentials of a good quota. A good sales quota should have the following characteristics:

1. It should be attainable; that is, it should not be set so high that it is impossible of accomplishment. When a quota is set too high, the salesman or the dealer either loses interest or forces his efforts and creates ill will.
2. Simplicity is fundamental to a good sales quota. Complicated methods of determining a quota not only involve time and expense but create misunderstanding and arouse suspicion on the part of salesmen and dealers who are not clear as to the method used in arriving at the quota.
3. The views of salesmen, sales executives, and distributors should be considered in the establishment of a sales quota to insure their co-operation in attaining the goal set.

4. Flexibility is an important consideration in adjusting a quota according to variable seasonal and economic conditions. It is a mistake to establish a quota and disregard those influences which are constantly affecting the possibility of attainment. Accordingly some sales organizations make monthly or quarterly adjustments in quotas to keep them in line with changing conditions.

5. Incentives should be provided for stimulating the salesmen to meet their quotas. While it might be said that no special incentive should be necessary, the actual purpose of the quota is to encourage greater effort, and without an incentive it may fail of its purpose. That is why many firms offer salaried and commission men cash bonuses for making their quotas, and why some companies pay higher rates of commission to those making their quotas and still higher rates to those exceeding their quotas.

Bases for sales quotas. Several factors must be taken into consideration in establishing a fair sales-volume quota: (a) past sales; (b) market potential; (c) estimates of salesmen and distributors; (d) manufacturing output; (e) advertising and sales promotion effort; (f) selling cost; (g) product improvements; (h) prices; (i) business conditions; (j) competition; and (k) particular ability of the salesmen or distributors. All of these factors must be weighed and considered carefully in arriving at a fair sales-volume quota. Each factor is discussed briefly below.

1. *Past sales.* The initial basis for a sales-volume quota is past sales performance. The past year's sales, as well as an average for several years preceding, should be considered in establishing a trend of sales. Sales alone, however, are not a measure of the sales potential of a salesman or a dealer in most cases. Sales volume should not be used exclusively as a basis for a quota. However, sales volume in past years is a definite and important factor in establishing the quota formula and provides a conservative basis for quota estimates.

2. *Market potential.* No sound sales-volume quota can be established without a knowledge of the potential market. The market potential is most conveniently measured by selecting one or more market indexes. Some sales organizations use as many as nineteen separate factors in measuring market potential. However, for the

sake of economy and to avoid complication, a simple index is recommended.

As in the establishment of sales territories, the market indexes of people and homes, purchasing power, standards of living, and distributive outlets may be used with varying weights according to the type of commodity under consideration.

The index of people and homes may be expressed by one or more of the following: population, total families, dwellings, literate native white population, colored population, and so on.

The standards-of-living index may be expressed by: automobile registrations, telephones, electric domestic customers, radio ownership, and so forth.

The buying-power index may be expressed by: bank deposits, income tax returns, check transactions, per capita sales, and so on.

The distributive-outlet index may be expressed by number of consumers, manufacturers, and retail and wholesale outlets.

In establishing sales quotas for industrial products, the following market indexes may be used: value of manufactured products, number of manufacturers, number of industrial power consumers, and so forth.

An example of the use of market indexes in establishing sales quotas is the method employed by a large electric appliance manufacturer. An index of purchasing power for electric refrigerators is compiled by states and counties by:

- (a) Tabulating refrigerator sales for a period of years, converted into percentage of the national total.
- (b) Selecting the most typical percentage for each state, allowing for trend.
- (c) Establishing the relationship of sales by states to the industry sales percentage.
- (d) Adjusting the state index by a climatic factor that is necessary to bring the index into line with actual sales.
- (e) Applying the climatic adjustment factor to county figures.
- (f) Using the adjusted county index to break down the industry state-sales percentage; index would be used without this step for those products whose sales are not reported by states.
- (g) Regrouping final county index figures according to distributor's territory.

This index is considered, along with past sales performance, in preparing distributors' quotas, with the index given a weighting of one to two thirds.

The average annual sales of distributors are also converted to a percentage of the United States total and compared with the index.

National advertisers frequently use the combined circulation figures of the magazines in which their advertising appears as an index of market potential.

A large automobile tire manufacturer uses automobile registration figures as an index in establishing sales-volume quotas; a manufacturer of domestic sheeting uses department-store sales volume as an index in establishing quotas.

3. *Estimates of distributors and salesmen.* The psychological value of asking salesmen or distributors for estimates of future sales volume is constructive, since they will accept quotas more readily when they have a part in their determination. The value of these estimates is dependent largely on the type of salesman and the product being sold. Intelligent salesmen or high-grade distributors frequently can make very accurate estimates of future sales volume.

4. *Manufacturing output.* This factor should also be considered in establishing a sales-volume quota, and the point of profitable production should be kept in mind in determining the quota figure.

5. *Advertising and sales-promotion effort.* The extent of advertising and sales-promotion effort has a direct bearing on the attainment of a sales-volume quota, and the amount to be invested in advertising should be compared with previous investments in determining the quota figure. An increase in advertising and sales-promotion effort should be paralleled by an increase in the sales-quota figure.

6. *Selling cost.* The cost of selling a given volume should be considered in establishing a sales-volume quota. To absorb the expense of salesman's compensation and travel as well as promotion, a territory must produce a certain volume of business. Accordingly, the profitable minimum volume of sales that must be secured to cover costs is a factor in determining a volume quota.

7. *Product improvements.* This factor has a definite bearing on sales-volume quotas. The introduction of a new product or an improvement in an old product should make it possible for a sales-

man or a distributor to attain a greater volume of sales, and the quota must be adjusted upward accordingly.

8. *Prices.* "Price policy" is an important factor in the establishment of sales quotas. A sharp reduction in price, for example, may result in a salesman's or a distributor's obtaining a considerably greater volume of sales with no additional effort. In a period of rising prices, however, sales may be curtailed, and quotas should be reduced.

9. *Business conditions.* Economic conditions have an important bearing on the sales-quota figure. In periods of improved business, quotas may be higher, whereas in periods of depression, economic conditions call for a reduction in quota figures.

10. *Competition.* The character and strength of competition have a bearing on the establishment of sales quotas. The amount of the potential sales available is reduced in proportion to the strength of competition. Accordingly, the competitive situation in each area must be carefully examined.

11. *Sales ability.* The ability, attitude, and experience of the salesman are important factors in determining whether or not he can attain the quota figure. The human factor cannot be overlooked in determining sales quotas. If a salesman does not have the ability to attain the potential determined by market analysis and consideration of other factors, the quota figure must be reduced to come within reach of his ability.

Securing acceptance of quotas by salesmen. A sales-volume quota is of little value unless salesmen, dealers, or distributors concerned are convinced of the fairness of the quota and accept it as a reasonable expectation of sales, possible of attainment. Accordingly, those concerned in attaining the quota should be consulted in its preparation. In one large electrical-equipment sales organization individual salesmen are required to estimate their sales volume; these estimates are checked by branch managers, who in turn forward them to district managers; the latter forward their sales estimates for their respective territories to the home office, where the total of these field estimates are combined to form a national quota. In each step of the process, the factors of past sales, selling costs, product improvement, business conditions, competition, advertising and sales promotion effort, and the ability of the salesman are considered.

After the sales or distributing organization is convinced of the fairness of the quota, the quota objectives should be kept before them by frequent reports on quota performance and personal conferences. Charts or graphs illustrating the progress of each distributor, dealer, or salesman in the attainment of quotas are effective aids in insuring quota performance.

3. RECRUITING AND SELECTING SALESMEN

The recruiting problem. Recruiting is a continuous problem in most sales organizations because of resignations, retirements, disabilities, replacements, transfers, and deaths. In the sale of luxuries, specialties, and intangibles, recruiting is more difficult than in staple lines, and few salesmen volunteer for work in these fields. Accordingly, it is necessary for management to "sell the job" to men who can qualify for selling life insurance, securities, home appliances, and similar luxury or intangibles lines. On the other hand, many small sectional or local sales organizations distributing staple or industrial products have low personnel turnover and no recruiting problem.

In large as well as small organizations distributing all types of products, a periodic review of sales personnel is desirable. Personnel requirements should be anticipated, and necessary changes planned at least a year in advance.

A large manufacturer of electrical apparatus requires each of its sales departments annually to budget its probable requirements for salesmen for the ensuing year by quarters. In this way the company is able to recruit and select competent men and train them properly for the openings that may develop. Instead of waiting until a demand for salesmen suddenly presents itself before seeking men to fill the opening, good management plans in advance for future personnel.

The recruiting process. The process of recruiting salesmen is analogous to selling. The sales manager must locate prospective salesmen; he must learn as much as possible about their personal history and circumstances; he must present his proposal to them, convince them of the opportunities in the sales work, and then follow up to make sure that everything is done to help the recruit succeed in his new work.

Determining type of salesman wanted. The first step in the recruiting process is to arrive at a definite understanding as to the type of man best qualified to perform the sales job. Obviously, the type of salesman will vary widely with the type of product or service to be sold, class of buyer, demand for the product, and nature of the sales job.

The method of determining the type of salesman qualified to perform a specific sales job is to prepare a job analysis describing the duties to be performed by the salesman, together with the difficulties likely to be encountered in the work. Such a duty and difficulty analysis discloses the specific requirements of the job, together with personal characteristics necessary to perform the duties and surmount the difficulties. A list of duties and difficulties may be readily prepared by consulting sales supervisors and salesmen and drawing on the experience of the management. Opposite the duties and difficulties may be listed the obvious personal qualities needed, such as technical ability, college education, appearance, tact, initiative, analytical ability, age, nationality, physique, and so on.

The apparatus salesmen of a large electrical equipment manufacturer must possess the following personal qualities to perform the duties and meet the difficulties in their specific work: (1) technical ability and general intelligence; (2) business sense; (3) energy or willingness to work; (4) personality; (5) appearance; (6) leadership or ability to organize, supervise, and inspire others; (7) character and loyalty.

In addition to such personal traits, other factors, including age, education, marital status, previous experience, membership in organizations, and savings, should also be considered, since these relate to the duties to be performed and the difficulties to be encountered in the specific sales job.

Analysis of the personal qualifications and characteristics of the present salesmen in a sales organization will serve to reveal the personal characteristics desirable for selling a specific product or service. For example, if the successful salesmen in an organization at the period when they were inducted into the business were under thirty years of age, college graduate, single, and without previous selling experience, it might be assumed that these characteristics were desirable for men who were to be engaged for selling the product in question.

Likewise, a study of the characteristics of successful salesmen of competitors in the same industry might also reveal traits identified with success in selling that type of product. An analysis of the membership of the life insurance "Million-Dollar Round Table," composed of million-dollar producers, revealed that 32 per cent of the group were formerly salesmen, 29 per cent business executives, and 21 per cent professional men. This study shows that over 80 per cent of the successful salesmen in this group came from three sources.

Establishing standard personal qualifications. By studying the duties and difficulties of a specific sales job, the type of product or service to be sold, the class of buyer, and by analyzing the characteristics of present salesmen in the organization as well as successful salesmen in the business as a whole, a standard of personal qualifications may be readily established and used as a basis for future selection. Many sales managers have a general conception of the type of man desired, but few have reduced to writing the exact qualifications necessary for success in selling a specific product or service.

When several functional types of salesmen are employed in an organization, separate standard characteristics should be established for each type. A junior salesman may require certain personal characteristics not demanded by the work of a missionary salesman. An export salesman may need far more knowledge, experience, and education than a domestic senior salesman. A sales engineer may need considerable technical education and mechanical aptitudes.

Sources of salesmen. When the type of salesman wanted has been determined, and standard qualifications for the sales job have been established, the sources from which such men may be selected are next explored.

The sources of present successful salesmen in the organization should first be considered. Analysis of the employment records of salesmen currently connected with the organization will reveal those sources from which the outstanding salesmen have been obtained in the past.

Likewise, analysis of the major sources from which salesmen for the entire industry are obtained will indicate likely sources of recruits. Through trade associations, industry magazines, by exchange

of information with co-operative competitors, the most likely sources of salesmen can be identified. An industry study made for the life insurance business revealed that there are the following four major sources of prospective agents:

1. From those personally known to the sales manager.
2. From centers of influence or nominators. Recruits secured through these two sources averaged \$11,500 production in their first month under contract.
3. From the present agency force.
4. Through direct mail advertising.

Recruits from group 3 averaged \$7,500 production during their first month, while recruits from group 4 averaged only \$1,500. As compared with the average length of time needed to complete negotiations with recruits from sources 3 and 4, approximately six times as long is required to induct into the business recruits from sources 1 and 2. This type of industry experience is invaluable to a sales manager in determining the most likely sources of salesmen for his organization.

Other sources of salesmen. Following is a summary of the possible sources of prospective salesmen.

1. *Company rotation training.* A growing number of companies, large as well as small, are using rotation training as a source of salesmen. Selected groups of young men are trained by rotating them for a year or more in various departments of an organization, during which time their work is carefully observed and rated. At the completion of the training, a decision is made as to the acceptability of the trainee for sales work.

A progressive manufacturer of drug specialties recruits annually twenty-five selected college graduates; they are paid a salary plus expenses while they are in training. The candidates spend four weeks in the New York office of the company, followed by fourteen months of sales experience in the field. At the end of that time, men who have proved their ability as salesmen are retained by the company, while those who are not selected are given a cash graduation present, and an effort is made to place them in other organizations. During the training period, company officials lecture to the trainees on such subjects as business organization and practices, cur-

rent business problems, principles of salesmanship, food and drug legislation, fair trade, export advertising and merchandising, sales promotion, and similar subjects.

2. *Hiring from within.* The current trend is toward the employment of salesmen from within an organization before any search is made outside. Men recruited from the office or factory are familiar with company policies and products and are loyal. Moreover, the management has had an opportunity to observe them closely and judge their abilities. A meat-packing company with 3,000 employees follows a firm policy of exhausting all possibilities among plant employees before looking elsewhere for salesmen.

3. *Through present salesmen.* New salesmen may be recommended by experienced, successful men now representing the company. In their dealings with customers, salesmen have an opportunity to become acquainted with promising sales material. Wholesale salesmen have an opportunity to observe salespeople in retail stores, many of whom are possible candidates for wholesale-selling work. Through his acquaintance with such retail salespeople, a manufacturer's salesman is in a position to observe their industry, courtesy, and other qualifications.

The sales manager of a large paint manufacturer says: "We get good leads on new men from our own good salesmen. Poor salesmen, on the other hand, rarely produce good sales candidates."

4. *Through present customers.* Customers who are favorably disposed toward a product and organization are frequently in a position to recommend likely salesmen. Nominating letters may be sent to selected lists of customers asking them for names of prospective salesmen. Life insurance agency managers and other specialty sales executives send out a continuous series of nominating letters to policyholders and customers. Purchasing agents who have frequent contact with salesmen are usually qualified to recommend candidates for sales positions.

5. *Advertising.* Periodical advertising in the classified and display sections of daily newspapers and business magazines is a commonly used source of salesmen. However, exaggeration and misrepresentation by advertisers have in large part discredited classified advertising as a source of salesmen. Direct-mail advertising to selected occupational groups and recommended prospects is often an effective source. Advertising in business magazines is selective in coverage

and normally produces a higher-grade candidate than newspaper advertising.

6. *Schools and colleges.* The alumni placement services of colleges, particularly those offering business administration courses, provide a source of experienced salesmen with academic training. Men who are completing their college work are being sought intensively by many progressive sales organizations operating training schools. One large floor covering organization that recruits annually twenty-five men for sales-training classes interviews some 2,000 candidates at forty-three universities each year.

7. *Hiring from competitors.* Fewer sales organizations are hiring from competitors than in the past. It is difficult to transfer a salesman successfully from one company to another in the same competitive field. Men hired from competitors are frequently independent in attitude, difficult to control, and demanding.

8. *Voluntary applicants.* Occasionally, voluntary applicants provide a favorable but limited source of candidates. Naturally, in periods of depression, the volume of voluntary applicants increases. This source must be considered supplementary rather than basic.

9. *Employment agencies.* While some employment agencies list salesmen, they are usually more concerned with placing clerical workers and are little interested in placing salesmen on commission. The specialized sales employment agencies, however, recommend higher type sales personnel. These agencies are more familiar with the qualifications demanded in salesmen and are a more reliable source of sales material.

Selecting salesmen. When a candidate for sales work has been discovered in one of the sources previously described, the next and more difficult problem is to determine his fitness for the sales work under consideration. The process of measuring or testing sales applicants is receiving more attention today than ever before. Effective manpower is the fundamental of every successful sales force. High turnover of salesmen and the expense of recruiting, selection, and training emphasize the importance of a sound selection system.

Process of selection. The process of selection requires two basic steps. The first step is to consider the personal qualifications required for the sales job. These qualifications may be determined

as discussed previously by a job analysis; consultation of the personal-history records of present successful and unsuccessful salesmen in the organization; and consideration of the type of product, class of trade, prevailing demand, and price. These factors will determine the specific personal qualifications sought in an applicant as indicated by his age, education, number of dependents, previous experience, health, previous income, and other considerations. A standard of qualifications for each of these personal-history factors should be established before applicants are selected.

When the personal requirements for a specific sales job have been determined, the next step is to establish a system for comparing the qualifications of candidates for sales work with the standard qualifications established. The system may be compared to a yardstick or tape in making linear measurements. The elements of a good selection system are:

1. Application forms.
2. Letters of reference from previous employers.
3. Personal interviews.
4. Intelligence and aptitude tests.
5. Physical examinations.
6. Field observations.

Application forms. When an applicant applies for sales work, he is usually given a preliminary application blank calling for basic information relative to his age, education, previous experience, dependents, previous income, and number of previous employers. Later, at a second interview, he is asked for additional information on a long form listing factors considered significant by the employer in respect to the personal qualifications necessary to perform the sales work successfully.

A long form of application suitable for employment of salesmen is illustrated on pages 296 and 297, Figures 28a-b.

In a number of companies the information supplied by the applicant on the application form is scored by giving a numerical value to each personal history factor listed on the form. Critical scores obtained from actual production records of present salesmen in the organization are used to evaluate the personal history score of the applicant. By starting with a preliminary application form

(Name of Company)

APPLICATION FOR POSITION

(Must be in applicant's own Handwriting)

City _____ Date _____

Name _____
(First Name) (Middle Name) (Last Name)Present address _____
(Street and Number) (City) (State) (Telephone)Permanent address _____
(Street and Number) (City) (State) (Telephone)

Do you live with parents _____ Board _____ Rent or own home _____ Rent per month _____

Age _____ Height _____ Weight _____ Present condition of health _____

Physical defects _____

How much time have you lost through illness in last two years _____

Married or single _____ Number of children _____ Other dependents _____

Name of Person to be notified in case of Emergency:

(Name) (Street and Number) (City) (State) (Telephone)

From what grade of schools did you graduate and when _____

Other educational work _____

Name and address of present or last employer (state which)

How long there _____ Salary _____

Nature of duties with above _____

Name and address of last three employers, length of time with each and reason for leaving:

_____Character references _____
(Name) (Street & Number) (City) (State)_____
(Name) (Street & Number) (City) (State)_____
(Name) (Street & Number) (City) (State)Starting salary expected _____ Signature _____
(over)

Figure 28a. Application for Position.

**THESE ADDITIONAL QUESTIONS ARE TO BE ANSWERED BY APPLICANTS FOR A POSITION ON SALES FORCE
(Salesmen, Distributor, Demonstrator, etc.)**

Do you own real estate: Value Incumbrance

Do you own stock or bonds: Value Incumbrance

Do you own a car: Make

Do you carry liability Insurance: Amount

Have you any loans or debts: How much past due:

Particulars of same:

Have you any other income besides what you will receive from us: Amount \$

What insurance do you carry: Life \$ Health \$ Accident \$

Have you ever been employed by us before: In what capacity and where:

Have you any relatives in our employ.

Name of personal acquaintances in our employ.

In what territories have you had more than six month's experience:

.....

With what territories are you most familiar.

What territory do you prefer.

What classes of trade have you sold:

What experience have you had in our line:

Have you ever been bonded, and for what amount

Has bond ever been refused:

Can you give a surety bond (at our expense):

Does last or any previous employer claim any unpaid balance against you:

Applicant hereby consents to immediate dismissal if at any time hereafter

- (a) Applicant's bond be cancelled by Surety for any reason
- (b) It becomes apparent that applicant has made false, evasive or incomplete answer in application for Surety bond, to any questions therein, and more particularly to the following "18—Have you ever been discharged from any position? Give particulars"; "19—Have you ever been in arrears or default in your present, or any previous employment? Give full particulars"; "20—Do you owe any present or past Employer anything? If so, to whom, how much, on what account, how secured and when due."

Signature of Applicant.

APPLICANTS FOR SALES FORCE POSITIONS MUST FURNISH POST CARD SIZE MUG PHOTOGRAPHS

Figure 28b. Application for Position—Reverse Side of Figure 28a.

undesirable applicants are quickly eliminated, and time of interviewers is conserved.

Personal interviews. Applicants for sales work are universally required to be interviewed by one or more sales executives for the purpose of determining whether the candidate's qualifications fit him for the sales job and to enable the employer to present the job to the applicant. While many experienced sales executives pride themselves on their ability to select salesmen solely by personal interview, personal judgment has been proved to be an ineffective method of evaluating an applicant's likelihood of success in the sales organization. Opinions of interviewers are usually subjective, colored by personal experiences, and often unreliable. Nevertheless, with all their limitations, personal interviews remain one of the fundamental methods of ascertaining the intangible personal characteristics of an applicant which reveal his fitness for sales work.

In an effort to make personal interviews more valid, an interview judgment-rating form, on which interviewers check their impressions, provides a guide for each interviewer, prevents hasty opinions, and enables comparison of the views of several interviewers. A form of judgment chart is given in Figure 29, on page 299. Some sales executives prefer to interview an applicant in his own home, at a club, or in an informal social setting. In a large electrical equipment manufacturing organization, selected applicants are taken in groups of ten to attend a luncheon with the general sales executives, where each candidate is required to give a short talk about himself and tell specifically why he is interested in becoming a salesman for the company. After the luncheon, the sales executives carefully rate each of the applicants and decide which ones may be qualified for sales work.

Many companies are using as an interviewers' guide a "patterned interview," listing significant questions to be asked by the interviewer.

A telephone check or personal interview of previous employers is desirable as a means of verifying the information obtained during the personal interview.

References. A form is frequently sent to previous employers of a sales applicant to verify questions of fact regarding dates of previous employment and amount of income received. An example

J U D G M E N T C H A R T

Interviewed by. Name.....
 Date.....

The prospective salesman should be judged on the qualities set out below. First, in reaching a judgment on a quality, mark, in the blank space following each of the questions, an "N" indicating negative and a "Y" indicating affirmative, or with a "+" if you are undecided. These questions, while not an exclusive list of points involved in each quality, will give you an indication of the elements to be considered in evaluating that particular quality. Then, indicate your opinion on each quality by making a check (✓) on the line, just where you think it ought to be. For example, if, in item 1, you think the prospective salesman is a little lower than "good", but not quite low enough to be recorded as "Fair", put the check mark on the line somewhere between 75 and 50.

oooooooooooooooooooooooooooo

	Excellent	Good	Fair	Poor
APPEARANCE	100	75	50	25
Facial expression pleasing? Erect carriage? Clothes neat? Hands and nails clean? Physique impressive? Inspires confidence? Awkward? Sits erect in chair?				
MANNER	100	75	50	25
Courteous? Smoked uninvited? Friendly? Agreeable? Polite? Over-familiar? Breezy? Crouchy? Optimistic? Rough? Enthusiastic? Objective minded? Tactful?				
PHYSICAL CONDITION-	100	75	50	25
Would be willing to have exam by our doctor? Nervous? Eyes bright? Skin clear? Exercises? Recent serious ailments or conditions?				
VOICE-LANGUAGE	100	75	50	25
Any foreign accent? Sectional accent? Speech peculiarities? Talks too loud-too low? Enunciates clearly? Mumbles words? Good vocabulary? Mistakes in grammar?				
DETERMINATION-COURAGE-	100	75	50	25
Any athletic record? Likes tough job? Strong reaction to adverse comment on his selling ability? Insists on consideration for job? Confident he could sell product? Easily discouraged about opportunity? Annoyed by interruption?				
LOYALTY-COOPERATIVENESS-	100	75	50	25
Mentions former employers favorably? Complains of former superior? Complains of "raw deal"? Would accept suggestions?				
HONESTY-RELIABILITY-	100	75	50	25
Willing to be bonded? Looks you in the eye? Hesitant about any of past record? Any discrepancies in experiences? Previous positions of responsibility? Boastful? Sincere?				
IMAGINATION-RESOURCEFULNESS-	100	75	50	25
Sells himself effectively? Started and carried through any projects? Full of ideas? Good Sales talk about previous items sold? Good talk on hypothetical sales problem? Has checked company and products?				
INTELLIGENCE	100	75	50	25
Good scholastic record? Quick reaction to explanation of our Products? Slow in giving answers? Open-minded? Tolerant?				
KNOWLEDGE OF CURRENT AFFAIRS-	100	75	50	25
Interested in political & economic problems? Understands functions of Congress and Courts? Reads something besides newspapers? Familiar with names in public affairs?				
INDUSTRY	100	75	50	25
Easy going attitude? Hard worker in previous job? Ambitious? Worked while in school?				
METHODICAL	100	75	50	25
Jumps at conclusions? Kept records in former job? Keeps personal record? Good attitude towards daily reports? Explains ideas clearly? Thrifty? Even tempered?				
PARTICIPATION IN INTERVIEW-	100	75	50	25
Talked too much? Organized answers to questions? Volunteers information? Rarely answers questions?				

REMARKS ----

Figure 29. Judgment Chart.

of such a form is the four-page folder reproduced on pages 301-303 (Figures 30a-b-c-d.) Aside from questions of fact, little worthwhile information is ordinarily obtained when the opinion of the previous employer is sought on questions of the applicant's habits, industry, conduct, and ability.

Intelligence and aptitude tests. No single selection device has aroused more interest in recent years than aptitude and intelligence tests. Although tests have demonstrated their value in a few sales organizations, a majority are in the experimental stage, and little evidence has been produced to reveal their value in the selection of salesmen. Many sales executives are vainly seeking for general aptitude tests which will enable them to predict the future sales success of a candidate for sales work. So far, no such test has been devised. Intelligence tests of mental alertness, personality, and the like, are in no sense a measure of proficiency in selling.

A large electrical equipment manufacturer uses the following intelligence and aptitude tests in selecting salesmen: Army, Alpha and Beta Tests; the Inglis Vocabulary Test; the McQuarrie Test for Mechanical Ability; The Vocational Interest Blank for Men by E. K. Strong, Jr.; and the Personality Inventory by R. G. Bernreuter. This company is developing a procedure to help establish the reliability of these tests.

A test of selling aptitudes for a specific sales job must take into consideration the duties and difficulties involved in the specific work, and some companies are developing their own aptitude tests along these lines.

Sales managers, with the assistance of sales testing consultants, are experimenting with different types of tests and making comparisons between the scores that new salesmen receive at the time they are employed and their subsequent success as measured by sales volume, new accounts, and so forth. These tests are also being evaluated by personal ratings of the salesmen's records, made by their supervisor and other sales executives. Tests are of little value until the meaning of the test scores in terms of probability of success in selling is determined.

Physical examinations. Good health has such a direct bearing on the personal appearance, mental attitude, and industry of a

Dear Sir:

Mr. _____ is being considered as a sales representative of this Agency. Your opinion of his fitness for our business will assist us in deciding whether or not he is likely to succeed as a life insurance salesman.

For your convenience we have arranged page 3 so that you can indicate your opinion by entering a few check marks.

We want to be fair to Mr. _____ as well as to our Agency and Company. It would be unjust to him and disadvantageous to us to appoint him if he is not suited to our business. In order that his qualifications may be properly appraised, we hope you will give page 3 your prompt and thoughtful attention.

Yours very truly,

Figure 30a. First page of four-page reference letter.

WE REQUIRE
OF THOSE WHO REPRESENT US:

1. A record of success in previous work
2. A record of industry.
3. Happy home life
4. Self-reliance
5. Physical energy—endurance
6. Demonstrated ability to manage own affairs
7. Ambition to get ahead
8. Mental alertness
9. Eagerness to render social service
10. Loyalty

Probably no one life insurance salesman could possess all these qualifications. He should, however, possess a goodly number of them. Many of the others may be cultivated.

Figure 30b. Page 2 of four-page reference letter.

Your answer to each question may be indicated by a cross (X) placed in the proper brackets. If the applicant has not been in your employ, please answer only questions 5 to 9 inclusive.

-
1. Mr. states that he was in your employ as Does this correspond with your record? Yes () No ()
 2. He states that he left because Is this an adequate statement? Yes () No ()
 3. Were you personally acquainted with him and his work? Yes () No ()
 4. Was he always honest in financial dealings? Yes () No ()
-

	Exceptional	Very Good	Satisfactory	Poor	Very Poor
5. How do you rate his <i>personal habits</i> and <i>conduct</i> ?	()	()	()	()	()
6. How do you rate his <i>industry</i> ?	()	()	()	()	()
7. How do you rate his <i>determination</i> in spite of difficulties?	()	()	()	()	()
8. How do you rate his fitness for a <i>selling position</i> ?	()	()	()	()	()
9. How do you rate his ability to direct his own work?	()	()	()	()	()

10. Would you be willing to re-employ him? Yes () No ()
- We shall appreciate any additional information that may assist us in judging the applicant's fitness for the position.

Signature

Figure 30c. Page 3 of four-page reference letter.

Please give any further information which you feel might affect the applicant's success as an insurance salesman. This information will be held in strict confidence.

Figure 30d. Page 4 of four-page reference letter.

salesman that physical examinations are universally given by all progressive companies in qualifying candidates for sales work. In some types of selling, unusual demands on the physical fitness of a salesman call for rigid physical qualifications.

Observation on the job. When candidates for sales work are observed selling in the field, an opportunity is afforded to check their qualifications on the job before they are contracted.

Summary of selection methods. A sound selection procedure includes several of the selection devices previously described. Each method of selection should be tested in the light of experience by comparing the performance of the salesman selected with the ratings and evaluations made by the sales executives who interviewed him at the time of his selection. Continuous experimentation with various selection devices is necessary to insure an effective selection system.

4. EQUIPPING SALESMEN

Need for sales equipment. An increasing number of sales organizations are aiding salesmen to improve their effectiveness by providing them with tested selling tools to save the salesmen's time; gain the attention of the buyer; make multiple selling appeals to the sight, touch, taste, and hearing of the buyer; keep salesman and prospect on a direct line of thought; avoid interruptions and distractions during sales presentations; provide salesmen with an abundance of selling points; enable salesmen to tell a complete story; increase the salesman's confidence; dramatize the sales presentation; and save the buyer's time.

Qualities of good sales equipment. Well-planned salesmen's equipment should meet the five following requirements:

1. It should be related to the product or service being offered. Trick attention-getters not relevant to the salesman's presentation

simply serve to distract the prospect and confuse the presentation.

2. Equipment should be designed to permit a prospect to participate in its use, thereby experiencing for himself the advantages illustrated by the equipment, and, at the same time, satisfying the human instinct to touch and handle the novel and ingenious.

3. Equipment should be light in weight and not bulky to permit easy handling and encourage use by the salesmen. Much interesting and convincing equipment is not used because of its large size.

4. Attractiveness in appearance and design is fundamental to good sales equipment. The quality of the product or service being offered by the salesman is reflected in the appearance of the sales equipment.

5. Novelty in conception to attract attention and arouse interest is characteristic of good sales equipment.

Types of selling equipment. The type of selling equipment required by a salesman depends upon the nature of the product, type of prospect or customer, method of travel, number of salesmen employed, and custom in the trade. Salesmen of technical products are equipped with engineering data, mechanical-performance figures, cost information, blueprints, illustrations of installations, and facts for technically trained buyers. Consumer goods salesmen, on the other hand, carry equipment to illustrate design, beauty, appearance, ease of operation, comfort, and similar consumer appeals.

The objective of salesmen's equipment is to provide the average salesman with information and devices to enable him to tell a better sales story, to add printed weight to his statements, to save time, to hold attention, and to create a more lasting impression of the product or service on prospects.

The most important types of salesmen's equipment are:

1. Samples of the product being sold by the salesman.
2. Various types of miniature models, including working models, nonoperating models, cross-section models, and toy models.
3. Portfolios, including loose-leaf, pyramid-easel, accordion-fold, and zipper, in standard $8\frac{1}{2} \times 11$ inch and miniature sizes.
4. Motion-picture projectors and sound and silent motion pictures in 16-mm. width.
5. Sound and silent slide films and projectors.
6. Demonstrating devices.

7. Charts and diagrams.
8. Advertising materials, including booklets, folders, broadsides, proofs of publication advertisements, business cards.*
9. Sales and sample cases.
10. Sales manuals.
11. Service and engineering manuals, catalogues, price lists, and policy books.
12. Automotive trailers.

Applications of selling equipment. The various types of selling equipment mentioned above have been applied to aiding salesmen in: locating prospects; securing interviews; staging interviews; opening interviews; and demonstrating, presenting, and closing sales. In addition, this equipment is used in training salesmen and facilitating the operation and control of salesmen in the field. Examples of the use of various types of sales equipment in locating prospects and making presentations follow.

Equipment to locate prospects. A large manufacturer of oil-burner and domestic stoker equipment equips dealer salesmen with sound-slide films and sound-slide projectors featuring the benefits of the product. The films are shown by the salesmen to their friends, neighbors, and acquaintances, who are asked for the names of any of their friends who might enjoy seeing the pictures. As a result of these showings, live prospects are uncovered. In one two-week period one salesman made sixty-one showings, uncovered eighteen prospects, and closed five sales for an average return of \$2.20 per showing.

Equipment to secure interviews. Salesmen may be provided with special equipment to enable them to secure interviews with prospects. One automobile manufacturer supplied retail salesmen with miniature models of passenger cars, suitable as paperweights or toys for children. Salesmen offered these models to prospects in return for an opportunity to present the features of the car. The Fuller Brush Company has for a long time been offering through its salesmen gift brushes as inducements to prospects to grant interviews to salesmen. Other novelty equipment, including memorandum books, ash trays, mechanical pencils, and business cards, are furnished salesmen to aid them in securing interviews.

Staging interviews. Salesmen who are confronted with the prob-

lem of finding a suitable place to conduct interviews and demonstrations with prospects are equipped with automobile sales trailers fitted up as salesrooms, which are driven to a consumer's home or a dealer's place of business. Faced with the difficulty of getting the prospect to come to the showroom, salesmen with trailers overcome this problem by bringing the showroom to the prospect. The advantages of sales trailers are: (1) interruptions are prevented; (2) the novelty of a trailer presentation is impressive; (3) a full line of samples and sales equipment is available; (4) longer and more complete presentations are possible; and (5) actual demonstrations with the product are possible. On the other hand, trailers are difficult to park and operate in congested areas, while the initial investment and cost of operation are high.

Opening interviews. Salesmen are provided with various types of equipment to use in opening sales interviews. Portable, record-playing radios were used by salesmen of a large meat packer to play to retail merchants a five-minute recording of the company's radio broadcast. An optical equipment maker aided salesmen in opening interviews by providing them with a small paper box bearing the question, "Would you swap one of yours for this?" When the prospect opened the box, he found a glass eye.

Demonstrating equipment. Many companies equip their salesmen with unique demonstrating devices to enable them to present outstanding features of their products in dramatic and novel ways. A motor truck maker has equipped salesmen with miniature truck models with removable power units to demonstrate how easily power units can be removed from the trucks.

Presentation equipment. To aid salesmen in making more effective sales presentations, various types of equipment have been devised. The most common type is a presentation portfolio in which sales points are arranged in logical order and illustrated with charts, photographs, or cartoons, accompanied by brief explanations. Included in presentation portfolios are testimonial letters, illustrations of product installations, names of users, clippings, diagrams of construction features, and advertising, all or a part of which may be referred to by a salesman in making his presentation.

Advertising portfolios containing proofs of advertisements, schedules of insertion, circulation coverage, and testimonials of effective-

ness are also supplied to salesmen to aid them in presenting their advertising story.

Sound motion-picture and slide-film projectors and films are standard sales equipment in many organizations for selling both consumers and dealers.

Charts and diagrams are effective sales tools. An appliance manufacturer devised a large chart, or "visualizer," mounted on the product, featuring principal selling points with novel demonstrating devices attached for use by retail salesmen in making sales presentations.

Closing equipment. While much of the previously described sales equipment contributes to closing a sale, special equipment for this purpose has been designed in a number of companies. A large stationery supply house has equipped its salesmen with novelty order books, 2×2 feet in size, as a suggestion to customers and a reminder to salesmen that the mission of the salesman is to secure orders. An automobile manufacturer equipped retail salesmen with a "closing stone," a gilt pocket piece, to remind them to ask for an order.

Training equipment. Equipment for training manufacturers', distributors', and dealers' salesmen consists of sales manuals, policy books, catalogues, specification sheets, engineering and service manuals, sound and silent motion pictures, and slide films. Some of this equipment is carried regularly by a salesman for ready reference as a source of answers to objections and technical information.

Many manufacturers train dealer salesmen with sound slide films and records issued periodically throughout the year. A large electrical appliance manufacturer furnishes the following equipment to retail dealers: twelve slide films and records, sound slide film projector, film and record-carrying case, and twelve dozen film pamphlets. The dealer shares with the manufacturer in the cost of this training equipment. Similar training equipment is provided by other large manufacturers.

Operating equipment. To facilitate the operation and control of salesmen in the field, a variety of forms are provided for reporting on calls, interviews, sales, lost orders, missionary work, adjustments, credits, and traveling expenses. Figures 31, 32, 33a and 33b (pages 308-311) illustrate typical sales reports that are included in a sales-

[illegible]

Figure 31. Daily Summary Control.

A daily summary report of individual salesman's activities, showing amount and type of activity as well as results.

N. Y. 637-51871-50M-6-30.

This list must be mailed to your District and Territory Sales Manager not later than Saturday P. M. giving routing for the following week

Salesman's Advance Route List

Name _____

Permanent Address _____

For the week ending Saturday, _____, 19____, and Sunday following.

	CITY	STATE	Name Hotel or Care General Delivery
Sunday			
Monday			
Tuesday			
Wednesday			
Thursday			
Friday			
Saturday			
Sunday			
FOLLOWING WEEK			
Monday			
Tuesday			

Figure 32. Route List.

A simple form of planning sheet giving a salesman's itinerary for the next succeeding period.

Form 42

Salesman's Weekly Report

BRANCH _____

WEEK ENDING _____ 19__

NAME _____ HDQTRS _____

CLASS _____

TERRITORY _____

TO BE FILLED IN BY BRANCH			NUMBER OF		NUMBER OF		NUMBER OF	
			DAYS WORKED		CALLS		ORDERS	
AMOUNT	TOTALS							
SALARY								
EXPENSE								
LESS E & A								
STOCK								
NET AMT PAID								
CHECK NO.								

ENTER DATE BELOW	RAILROAD AND INTERURBAN		R R FARE	AUTO EXPENSE	TOWN AND NAME OF HOTEL	HOTEL EXPENSE	SLEEPER	OTHER EXPENSE	TOTAL EXPENSE
	FROM	TO							
S U N					B				
					D				
					S				
					L				
M O N					B				
					D				
					S				
					L				
T U E S					B				
					D				
					S				
					L				
W E D					B				
					D				
					S				
					L				
T H U R S					B				
					D				
					S				
					L				
F R I					B				
					D				
					S				
					L				
S A T					B				
					D				
					S				
					L				
TIME CARD RECEIVED		TOTALS							
SAMPLE REPORT RECEIVED						TOTAL EXPENSE FOR WEEK (EXCEPT SALARY)			

EXTD. Q. E. _____ APPROVED _____ TERRITORY MGR. _____ APPROVED _____ PAY _____ (OVER)

Printed in U. S. A.

Figure 33a. Salesman's Weekly Expense Report.
A weekly report giving details of expenditures.

Report of Expenses

INSTRUCTIONS

Expense accounts must be mailed at end of each week. The week's expenses will commence with breakfast Sunday and end with lodging Saturday, making the full week.

Under the head "R. R. & Interurban" enter names of towns to and from which each trip is made and amount of fare.

Railroad fares incurred on your own account or on trips outside of your own territory are not chargeable in the expense account.

Foot each of the five columns, show the TOTAL expense on the BOTTOM RIGHT hand line.

Each charge must be itemized, stating what it is for, and only such charges as are deemed reasonable and necessary will be allowed.

We do not pay for chair car or other transportation extras, except straight sleeping car rate for night trips.

All auto expense or sample charges must be accompanied by a receipt.

Automobiles are not to be used as a convenience and are to be employed only when it will enable you to accomplish in one day that which without auto would require two or more days.

Salary or expenses will not be paid when salesmen are not working because of illness or other reasons.

No allowance will be made for incidental expenses unless previously arranged.

We do not honor drafts or send money by telegraph.

We pay legitimate traveling expenses necessarily incurred in the transaction of our business (such as hotel bills—for lodging and meals only—railroad fares and postage) at exactly the prices paid by our salesmen. We do not pay laundry, barber or any personal expense. Any overcharge or manipulation of expense items is dishonest and will not be tolerated.

Charge only such hotel bills as are incurred when working territory outside of your home city or "headquarters town," as hotel expenses incurred while you are at home or in "headquarters town" are not chargeable to us.

The above instructions must be strictly observed and daily and weekly reports agree exactly or expense accounts will be subject to deduction.

Checks will not be mailed until new time card and all reports are received.

Totals on reverse side of this sheet represent actual expense incurred.

Signature

Where shall we send check?

Town

Care of

Figure 33b. Reverse Side of Figure 33a.

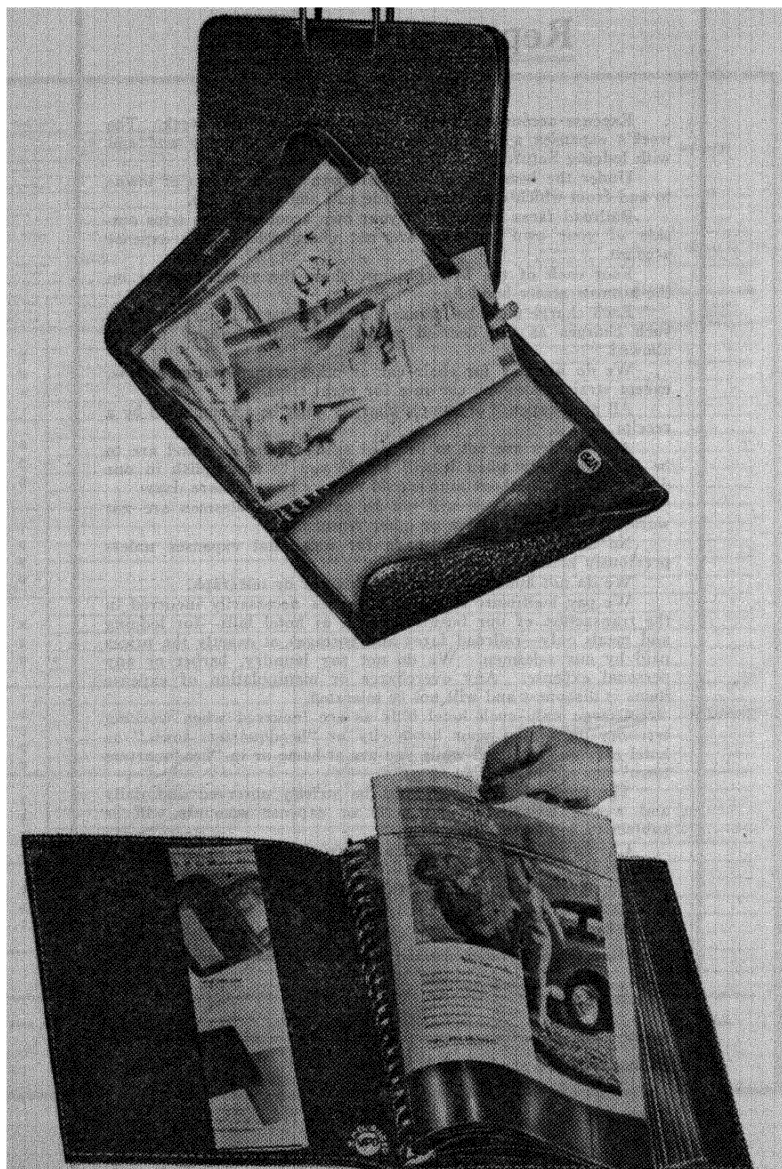


Figure 34a. Two Types of Sales Kits (loose-leaf books with acetate pages).
Courtesy, Joshua Meier Company, Inc., New York, N. Y.



Figure 34b. Portable DuKane Micromatic Sound Slidefilm Projector. Used by salesmen in making visual presentations to consumers. The recorded sales talk is synchronized with the illustration projected on the screen.

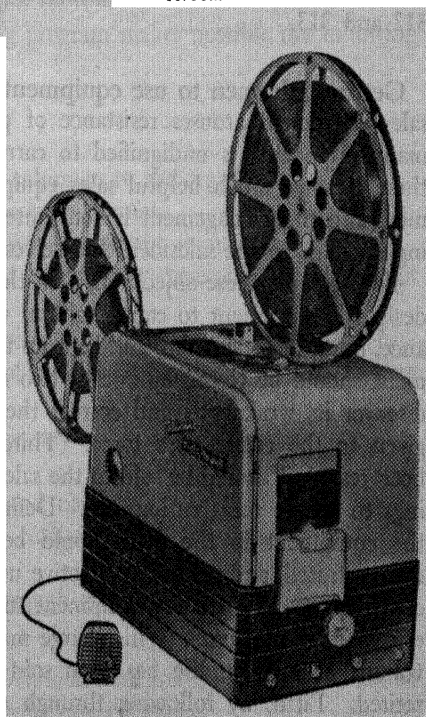


Figure 34c. Bell & Howell Film-sound 202 16 mm Optical-Magnetic Recording Projector. Records as well as plays back sound on film by means of a magnetic Soundstripe applied to the film edge. Recording is done by speaking into the microphone as the movie is projected on the screen.

man's equipment. Order books, price lists, and specification forms are also included in a salesman's equipment.

Equipment cases and kits. For convenience in carrying and protection, all of the aforementioned equipment is packed in sample cases or sales kits. The sales kits should be designed to insure the safety of their contents; to be readily accessible; to display the product to its best advantage; and to provide for convenient arrangement. A sales kit should be shaped for ease in handling and storage; light in weight to encourage its use; of good external appearance to create a favorable impression on prospects and customers; and so arranged internally as to permit individual items to be shown without unpacking.

Sales kits may be made to order to suit the requirements of an individual organization, or standard cases may be purchased that fit the equipment needs of many concerns. A periodic review of salesmen's cases to insure their good appearance and completeness is desirable. A few examples of sales kits are illustrated on pages 312 and 313.

Getting salesmen to use equipment. Some salesmen feel that sales equipment arouses resistance of prospects, is not needed in many interviews, is undignified to carry, and wastes energy. For these reasons, much helpful sales equipment is not used by salesmen, and the management is confronted with the problem of selling its value to the salesmen themselves.

To overcome these objections, first, the equipment should be well designed, convenient to carry, light in weight, attractive in appearance, novel in conception, and kept up to date. Second, new equipment should be tested by one or two salesmen in a small area to discover its weaknesses and correct them before the equipment is given to the entire sales force. Third, after the equipment has been tested, it should be sold to the sales organization at sales meetings to arouse mass enthusiasm. Definite examples of the use of the equipment in the field should be discussed, the proper use demonstrated, and results of effective use cited. Fourth, some concerns charge salesmen for equipment to insure that it will be properly handled and used. This charge may be rebated after a certain volume of merchandise has been sold or when the equipment is retired. Fifth, by following through on equipment to prospects,

some companies insure that it will be used. One industrial manufacturer gets salesmen to use presentation equipment by writing prospects that a salesman will call and use the equipment in his presentation. Salesmen are given a copy of the letter to prospects as a reminder to use the equipment in their presentations.

5. TRAINING SALESMEN

Why train salesmen? Growing competition and declining profit margins are creating a greater need for trained salesmen and emphasizing management's responsibility for developing sales personnel. Heretofore sales training has been considered a "fair-weather" activity, a luxury to be indulged in during periods of prosperity only, to be treated as an unnecessary overhead expense, and to be eliminated in periods of depression. Effective man power is the major problem of sales management, and sound training is a fundamental step in insuring sales effectiveness.

A constructive sales-training program makes possible the following accomplishments:

1. Increases sales.
2. Reduces selling costs.
3. Attracts a high type of salesman to the organization.
4. Results in better service to customers.
5. Safeguards the company's investment in new salesmen.
6. Reduces the number of salesmen by developing the ability of the individual.
7. Meets increasing competition and growing sales resistance.
8. Reduces the turnover of salesmen by making them more productive.
9. Shortens the time necessary to place a new salesman on a profitable producing basis.
10. Simplifies supervision and control of salesmen.
11. Insures satisfaction of customers through proper representation of product or service.
12. Stimulates salesmen through exchange of selling methods.
13. Provides sales-executive material.

Comparison of the work of trained with untrained salesmen shows 10 to 15 per cent greater sales by trained men.

Who should be trained? The problem of sales training from a manufacturer's standpoint involves six classes of personnel: (1) apprentices, (2) new experienced salesmen, (3) present salesmen, (4) sales supervisors, (5) field sales-management executives, including branch managers, division managers, and district managers, (6) distributor's and dealer's salesmen.

Training apprentices. Both large and small sales organizations are establishing training courses for young men starting out in business. From these training groups men with selling aptitude are selected for sales work. Typical of such programs is the Student Engineers' Course of an electric equipment manufacturer, from which men are selected for the Sales Engineers' Course. Men who have satisfactorily completed this course go into the General Office Sales Department and from there into field sales work.

A building material producer offers a similar apprentice program. College graduates are recruited annually and trained for a period of approximately nine months in company history, organization, manufacturing facilities, and financial position; following this, in the engineering, research, production, advertising, credit, traffic, legal, accounting, and claims departments. This training is supplemented by required outside reading and actual field experience in retail stores.

Training new experienced salesmen. Irrespective of previous sales experience, salesmen who are beginning work with a sales organization require training to acquaint them with new products, policies, selling problems, difficulties, and duties. Salesmen who are new in an organization are receptive to sales training, and practically all companies today give some degree of training to new salesmen.

Training present salesmen. Training a senior salesman who has been with an organization for some time is the most difficult sales-training problem. Many older men are not receptive to new ideas, consider that they know all that should be known about their work, are set in their ways, are too proud to admit lack of knowledge, and resent sales training as a childish activity. However, senior salesmen require periodic retraining as their information becomes outdated and as new products and policies create new selling problems. Training for senior salesmen, however, must be

removed from the academic and must be "sugar-coated" with practical material. The group conference discussion method is the most suitable for older experienced men.

Training sales supervisors. The burden of field sales training falls on the sales supervisor in charge of a group of six to ten men in the field. For this reason, special courses have been established in a number of companies to train supervisors in the best method of training salesmen under their supervision. Since retraining or continuation training is usually a responsibility of supervisors, the training of these men is very important. Supervisors become part of the sales-training staff in many organizations and should be instructed in the best techniques for carrying on field training.

Training field sales-management executives. In some organizations, branch managers are responsible for field supervision of salesmen in their territories and function as field trainers of salesmen for continuation and retraining of senior salesmen in the field. Some companies conduct special sales-training courses at the home office for branch managers, district managers, and division managers to train them in developing the men in their charge.

Training wholesale and retail dealers and their sales managers. Manufacturers distributing through wholesale and retail outlets also assume responsibility for training wholesale and retail dealers and their sales managers. The objective of a dealers' training program is to train the dealer so that he will be able to train his own salesmen. A large electric appliance manufacturer trains retail sales managers with a series of sound slide films entitled "Selecting Salesmen," "Supervising Salesmen," and "Holding Sales Meetings."

Training wholesale and retail salesmen. Large manufacturer sales organizations train wholesale and retail salesmen employed by dealers and distributors. Because of the large number of salesmen of this class, many of these training programs consist of correspondence courses.

Subject matter of training. The subject matter of a sales-training program depends upon the duties of the salesmen and the difficulties encountered in selling the specific product or service.

A job analysis should be made to determine the duties of the salesmen and indicate the information that they must receive through training to enable them to perform these duties efficiently. In addition, a difficulty analysis should be made of the obstacles encountered by the salesmen in carrying out their work. The usual weaknesses of salesmen are in personality, knowledge, working system, and selling technique. A training course should present material to aid a salesman in correcting these difficulties.

The choice of subject matter depends upon the duties and difficulties of the salesmen to be trained and usually includes information on:

1. The product.
2. The market.
3. The company history and organization.
4. Advertising and sales promotion.
5. Policies on credit, service, adjustments, prices, and delivery.
6. Duties of salesmen.
7. Difficulties, and how to meet them.
8. Sales methods, involving locating prospects, planning presentations, conducting interviews, demonstrating, answering objections, and closing.
9. Systematizing, time control, and work organization.
- 10. Servicing customers.
11. Sales equipment.
12. Sales territories.

Tools for sales training. After subject matter has been obtained based on the duty and difficulty analysis of the work of the salesmen, this material must be arranged in convenient form to impart to the salesmen. Training information is presented in the form of sales manuals, motion-picture films, slide films, charts, problems, bulletins, house organs, playlets, and dialogues.

The sales manual is the basic training tool. It is usually a loose-leaf, $8\frac{1}{2} \times 11$ inch binder, containing all of the essential information presented in the sales-training course. The material in the manual may be issued to salesmen serially and inserted in the loose-leaf binder as the course develops. Sometimes pocket-sized manuals or handbooks, each dealing with a specific subject in the training course, are printed and distributed to salesmen for study.

Sound slide films and records are the basis of many manufacturers' sales-training programs for their own salesmen as well as for the salesmen of distributors and dealers. A large carpet manufacturer uses two technicolor sound slide films, "Craftsmanship" and "Sale-ing Orders," to train retail rug salesmen.

Sound motion pictures are being used in increasing numbers in training manufacturers' as well as distributors' and retailers' salesmen.

Phonographic recordings of salesmen's presentations for analysis and discussion are being made by progressive sales organizations as a part of their training program.

Supplementing these basic sales-training tools are charts to visualize sales points, the sales process, and organization for group instruction. Other supplementary tools are problems or cases taken from field sales experience of the salesmen being trained to serve as a basis for group discussions. Bulletins, house organs, outlines, and dramatizations also have a part in the modern sales-training program.

Sales-training meetings. Sales-training meetings should be planned in advance, and consideration should be given to the following important features:

1. The subject of a sales-training meeting should be timely and significant, not a discussion of petty grievances and routine matters, but the solution of the principal selling problems encountered in the field. The introduction of a new product, the inauguration of a new feature, a new sales policy, a tested method of meeting competition, a better way of overcoming common objections, a more effective use of time—all these are important subjects to be considered at a training meeting. Each meeting should concern itself with only one subject to insure thorough treatment. Salesmen may be invited to suggest a subject, or the management may select the subject.

2. Treatment of the subject should next be planned in detail. A sound slide film or motion picture featuring the subject may be shown to the group. One of the salesmen may be called upon for a brief discussion of the topic. A question-and-answer treatment may be used, or a demonstration by two salesmen, one posing as a prospect, may be arranged. An outside speaker or a customer

may be invited to talk. A dramatic sketch may be staged by sales-office employees. A problem may be distributed in advance of the meeting for group discussion.

3. An outline and timetable of the program of the meeting is next prepared to provide a proper time for announcements, presentations, intermission for refreshments, and a closing summary. A training meeting should start and stop on time, and move briskly according to schedule, but not too rapidly for the group to absorb the material presented.

4. Build up the meeting by creating anticipation with preliminary announcements to the salesmen. Urge the men to come prepared to make suggestions or participate in discussion of the subject of the meeting.

5. Control the meeting by adhering closely to the time schedule, keeping discussion on the subject, silencing the talkative member of the group, avoiding criticism, sidetracking embarrassing complaints, encouraging participation by all, and avoiding competition with the speaker by excluding distracting charts, papers, and samples.

6. Provide for the comfort of those attending with plenty of light, fresh air, and ventilation. A "no-smoking" rule creates a better atmosphere.

Types of sales training. Sales training may be classified according to method as individual, group or conference, field or job, and correspondence. The most common method of sales training is by group conferences at which lectures, round-table discussions, playlets, or dialogues are presented. This type of training is the least expensive, quickest, and most effective way of getting across information on the product; product applications; company policies on credits, collections and adjustments; advertising and sales promotion; company history and organization; routine duties; and sales techniques. Successful group training depends upon adequate preparation by the trainer and trainees, a favorable time and a comfortable place for the meeting, control of participants in the discussion, participation by the trainees, and, in conclusion, summarization of the information developed at the meeting.

Group training alone, however, is inadequate to develop salesmen. It is lacking in realism, is impersonal, and gives little opportunity to acquire skills vital to a salesman's effectiveness.

Individual training is the most important type of sales training because it takes into account the strength and weakness of an individual salesman and gives the trainer an opportunity to adjust his instruction to the individual need for knowledge or skill in selling. Since this type of training is expensive and slow, it is often neglected in the training process. Through individual conferences following field observation of a salesman's methods, a trainer can point out the specific difficulties of a salesman and advise him how to improve his technique.

Field training or coaching on the job is a form of individual instruction. Selling is a complicated skill that cannot be learned from books and may only be acquired slowly by field experience. Field sales experience without supervision or correction, however, often serves merely to fix imperfection. Accordingly, field coaching or training on the job is necessary to point out a salesman's strength and weakness. A tried field-training formula is the "D. O. C. method," or demonstration, observation, and correction by the trainer. By repeating this formula for several days with a skilled trainer, a salesman learns by actually doing much faster than he would by reading, listening, or watching in group conferences. While information may be acquired and the acquisition of selling skill speeded up by individual study, lectures, and group conferences, coaching on the job is vital to a sound training program.

Some companies have adapted the principles of the "Job Instruction Training" used by the War Manpower Commission during World War II to the field training of salesmen.

Sales training by correspondence is a common and inexpensive method of developing salesmen. It provides information but gives no opportunity to develop skill, establish correct work habits, and improve methods by actually doing the job under proper supervision.

Where to conduct training. Group or conference training may be conducted at the home office, branches, or at hotels in selected cities throughout the sales territory. Home-office training is generally practiced by small organizations training a limited number of salesmen, as well as by manufacturers of technical products that can be discussed most effectively at the home office or factory.

Individual or field training is conducted in the salesman's territory in combination with group training in the branch office. Companies with large sales organizations often use this type of training, thus saving the expense of bringing the salesmen into the home office for training, and making it possible for the salesmen to become producers at the earliest possible time.

After a salesman has received preliminary training in a branch office and in the field, he may be brought into the home office for advanced training in the product, product applications, and company policies.

Sources of training material. The primary source of sales-training material is found in the duties of salesmen and the difficulties encountered by them in the field. Training material coming from this source is looked upon by the salesmen as practical, and it has a realistic value not found in "desk-made" training courses. While the time and expense involved in duty and difficulty analysis are considerable, this is an unparalleled source of training data.

Trade associations have developed sales-training material that can be adapted to the use of individual sales organizations in their field.

Textbooks in salesmanship are a source of excellent ideas that may be incorporated in a sales organization's training program. *Salesmanship, Practices and Problems*, Second Edition, by B. R. Canfield (McGraw-Hill, 1950), describes the twenty principal problems encountered by salesmen of various types of goods and services and suggests successful methods of solving these problems. These methods may be applied in training salesmen of any type of product or service.

6. METHODS OF COMPENSATING SALESMEN

Aims of a compensation plan. A successful compensation plan for salesmen is one that secures the highest volume of sales, pushes the sale of the most profitable items, offers the salesmen an incentive to work harder, and at the same time permits sales to be made at a cost that returns a good profit to the employer. A plan that attains these ends necessarily recognizes the needs and problems of the salesmen. The objectives of a successful plan are as follows:

For the Company

- (1) Stimulate salesmen to increase sales.
- (2) Encourage loyalty to the firm.
- (3) Promote co-operation of salesmen with each other and with the firm.
- (4) Discourage overselling.
- (5) Encourage salesmen to push high-profit items.
- (6) Eliminate requests for special consideration and favors.
- (7) Provide reasonable profit over sales expense.
- (8) Provide control over salesmen's activities.

For the Salesman

- (1) Increase their earnings in proportion to their sales accomplishments.
- (2) Afford a reasonable payment for services.
- (3) Pay for time spent in missionary work.
- (4) Provide living wage during training.
- (5) Promote pride in company.
- (6) Provide security.
- (7) Provide for retirement.
- (8) Provide for seasonal slumps.
- (9) Compare favorably to wage scales in similar lines.

Factors in the choice of a plan. The factors that determine the choice of a compensation plan are:

1. The cash resources of the company.

2. The speed with which business can be closed in the field. The compensation plan for salesmen who are required to do considerable missionary work will be different from that in a field where little creative selling is required of the salesmen because of an established demand for the product created by advertising.

3. The policies of competitors.

4. The type of product. A product that requires extraordinary sales ability may call for a different plan of compensation from one that can be sold by men of average ability. Certain products, for instance, require specialized or technical knowledge on the part of salesmen, such as in the case of machinery parts, and so forth; others, such as staple products, require merely good selling ability. Both fields should be compensated accordingly.

5. The market for the product. Products sold in a narrow market, such as those appealing to limited groups of customers, require one type of compensation plan, while products sold to broad classes of customers may call for an altogether different plan.

6. The method of distribution. If the product is sold to dealers, distributors, wholesalers, and others who in turn sell to consumers, sales are frequently made automatically. The compensation plan will take this factor into account. On the other hand, if creative

selling is called for, as in the case of products sold directly by the manufacturer to the consumer, another type of compensation might apply.

7. The advertising policies of the company. Well-advertised products may require very little creative selling on the part of the salesman, while products that are not well known may call for a greater degree of sales ability. The compensation plan should take care of the salesman who has to spend part of his time creating a demand for the product.

8. The ability of the salesman. Obviously, certain selling jobs call for greater ability than others. Salesmen of outstanding ability who are accustomed to earning large salaries and enjoying a high standard of living prefer compensation plans that offer payment in direct proportion to the volume of sales made. On the other hand, some salesmen who have not proved themselves good earners may not be content to accept employment on a commission basis.

9. The variety of products making up the line. A man selling a variety of products may more easily maintain or increase his wage level than a man selling one product. This factor may affect the type of compensation.

10. Price of product and margin of profit. High-priced items are often more difficult to sell than low-priced items, and the salesman should be compensated accordingly. Also, the margin of profit dictated by such factors as cost, demand, established trade practices, and so on, may enter into the determination of the method of compensation.

Testing the compensation plan. To inaugurate a compensation plan and put it into operation are not enough. The plan should be tested from time to time to detect hidden weaknesses, and steps should be taken to eliminate them. The following questions will help employers test the compensation plan:

1. Are the aims of the plan and their relative weight clearly defined? The plan should bring out the relative importance of increasing sales, getting new business, promoting goodwill, doing missionary work, reducing sales expense, selling specific items, and so on.

2. Is the relationship of compensation costs to profits fair?

3. Do the results show the plan to be successful? The conclu-

sive test is the results obtained. Records must be maintained that will disclose whether the salesmen are doing missionary work, whether they are developing new accounts, whether they are pushing only certain items, and whether they are doing all parts of their selling job.

4. Are most of the salesmen satisfied with the plan? It is wise to consider the opinions of the salesmen in regard to the compensation plan, for in consulting the salesmen an opportunity is offered to promote loyalty and enthusiasm toward the company, as well as to disclose weaknesses in the compensation plan.

5. Is the plan flexible? The plan should be sufficiently flexible to provide for additional compensation for men with unusual ability.

Types of plans. The two basic plans for compensating salesmen are (1) salary, and (2) commission. The type and size of the company and individual trade and market problems make it expedient in many cases to use a variation or combination of these plans. Some of these plans will be discussed later.

Salary compensation. Under this plan a certain sum is paid to the salesmen each week regardless of the amount of sales made. The salary method of compensation is usually employed when considerable missionary work is required, when the efforts of several salesmen are necessary to complete a sale, or when it is desired to help salesmen maintain a living wage during training periods and seasonal slumps. Firms engaging in the type of business that has little yearly sales fluctuation and can therefore forecast their sales volume fairly accurately often pay salesmen on a flat-salary basis. Sales executives are usually paid a straight salary. The advantages and disadvantages of the salary plan to the company and to the salesman are as follows:

ADVANTAGES

For the Company

- (1) Bookkeeping is simplified.
- (2) A fixed cash responsibility is undertaken.
- (3) Better control of men is obtained.
- (4) Men are easily recruited.

For the Salesman

- (1) Personal security is afforded.
- (2) Home office control develops desirable habits of work.
- (3) Income can be budgeted.
- (4) Compensates for missionary work that may not result immediately in sales.

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| (5) Overselling of customers is prevented. | (5) Management takes risk for time invested in selling. |
| (6) Salesmen's time can be arranged for nonselling activities. | (6) Wage level during training periods and seasonal slumps is maintained. |
| (7) Loyalty of salesmen to the company is promoted. | (7) Changes in business conditions are not immediately reflected in lower salaries. |
| (8) Co-operation among salesmen is encouraged. | |
| (9) The transfer of salesmen from one territory to another is facilitated. | |

DISADVANTAGES

For the Company

- (1) It does not set a definite ratio of cost to sales.
- (2) Incentives for greater sales efforts are lacking.
- (3) A lower type of sales personnel is attracted.
- (4) It is difficult to adjust to declining business activity.
- (5) Salesmen demand periodical increases.
- (6) Responsibility is on the management to make a good selection of men.
- (7) Salaries must be paid to salesmen before they prove their ability.

For the Salesman

- (1) Incentives are limited.
- (2) Income is limited.
- (3) Improvement in business is not immediately reflected in high earnings.
- (4) Does not reward superior sales efforts.

Commission compensation. A commission is a percentage payment on sales. Compensation of salesmen working on a straight commission therefore fluctuates in direct relation to their sales accomplishments. Thus commission compensation may be considered the most direct form of payment for sales effort.

The commission plan is usually applied to the sale of specialties of fairly high price that have a broad market, such as automobiles, life insurance, office equipment, and so on. It is also commonly used in house-to-house or direct-to-the-customer selling, or where a high level of selling ability is required. The advantages and disadvantages of this plan, to company and salesmen, are as follows:

ADVANTAGES

For the Company

- (1) The company with limited capital can obtain a selling staff.
- (2) The plan immediately reflects the salesman's ability.
- (3) The ratio of costs to sales is known immediately.
- (4) More aggressive salesmen are attracted.
- (5) The plan provides the incentive of higher earnings for greater sales effort.
- (6) Sales costs are automatically reduced when sales decline.

For the Salesman

- (1) Larger income is possible, and the incentive is greater.
- (2) Greater independence is afforded.
- (3) Co-operation with other salesmen is unnecessary.
- (4) Sales efforts do not help to pay other salesmen who produce less.
- (5) During periods of business prosperity earnings are rapidly increased.

DISADVANTAGES

For the Company

- (1) More bookkeeping is involved.
- (2) The control of men is weakened.
- (3) The employment problem is greater because many men prefer straight salaries.
- (4) Salesmen's morale may be impaired if their earnings decline during business slumps.
- (5) Customers are exposed to overselling.
- (6) Missionary work is discouraged.
- (7) Salesmen are inclined to concentrate on live prospects, to neglect profitable items that are hard to sell, and to spend little time in originating new business.
- (8) Co-operation with other salesmen is reduced.

For the Salesman

- (1) Irregularity of income lessens security.
- (2) Little assistance is offered by the home office.
- (3) During business depressions income falls rapidly.

When prices are unstable, the straight-salary plan and the straight-commission plan are usually unsatisfactory. For example, commission rates may prove too high for the changing price level, and

employers may find themselves burdened with excessive selling expenses. On the other hand, salesmen earning a straight salary during a period of rising prices may find their earnings out of line with the earnings of salesmen on a commission basis. Frequently companies change their methods of payment to meet changing conditions.

Variations of the commission compensation plan. The straight-commission plan discussed in the preceding paragraphs makes no allowances for such factors as volume, difference in salability of items, differences of profitability of items to the company, or other factors. The following variations of the straight-commission plan make allowances for such differences:

1. Commission rate varying for individual items. In order to stimulate salesmen to push profitable items that are hard to sell, a higher rate of commission is given as an incentive. Items that are easy to sell and have a wide demand carry a lower rate of commission.

2. Sliding scale of commissions. Salesmen are paid a certain percentage up to a certain volume of business, after which the rate is increased or decreased progressively as sales grow in volume.

3. Group commissions. Various products are classified into groups, and rates of commission are set up for each group.

Drawing account. This plan is actually a variation of the straight-commission plan and consists of an advance loan on a salesman's anticipated commission paid at regular intervals like a salary. The amount of the drawing account is generally determined by the expected sales based upon experience. For example, a company may give a salesman 10 per cent commission and \$40 per week drawing account, based on the experience that a salesman selling that particular product will earn at least \$40 per week commission. If a new product upon which no sales data exist is being sold, the amount of the drawing account is determined upon the company's anticipated sales based upon market research.

If the salesman has exceptional ability, his commission compensation will produce earnings over the drawing account, and these earnings will go to his credit. If, for any reason, the commission earnings fall below the drawings in any set period, this deficit is

regarded as the salesman's indebtedness to the company. Such overdrafts are generally handled in the following ways:

1. A deduction is made from commission earnings in periods when such earnings are higher than normal.

2. A limit is placed on the total amount of overdrafts, and the salesmen are allowed to "pay back" a small percentage weekly. When the limit is reached, the drawing account is discontinued until the indebtedness has been paid in full.

3. The amount of the drawing account is reduced until the overdraft has been cleared.

4. Excess commission is set up as a reserve against overdrafts. The balance is paid to salesmen at the end of the year.

5. Salesmen are requested to sign one-year notes for overdrafts over a specified amount.

6. Overdrafts are written off at the end of the year so that salesmen may not feel too discouraged by accumulation of debts.

7. The overdraft accumulation is split 50-50 with the salesmen at the end of the year.

In all cases salesmen who consistently run up overdrafts must be carefully watched. With some salesmen the situation indicates that the commission or compensation plan needs adjustment. With others, the situation indicates poor planning or poor salesmanship and may necessitate replacement of the men. The advantages and disadvantages of drawing accounts are as follows:

ADVANTAGES

For the Company

- (1) Exercises some control over the salesmen.
- (2) Adds to incentives of the commission plan.
- (3) Keeps salesmen satisfied during training periods and seasonal slumps.
- (4) Provides an incentive to keep sales up to normal expectancy.
- (5) Attracts more salesmen, thus permitting the company to have a wider selection of new men.

For the Salesman

- (1) Assures a steady income despite slump periods.
- (2) Permits budgeting.
- (3) Indicates company interest and co-operation.

DISADVANTAGES

For the Company

- (1) Salesmen may leave with a deficit.
- (2) Collection of overdrafts may cause ill feeling between management and salesmen.
- (3) Involves considerable book-keeping.
- (4) Overdrafts cause mental handicap which interferes with the salesmen's production.
- (5) May involve heavy losses, particularly when conditions bring sales below normal expectancy.
- (6) Discourages missionary work, and may influence salesmen to earn no more than the minimum.

For the Salesman

- (1) Puts salesmen in debt to the company.
- (2) Requires a set volume of sales.
- (3) Makes salesmen depend on the company's own estimation of possible sales.

The bonus plan. A bonus is a special reward for effort resulting in increased sales or reduced expenses beyond a set goal or quota. The bonus is usually arranged on a percentage basis, although in some cases it may consist of a flat-cash award. It is always used in conjunction with some other form of compensation.

To illustrate the operation of a simple bonus plan, a company paying 10 per cent commission to its salesmen sets a monthly quota of \$5,000 sales, and offers a 5 per cent bonus for sales exceeding this quota. A salesman bringing in orders totaling \$7,000 for the month would obtain \$700 commission plus 5 per cent of the \$2,000 overage, or \$100.

In the sale of low-priced items, staple merchandise, and consumer goods where the co-operative effort of salesmen is not a factor in the success of a sale, it is customary to give individual bonuses based upon the performances of the individual salesmen. In such cases the quotas are often based upon past performances of the individual salesmen or upon the sales expectancy in the particular territories covered by the salesmen. One advantage of the individual bonus is that the salesman is actually competing with himself and therefore does not feel that less energetic salesmen may reap the rewards of his labors.

Where teamwork of salesmen is an important merchandising

factor, such as in the sale of high-priced items, machinery and industrial goods, and particularly where the sales force is divided into districts under the control of district sales managers, group bonuses are generally paid. While group bonuses do stimulate co-operative-ness of salesmen, they often permit the lazy or inefficient salesman to benefit by the labors of the more active members of his group.

Described below are several common types of bonus plans in which either the quota arrangement or the method of applying the bonus has been adapted to meet specific needs.

1. The bonus based upon a quota of sales. A quota based upon previous sales volumes for a particular period is established, and a bonus is offered for certain percentages obtained over this quota. For example, if a company's sales for a previous year totaled \$100,000, it might offer a 2 per cent bonus for a 10 per cent increase of the sales volume, a 5 per cent bonus for a 20 per cent increase, and so on.

2. The bonus based upon a quota of individual product sales. Where it is desired to push special items such as high-priced or slow-moving merchandise, a sales quota for the specific item is established, and a bonus is offered on sales exceeding this quota.

3. The bonus based on lower selling-cost quota. Where it is desired to reduce traveling expenses, a quota based upon sales expenses is established, and a bonus is offered for reducing expenses below this quota. One disadvantage of this plan is that it tends to reduce sales activity.

4. The profit-sharing bonus. This plan offers as a bonus a percentage of the company's yearly profits. To avoid misunderstandings with the salesmen, this plan should clarify the basis for arriving at profits. Generally, such a plan is complicated to operate and often causes salesmen dissatisfaction in lean years, when profits are small, and company dissatisfaction when earnings are high.

5. The bonus based on sales activities. Where it is desired to stimulate missionary work, a bonus may be offered for interviewing a certain number of prospects, arranging a certain number of store displays, and so forth. In such a plan the bonus is often a flat-cash award.

6. The sliding-scale bonus. There are two common forms of sliding-scale bonuses. One plan is the establishment of a flat re-

ward for attaining a quota and the offering of a bonus equal to the percentage attained of that quota. For example, if a bonus of \$500 is offered for attaining a \$10,000 sales quota, and a salesman succeeds only in selling \$5,000 within the quota period, he would receive 50 per cent of the award, or \$250. Another plan increases the bonus according to a fixed scale. For instance, a company may offer 5 per cent of the first \$5,000 sales, 7 per cent of the second \$5,000, and 10 per cent on anything over this amount.

The advantages and disadvantages of bonus plans are as follows:

ADVANTAGES

For the Company

- (1) Offers an additional incentive for better co-operation of salesmen.
- (2) Is sufficiently flexible to serve specific needs, such as the pushing of special items, reducing costs, and so on.
- (3) Can be adjusted to suit conditions without interfering with the regular method of compensation.
- (4) Creates a more satisfied group of salesmen by giving an opportunity to save, thus reducing turnover of the sales organization.
- (5) Builds morale.

For the Salesman

- (1) Permits increase in income in addition to the regular compensation plan.
- (2) Indicates co-operation and interest of the management.
- (3) Rewards unusual sales efforts.

DISADVANTAGES

For the Company

- (1) May encourage salesmen (in the case of group bonuses) to be lazy.
- (2) Causes disputes over quota arrangements.
- (3) May involve excessive selling expense when prices are going up.

For the Salesman

- (1) If quotas are unfair, salesmen must pay for the management's mistake.
- (2) May be used as an excuse for reduction of regular compensation.
- (3) May stress the sale of hard-to-sell items.
- (4) Too sporadic, and often requires long periods of waiting before payment is made.

The point system. The point system is a flexible means of measuring payment to salesmen for the performance of specific selling tasks, and for penalizing them for things the company does not want done. In its simplest form the plan consists of evaluating by points the sale of each of a number of products sold by a company, assigning the lowest number of points (usually 1 point) to the product easiest to sell, and then grading the other products and points accordingly. The point might represent a single item, a quantity such as a ton or case, or dollar sales. The points are given dollar values, and salesmen are paid on the basis of the number of points accumulated by each salesman.

The point system may also be used in evaluating specific jobs, such as interviewing new prospects, reducing expenses, increasing the number of daily calls, and so on. Points may be deducted for the neglect of these duties or for certain acts such as causing complaints from customers, and the like. In determining the number of points to be assigned to each duty, it is customary to assign the lowest number of points to the work with the least resistance, such as the turning in of daily reports.

Compensation may be based entirely upon the point system or upon a point system in conjunction with a salary. In the latter case the amount paid over salary would be based upon the number of points accumulated. One method of operating this plan is to give each salesman a point handicap based upon his salary, the lowest salaried man having the lowest handicap. For example, a man receiving \$25 per week may be required to reach a mark of 1,000 points, thereafter receiving the dollar value of the points. A \$50-per-week man would be required to reach a mark of 2,000 points, and so on.

Some companies change the point value of product sales according to the months in which sales are easier or harder, thus leveling the compensation of salesmen over slump periods.

The advantages and disadvantages of the point system are as follows:

ADVANTAGES

For the Company

- (1) Gives strict control over salesmen's activities.

For the Salesman

- (1) Provides a direct reward for a good selling job.

- (2) Can be adapted to any selling situation.
 - (3) Provides an incentive to perform difficult or onerous selling tasks.
 - (4) Provides an accurate measure of sales ability.
- (2) Provides for seasonal slumps.

DISADVANTAGES

For the Company

- (1) May require excessive amount of record keeping.
- (2) Salesmen dispute point values or penalty scores.

For the Salesman

- (1) Overemphasis on missionary work.
- (2) Overemphasis on hard-to-sell items.
- (3) Must accept company's evaluation of points and penalties.

Use of the point system in a sliding-scale bonus plan. The sliding-scale principle explained on page 328 can be used effectively with the point system in stimulating salesmen to make greater efforts than seems justified by the flat-bonus plan. For example, a large midwestern food company paying salesmen salary plus expenses plus a flat bonus based on points found that salesmen were satisfied to reach a certain income level and did not have sufficient incentive to make greater sales efforts beyond that level. By giving scaled values to the points, the company gave the salesmen an opportunity to work into new brackets of business that offered bigger rates of compensation.

In the flat-bonus plan the point quota was established by the dollar cost of each man to the company. When the salesman reached the number of points equal to his salary and expenses, he went on bonus and was paid at the rate of 50 cents flat per point sold. Thus, a man being paid \$200 salary and \$150 expenses was set a quota of 350 points. If he earned 400 points, he would receive as an income \$350 salary and expenses, plus \$25 for the 50 extra points.

In the accelerated bonus plan, instead of starting this man on a 350-point basic starting point and paying him a flat 50 cents per point, the following scale of bonus payments was applied:

300 points to 349 points	25 cents per point basis
350 points to 399 points	50 cents per point basis
400 points to 449 points	75 cents per point basis
450 points and up	\$1 per point basis

Thus, if a salesman earned 400 points, he would receive \$350 salary and expenses plus a bonus of \$37.50 (representing 50 points at 25 cents per point or \$12.50 plus 50 points at 50 cents or \$25).

Variations and combinations of basic compensation plans. Many combinations and variations of the basic compensation plans described above have been used effectively in meeting the specific needs of companies. In fact, some companies employ several types of compensation plans within the organization. The choice of the proper plan depends upon such factors as the type and size of the company, the type of product, sales objectives, personnel, and so forth. A few of these combinations will be discussed in detail; others listed are self-explanatory.

1. **Salary and commission.** Firms paying a flat salary plus a commission on all sales over a certain amount are able to exercise more control over their men than if they paid on the straight-commission basis. Moreover, they can make the plan more attractive to salesmen than the straight-salary plan. This plan assists salesmen during slump seasons and encourages them to do missionary work. One firm using this plan paid new salesmen a low salary plus a flat one third of the regular salesmen's commission, thus inducing the salesmen to go on the more desirable straight-commission basis.

Sometimes the commission is based on all sales made by a particular group of people. This plan is especially suitable where salespeople's efforts overlap, and where co-operation is desirable.

2. **Salary, expenses, and commission.** This is a slight variation of the above plan and is particularly useful where traveling expenses are a considerable item. The percentage commission paid in this plan is usually relatively small.

3. **Salary plus commission plus bonus.** This plan is often applied where large territories are to be covered. The salary is usually based upon the expense of covering the territory. Bonus is paid above a specified weekly or monthly minimum sales volume. The sliding-scale bonus is sometimes used in this plan.

4. Salary and bonus. Flat salary plus bonus over quota.
5. Salary, expenses, bonus on sales over quota.
6. Salary and percentage of gross profits.
7. Commission and bonus.
8. Commission and drawing account. As previously described, the amount of the weekly drawing account is stipulated and deducted from commission earnings.
9. Commission plus traveling expense.
10. Commission with sliding-scale drawing account. The amount of the drawing account is raised or lowered according to commission earnings within set periods.
11. Percentage of gross profits.

7. CONTRACTS FOR THE SALE OF MERCHANDISE

What a contract is. We are apt to think of a contract as a formal document, solemnly entered into with strict observance of legal requirements. As a matter of fact, contracts are made every minute of the day—orally, by letter, or by other informal agreement—and these contracts are just as binding upon the parties involved as if they covered many printed pages and were duly signed and executed before a notary. A man boards a streetcar on the way to his office; he has entered into a contract with the transit company. His wife phones the day's food order; she has made a contract with her grocer. A businessman writes for an additional ream of his letterheads; he has contracted with his stationer. What are the elements that make each of these acts contracts? A contract has been defined as an agreement, enforceable at law, between two or more parties to do or not to do a particular thing. In order to be enforceable at law, an agreement must have the following elements:

1. *Offer and acceptance.* An agreement arises from an offer or proposal to do or to refrain from doing a certain thing, and from an acceptance of that same proposal. The offer must be clear and definite; it must be communicated in its exact terms to the party to whom the offer is made, either directly or by some definite act; and it must be accepted unconditionally by the person to whom it is made. If the person to whom an offer is made proposes modifications, those modifications must be accepted by the offeror before

an agreement can result. In other words, in the figurative language frequently used by the courts, there must be a "meeting of the minds" of the parties as to the terms of the agreement. However, an assent to the modifications may be inferred from the fact that the parties thereafter proceeded to carry on the transaction under the conditional acceptance.

2. *Competency of parties.* The parties to the agreement must be legally competent to enter into a contract. The question of competency arises most frequently with respect to infants, insane persons, and drunkards.

Although the laws of some states provide that women become of age at 18, and those of other states provide that marriage removes the infancy status, generally a person is considered to be in his infancy until he reaches the age of 21. An infant is not absolutely incapable of entering into a binding contract. Contracts made by persons under the legal age are not void, but they may generally be avoided or disaffirmed by the infant. In the case of contracts which have not yet been completely carried out—that is, executory contracts—the infant is not bound unless he affirms after coming of age, either by words, by sale of the property, by retaining it after a reasonable time has elapsed, and so forth; failure to affirm implies disaffirmance. In the case of contracts which have been completely carried out—that is, executed contracts—an infant may disaffirm either during infancy or within a reasonable time after he attains his majority; failure to disaffirm within a reasonable time implies affirmation. It is the general rule that an infant may disaffirm even if he cannot return the goods which he has received. Contracts by an infant for articles that are reasonably necessary to his existence, such as food, clothing, shelter, medical care, education, and the like, may be binding upon him in the same manner as if he were an adult.

Like infants, insane persons are not absolutely incapable of making contracts. Their contracts are voidable, not void, and they may be held liable for necessities.

A person who is so drunk that he is deprived of his reason and does not understand the nature of his acts is in the same position as a mental incompetent, and his contracts may be disaffirmed by him if third persons are not injured thereby, and provided he disaffirms immediately upon restoration of his faculties.

3. *Legality of subject matter.* An agreement that calls for the

performance of an act forbidden by law or inimical to the interests of society is unenforceable. Gambling agreements and usurious contracts, for example, are generally held to be illegal. In some states any contract entered into on a Sunday is illegal.

Under Federal and State laws, contracts that restrain trade, fix prices, or result in unfair trade practices are illegal. For example, under the Federal Robinson-Patman Act a contract that discriminates in price between competing customers of the same seller in the sale of commodities of like grade and quality is invalid, if the effect of the discrimination is to lessen competition or create a monopoly. The Act does permit allowances for differences in the cost of manufacture, sale, or delivery resulting from the different methods or quantities in which such commodities are sold or delivered to the purchasers. For further discussion of anti-price discrimination contracts, see page 362.

4. *Consideration.* Consideration has been defined as something of benefit to the person making a promise, or something of detriment to the person to whom a promise is made. It is the price, motive, or matter inducing the contract and may consist of:

- (a) Doing some act that one is not obligated to perform.
- (b) Refraining from doing something that one would otherwise be free to do.
- (c) Giving some money or property.
- (d) Giving a promise.

The value of the consideration given to support a promise is generally immaterial.

What a sale is. A sale is an agreement whereby the seller transfers property in goods to the buyer, for a consideration called the price. To be enforceable, a sale must have all the elements necessary to the validity of a contract—namely:

1. Offer and acceptance.
2. Competency of parties.
3. Legality of subject matter.
4. Consideration.

A sale must be distinguished from a bailment and from a consignment. A bailment is a transfer merely of possession of goods under an agreement to return the same goods at some future time. Under

a consignment goods are sent by the owner to a commission merchant, to be sold by the latter to third persons, without any transfer of title in the merchandise delivered to the consignee.

Contract of sale and contract to sell. A contract of sale should be distinguished from a contract to sell goods. In a contract to sell, the seller does not make an immediate transfer of property, but merely agrees to make a transfer at some future time. Under a contract of sale, in the absence of contrary intention, title to the goods sold passes immediately from the seller to the buyer, and the buyer assumes the risk of loss; in a contract to sell, title remains in the seller, and the seller carries the risk of loss, in the absence of contrary agreement, until the time fixed for the sale. The Uniform Sales Act * has formulated certain rules for ascertaining the intention of the parties as to when title is to pass. Goods that are in existence and are owned or possessed by the seller may be the subject of a sale or a contract to sell; goods that are to be subsequently manufactured or acquired by the seller and are to come into existence before the time fixed for delivery (called "future goods") may be the subject of a contract to sell, but not of a contract of sale.

When a sales contract must be in writing; statute of frauds. The general rule, as embodied in the Uniform Sales Act, is that "a contract to sell or a sale may be made in writing (either with or without seal) or by word of mouth, or partly in writing and partly by word of mouth, or may be inferred from the conduct of the parties." However, under a provision of the Act (commonly known as the statute of frauds), a contract to sell or a sale of any goods of the value of \$500 or upwards is not enforceable by action unless one of the three following alternatives has been complied with:

1. Some note or memorandum in writing of the contract or sale has been signed by the party to be charged or by his agent in his behalf.

* The Uniform Sales Act, which has been adopted in most of the states, is a codification of the law governing the sale of personal property. Prior to its enactment, a wide conflict of judicial opinion existed in the various jurisdictions with respect to the law governing the sale of merchandise, resulting in much confusion and uncertainty. This conflict has to a large extent been eliminated by the Act, although in some instances differences still exist owing to varying interpretations by the courts of some of the sections of the Act.

2. The buyer has accepted part of the goods and actually received them.

3. The buyer has given something in earnest to bind the contract, or in part payment.

Where goods are to be manufactured by the seller especially for the buyer and are not suitable for sale to others in the ordinary course of the seller's business, the statute of frauds does not apply.

It should be noted that while the Uniform Sales Act fixed \$500 as the amount that determines whether or not the statute of frauds applies, some other amount is fixed by statute in some states. Further, the amount is the price fixed in the sale, not the actual value of the merchandise sold. If several articles of merchandise have been sold at one time by one seller, the total purchase determines the amount, even though each article is separately priced.

The memorandum required by the statute of frauds is not necessarily the contract. The contract may be oral; as long as there is some memorandum of it, the statute is satisfied. The memorandum may merely indicate briefly the chief provisions of the contract and may consist of an entry in a book, on a bill head, or in a series of letters. For contract to sell in the form of a letter, see page 343.

Essential provisions of sales contracts. The provisions that may be included in a contract between seller and buyer for the sale of merchandise vary widely with the nature of the business and the individual desires and needs of the parties to the contract. It may be said, however, that such contracts generally include express provisions with respect to the following:

1. *Introduction.* This includes the date and place of making the contract and the names and addresses of both seller and buyer.

2. *Description of merchandise.* The quantity, nature, or quality of the goods should be clearly described, to prevent misunderstanding. Where the quantity is indicated by weight, it should be stated whether the weight is gross or net, and it should be indicated whether allowance is made for shrinkage or for wear and tear. The extent of the details in the description will depend upon how widely the article is known in the trade. Standard products that are extensively advertised may not need detailed description. In sales by sample, the article may be described merely "as per sample." On the

other hand, goods specially manufactured for the buyer should be fully described and accompanied by blueprint and specifications. In the case of specially marked goods, the exact drawing or facsimile of the markings should be furnished by the buyer.

3. *Warranties.* A warranty is a promise of the seller concerning the nature, quality, or durability of the merchandise sold. To prevent dispute as to quality, provision is sometimes made for inspection of the merchandise and the obtaining of an inspection certificate at the time of shipment. A warranty concerning quality or special fitness may be made even in a sale by sample. In addition to the warranties expressed in the contract, the law implies certain warranties of quality, fitness for the purpose for which the goods were sold, and so on.

4. *Shipping instructions.* Definite shipping instructions should be given, including instructions about packing, marking, routing, and time of shipment. To protect the seller in the event that the buyer does not specify the routing, the contract should contain a clause to the effect that, unless specified, routing is at seller's option. If no time of shipment is specified, a reasonable time is implied. As a protection to the seller, the contract may contain a clause limiting his liability in the event of unavoidable delay or impossibility of performance. It may also be provided that each shipment is to be deemed a separate contract and paid for whether or not the balance of an order is filled; this, however, is a disadvantage to the buyer and may be objected to by him.

5. *Time of payment and price.* The contract should definitely state the time of payment. It should also indicate the price of the goods, and whether shipping costs and insurance are included therein. This information is generally covered by the use of certain symbols, such as f.o.b., f.a.s., c. & f., c.i.f. (See page 366 *et seq.* for definitions of these terms.)

If no price is specified, the buyer is liable for the reasonable value of the merchandise. Where the parties make a sale at a valuation—that is, a sale or contract to sell, providing that the price shall be subsequently fixed by a third party—the value fixed by the third party is binding in the absence of fraud or unfair dealing. The Uniform Sales Act provides that if the third person, without fault of the seller or buyer, fails to fix the price, the contract is thereby

avoided; if he is prevented from fixing the price by the seller or buyer, the party not in default is given certain remedies as though the contract had been breached.

6. *Claims.* The contract may provide for the payment of a certain sum as "liquidated damages" in the event of a breach of the contract; or it may provide for adjustment of disputes by arbitration.

7. *Law governing the contract.* Where the parties reside in different states, or where the contract is executed in one state but is to be performed in another, or where the contract is to be performed in various states, the contract may indicate the state, the laws of which shall govern the construction of the contract and the rights and liabilities of the parties.

Legal precautions when selling goods.* When selling goods, take the following legal precautions:

1. Make no misrepresentations to the buyer (oral or written) regarding the goods.

2. Investigate the buyer's financial ability to pay, or sell for cash or upon proper security.

3. Keep the goods insured against fire or other casualty until title passes to the buyer.

4. When performing the contract adhere as strictly as possible to the terms of the sales agreement. Any contemplated variation in performance should be first agreed to by the buyer. Preferably, an agreement varying the terms of the original contract should be in writing.

5. Obtain a receipt for goods delivered.

6. Act quickly upon learning the buyer is insolvent. If the buyer becomes insolvent before he receives the goods, an unpaid seller may be permitted to keep the goods, or if they are in transit, he may stop the transportation of them. Consult counsel for the proper mechanics to use.

7. Consult counsel when a buyer breaches his contract. The seller's rights depend upon the terms of the contract, whether title to the goods has passed to the buyer, and other factors.

* *Acknowledgment:* Louis M. Brown, *Preventive Law*. New York: Prentice-Hall, Inc., 1950.

Contract to sell in form of letter of proposal and acceptance.

Est. No. Office Date:
 Project:
 Location:
 Architect:

Gentlemen:

..... Corporation proposes to furnish you for the above-mentioned project, subject to the terms and conditions herein included, the materials scheduled herein, all in accordance with our standard specifications.

SCHEDULE OF MATERIAL: All prices are f.o.b.

Any tax or other Governmental charge upon the production, sale, and/or shipment of the material(s) herein specified, imposed by Federal, State, or Municipal authorities and hereafter becoming effective within the life of this contract, shall be added to the price(s) herein specified, and shall be paid by you.

SHIPMENTS: We reserve right to route shipments.

TERMS: Net cash on or before the 15th of each month for all deliveries made during the preceding month, with privilege of two (2) per cent discount for payment in cash within ten (10) days of delivery.

GENERAL CONDITIONS: 1. We assume no liability for damage to material after delivery, resulting from improper storage and/or handling by you and/or your agents and/or employees.

2. All prices named herein are based upon the present rates of railroad freight. Any increase or decrease in such freight rates effective at the time of shipment shall be added to or deducted from such prices. In the event of your failure to permit us to complete shipment of the material covered by this contract within one (1) year from the date hereof, you shall reimburse us for the expense involved in handling and storing such material at our factory after that date, as well as for any excess of the then-prevailing selling price of our material over the contract price with respect to that portion of the material covered by this contract delivered after such date.

3. Each shipment shall be construed, as regards deliveries and terms of settlement, a separate and independent contract. In case any lot or parcel shall not be accepted and/or paid for in accordance herewith, then we may, without prejudice to other lawful remedy, defer further shipments until settlement is made, terminate this contract, or treat such failure as a breach of the entire contract. If, in our judgment, your financial re-

sponsibility shall at any time become impaired, we may decline to make shipments against this contract and/or any other contract in force with you, except upon receipt of satisfactory security for payment, or of cash before shipment. Our failure to exercise any right under this contract shall not be deemed a waiver thereof.

4. Notice of any claim for defect in the quality of the material delivered hereunder shall be given to us in writing within five (5) days of the date of delivery. Failure to give such notice within such time shall constitute a waiver by you of all claims therefor.

5. If we are prevented from carrying out the herein-contained provisions by reason of any war, revolution, strike, epidemic, fire, cyclone, flood, embargo, weather conditions, car shortage, Providential, Governmental, or other cause, whether of the same or of a different nature, existing or future, beyond our reasonable control, and interfering with the production or delivery of the material as herein contemplated, upon written notice to you, we shall be excused from making deliveries to the extent and for the duration of such interference.

6. Should any dispute or disagreement arise with relation to the matter of payment, allowance or loss, or the interpretation of any one or more of the clauses of this contract, which dispute or disagreement cannot be satisfactorily settled by mutual conference, then the matter shall be settled by arbitration pursuant to the Arbitration Law of the State of New York, by reference to a board of three arbitrators, one to be selected by each of us and the third by the two so selected. In case the selection of any arbitrator is not made within fifteen (15) days of the time either party notifies the other of the name of the arbitrator selected by the notifying party, then the arbitrator or arbitrators not selected shall be appointed pursuant to the New York Arbitration Law. The submission of any dispute or disagreement to arbitration shall not in any way affect or limit our right to file and prosecute a lien under the applicable State law for any and all sums that we claim to be due and owing to us under this contract.

7. This contract is to be construed, and our respective rights are to be determined, according to the laws of the State of New York, and constitutes the full understanding between us with reference to the subject matter hereof, and no statement or agreement, oral or written, made prior to or at the signing hereof, shall vary or modify the written terms hereof. Neither of us shall claim any amendment, modification, or release from any provision hereof by mutual agreement unless such agreement is in writing, signed by the other and specifically stating it is an amendment to this contract.

8. This contract is not assignable or transferable by either party, except to its successors or to the transferee of all or substantially all of its assets,

and shall be binding upon and inure to the benefit of such successor or transferee.

This proposal, including all conditions printed or typed on either side hereof, is subject to your prompt acceptance, and to approval by an executive officer of this corporation; and, when so accepted and approved, shall constitute, with the attached schedule, if any, a contract between us, hereinabove sometimes referred to as "this contract." Until so approved by us, prices are subject to change without notice.

Respectfully submitted,
 Corporation
 By

ACCEPTED:, 19..	APPROVED: , 19 .
.....	 Corporation
By	By

Output and requirements contracts. An output contract is one by which a seller agrees to sell his entire output to a single buyer. A requirements contract is one by which a buyer undertakes to buy his entire requirements of a commodity from a single seller.

These two types of contracts are often considered together, for they are governed by the same legal principles. Some conflict of opinion exists, concerning the obligations of the parties under such agreements. Is the seller in the output contract required to produce the same amount as he was producing when the contract was made? Is the buyer in the requirements contract obligated to have substantially the same requirements as when the contract was entered into? According to the view that is supported by the weight of authority, the answer in both cases is "No." Both seller and buyer are required only to act in good faith. The seller in the output contract has performed his undertaking even if he cuts down his manufactures or closes up his plant, provided he does so in good faith; there is no implied agreement in the output contract to continue in business. Similarly, the buyer in the requirements contract does not agree to continue to have requirements. If his requirements taper off or cease because of a change in his needs or because of a sale or discontinuance of his business effected in good faith, he is not in default under the terms of his contract.

The requirements contract has been the subject of considerable comment from a business standpoint, as well as from a legal point of view. Large selling organizations often induce purchasers to enter into requirements contracts for their psychological rather than their legal effect. They are not interested in having a legally drawn document upon which suit can ultimately be brought, but they do want the purchaser to feel morally and legally obligated to purchase exclusively from them. The purchaser may even do some of his buying elsewhere; the seller will not sue, because he is more interested in keeping a substantial part of the buyer's business for a continuous period than he is in recovering damages for breach of the letter of the agreement. The requirements contract often calls the purchaser a "dealer," thus making him believe that it is his duty to push the seller's product as well as to use it exclusively.

Sale of merchandise through brokers. In some industries the term "broker" is used interchangeably with "selling agent" or "manufacturer's agent." In a stricter sense, however, a broker is not a selling agent or a manufacturer's agent, but a wholesale middleman whose function it is to bring together a buyer and a seller, and to assist them in consummating a sale. The broker acts for both parties to the sale, but he has no formal contract with either one; he is simply an intermediary. The contract between buyer and seller is generally evidenced by a broker's memorandum of sale or by a standard form of contract, adopted by a trade association of which both buyer and seller are members, in the name of seller and buyer.

Conditional sales contracts. Conditional sales contracts are used frequently in the sale of goods on the installment plan. Under these contracts the seller transfers possession of the goods to the buyer, but retains title thereto until the buyer has paid the entire purchase price and has fully performed his obligations under the contract. If the buyer fails to make the payments as they fall due, or otherwise defaults, the seller has the right to take back his goods. In most states laws have been passed requiring certain formalities in the execution of conditional sales contracts and compelling the seller to file or record the contract with some designated state official if he wishes to protect the reserved title to the goods against third persons. Except in those states that have adopted the Uniform Condi-

ional Sales Act, these laws are not uniform, and they vary particularly with respect to the following:

1. *Signing of contract.* In some states the signature of the buyer is sufficient; in others, the seller's signature is also required. Witnessing and acknowledgment of the signature may be necessary. Some states require a special affidavit of good faith to be attached.

2. *Copy to be filed or recorded.* In some states the original instrument must be filed; in others, it is sufficient to file a copy. Some states require the contract to be spread on the record in full; this is known as "recording." In some states contracts for certain kinds of goods must be filed, while contracts for other goods require no filing.

3. *Time for filing or recording.* In several states filing or recording within the period fixed by statute relates back to the date the contract was executed, giving the seller protection in his reserved title from the date the contract was entered into. In other states the seller is protected only against those who acquire rights in the property subsequent to the time of filing or recording.

4. *Period of effectiveness of record.* In some jurisdictions provision is made limiting the effectiveness of the record to a period of years. Generally, renewal may be made by refiling the instrument prior to the expiration of the period.

5. *Place of filing or recording.* Most states require the contract to be filed or recorded at the place where the buyer resides. In some states filing or recording is in a local office, such as the office of the town clerk; in others, in a county office. Strict compliance with the governing statute is required to protect the seller in his reservation of title against third persons.

6. *Refiling upon removal of property.* In some states, upon removal of the goods by the buyer to another county in the state, or upon removal to another state, the contract must be refiled within a certain time after the seller has received notice of the removal, otherwise the seller loses his reservation of title to the property as against creditors and purchasers.

7. *Risk of loss.* In most states the risk of loss is placed on the buyer, since he is the person who has the use and enjoyment of the property. A few states, however, place the risk on the seller.

The terms of the contract may, of course, determine who shall bear the risk of loss, regardless of statute.

8. *Recording satisfaction of the contract.* Some of the statutes provide for entering a release or satisfaction when all the payments have been met.

Form of conditional sales contract. The form of a conditional sales contract will vary slightly to conform to the statutory requirements of a particular state. Most conditional sales contracts, however, cover the following details (see the form that begins on page 349):

1. Names and addresses of buyer and seller.
2. Description of merchandise purchased.
3. Reservation of title in seller.
4. Agreement of buyer to cover merchandise by insurance, to pay taxes and assessments, to make repairs, and so forth.
5. Provision for retaking by seller in event of defaults in payment of installments, upon removal or encumbrance of merchandise, upon insecurity of buyer, withdrawal of surety, and so on.
6. Assignability of contract.
7. Restriction against oral representations or agreements.

The conditional sales contract is generally accompanied by a promissory note, signed by the buyer, covering the price of the merchandise.

In some respects the conditional sales contract resembles a sale on consignment, a lease, and a bailment. In each of these, as in the conditional sale, possession of the property is given to another, but title is retained by the owner. The consignment sale differs from the conditional sale in that the merchandise delivered to the consignee is intended for resale to a third person. A bailment, on the other hand, contemplates no sale whatever, but merely temporary surrender of possession and the performance of some service pertaining to the goods, after which they are to be returned to the owner. In a lease of goods, the owner merely grants possession to another for his use and enjoyment over a designated period on payment of a stipulated rental. Contracts that appear to involve consignments, leases, or bailments are generally construed by the courts as conditional sales agreements if the intent is to effect a sale. A seller cannot avoid the necessity of giving notice of his reserved title to the goods through filing or recording of the conditional sales

contract by calling the contract a lease or bailment. Under the Uniform Conditional Sales Act, except in Pennsylvania, any contract for the bailment or lease of goods by which the bailee or lessee contracts to pay as compensation a sum substantially equivalent to the value of the goods, or by which it is agreed that the bailee or lessee is bound to become, or has the option of becoming, the owner of such goods upon full compliance with the terms of the contract is a conditional sale.

A conditional sales contract must also be distinguished from a chattel mortgage. In transactions involving a chattel mortgage, title is not reserved in the seller, but passes to the buyer, who, in turn, executes a chattel mortgage in favor of the seller. Upon failure to meet the obligations of the mortgage, the seller may regain title through foreclosure proceedings. A few states make no distinction between chattel mortgages and conditional sales, but consider all conditional sales as chattel mortgages, subject to the statutes applicable to such mortgages.

The C.O.D. sale, meaning "cash on delivery" or "collect on delivery," is not a conditional sale. Passing of title is not conditional in a C.O.D. sale. Payment is made conditional on delivery, and, vice versa, delivery is made conditional on payment. In the usual C.O.D. sale, title passes upon the making of the contract, and the risk of loss, which is normally an incident of title, falls on the buyer prior to delivery and payment, in the absence of a contrary intention.

Conditional sale contract.

(1) PARTIES: Seller: Co., a corporation.

Buyer:

of of

(City) (County) (State or Province)

(2) SUBJECT OF AGREEMENT: Seller agrees to sell, and buyer agrees to buy, machines under the conditions hereinafter set forth as follows:

<i>Quantity</i>	<i>Machine and Model</i>	<i>Serial No.</i>	<i>Price</i>
.....			
.....			
.....			

(3) **TERMS:** F. O. B. , the unpaid price of each machine to be evidenced by a promissory note of even date herewith, payable on demand, which notes may be sold or discounted by the seller without waiver of any rights under this contract. Said notes are not payment but merely evidence of the said indebtedness to become due hereunder.

(4) **POSSESSION OF PROPERTY:** Buyer acknowledges receipt of machines and agrees not to mortgage or encumber same or remove same from the aforesaid state or province or to create or permit any liens or charges thereon, or to part with or to surrender possession of the same or any of the same except on bona fide sale thereof and payment of full purchase price to the seller herein. Buyer agrees to notify seller immediately in the event that machines or any of them are attached, replevined, or levied upon. If a petition in bankruptcy is filed by or against buyer, or if he becomes insolvent or makes an assignment for the benefit of creditors, or takes any action under any law, the operation of which would relieve him from his debts, then, at the option of seller, all of buyer's rights under this contract shall end, and seller shall be entitled to the immediate possession of said machines upon the surrender of buyer's obligations to pay the price thereof.

(5) **RESERVATION OF TITLE:** Both parties hereto agree that title to said machines shall remain in the seller until the full price thereof is paid, and all of the terms and conditions hereof have been fully complied with. The parties hereto intend a contract of conditional sale and not a chattel mortgage in any sense of the word.

(6) **REMEDIES ON DEFAULT:** Should buyer make any default in the matter of payments or otherwise, seller, at its option, may either:

(a) Without notice, declare the total amount of the price to be due and payable immediately; or

(b) Immediately repossess said machines, wherever found, with or without process of law (using all necessary force so to do, the buyer hereby waiving all action for trespass or damage thereby), and retain the same, and any and all payments previously made by buyer shall be retained by seller, buyer waiving and relinquishing all rights in any sums paid and in said machines, and seller shall be relieved from all obligations to transfer the same or any of the same; or

(c) Avail itself of the remedies for the enforcement of a seller's rights under a conditional sale agreement provided by the laws of the aforesaid state or province.

(7) **STILL EXHIBIT, ETC.:** Said machines shall be used only for a still exhibit, shall not be demonstrated or operated, except in necessary moving to or from railroad yards, or warehouse, to or from buyer's place of business, unless seller's written or telegraphic consent is first obtained. Buyer agrees to save seller harmless from all loss or damage of every kind to said machines or to the person or property of the buyer or of any third person, by reason of the use of any of said machines.

(8) **NO REIMBURSEMENT OF ADVANCES, ETC.:** Buyer shall not be entitled to any reimbursement on account of freight, insurance, warehousing, or storage charges, taxes, etc., said machines having been shipped at buyer's request upon the express understanding that said charges shall be paid and discharged by buyer without cost to seller. Buyer agrees to pay and discharge all taxes, liens, charges, and assessments that may be imposed on said machines in the aforesaid state or province.

(9) **ATTORNEY'S FEES, COSTS, ETC.:** If default is made in the payment of any purchase money note, or if seller shall engage an attorney to enforce collection, or to preserve or enforce its rights under this agreement, buyer agrees to reimburse seller for all reasonable legal expenses, attorney's fees, and court costs and expenses incurred by seller.

(10) **RECAPTION:** It is agreed and understood, but not in limitation of the above, that, in the event of the termination of the Agreement subsisting between the parties hereto, seller, at its option, shall, on demand, be entitled to redelivery of the possession of said machines.

(11) Any portion of this contract, including any of the provisions of paragraph 6 hereof, prohibited by law of any state or province, shall, as to said state or province, be ineffective to the extent of such prohibition without invalidating the remaining provisions of the contract.

(12) **INTERPRETATION:** Both parties intend that the operation and construction of this contract shall be governed by the laws of the State of Illinois.

(13) This agreement is expressly made subject to all and singular the terms and provisions of the Agreement now subsisting between the parties hereto.

(14) **ADDITIONAL CLAUSES:**

(15) **RECEIPT OF COPY:** Buyer acknowledges receipt of a full, true, and correct copy of this agreement in

(State or Province)

Dated at, this .. day of, 19...

Seller: Co., a corporation

By

WITNESS FOR BUYER: Buyer:

. By

AFFIDAVITS:

Note to accompany conditional sale contract.

\$....., 19..

(City) (State) (Date)

For value received, undersigned promises to pay to the order of
..... Corporation, the sum of \$.. at the office
of Corporation,, in
(City) (State)

..... monthly installments, the first . . . installments to be for
\$ each and the final installment to be for \$.., with interest
after maturity on delinquent installments at the highest legal rate and
attorney's fees of ten (10) per cent of the amount thereof if placed
with an attorney for collection. The first installment is to become due
and payable on the . day of, 19 .. and one installment
on the . day of each ensuing month thereafter until all installments
are paid.

Default of any payment indicated thereon shall cause the entire balance to become immediately due and payable at the election of the holder hereof without notice. The makers and endorsers hereby severally waive presentment, demand, protest, and notice of protest and nonpayment.

.....

By
(Owner, Officer, or Firm Member)

.....
(Street Address of Maker)

Bills of sale. A bill of sale is a writing evidencing the transfer of personal property from one person to another. The writing contains a direct statement of the transfer of title for a valuable consideration, describes the property transferred, and warrants that the seller owns the property, that it is free from encumbrances, and that he has the right to sell and transfer. A bill of sale is generally not necessary for the transfer of title to personal property, although it is always valuable evidence of the sale and of the identity of the merchandise sold. Some states do, however, require a bill of sale, duly acknowledged and recorded, upon the transfer of certain classes of property, such as motor vehicles, livestock, and so forth. Printed forms are available.

8. CONTRACTS APPOINTING SALES AGENTS

Agency contracts in general. A person who produces, manufactures, or otherwise owns or possesses goods for sale, instead of selling direct to wholesalers, retailers, or consumers, may desire to effect the sale and distribution of his merchandise through agents. These agents may be appointed orally, by letter, or under formal written contracts, which vary in their essential terms in the following respects:

1. *Payment of commissions.* The usual agency arrangement is to ship the goods to the agent on consignment, to be sold by the agent at price schedules fixed by the manufacturer. The manufacturer retains title in the goods until they are actually sold. The agent is compensated by payment of commission at a rate fixed in the agency contract, or in some instances by payment of the difference between the value of the sales made through him and the manufacturer's list prices, less a discount. The agency agreement may specify the rate of commission and periods in which it is to be settled on direct sales and on business reaching the principal through other agents or from customers direct. Or it may provide that commissions shall be paid only on orders which have been accepted by principals, have been shipped and paid for, less any deductions made by customers, and that no order taken after the expiration of the agreement is to be subject to payment of commissions.

2. *Nature and quantity of product to be distributed.* The lines that the agent is to sell should be clearly described. An agency contract may fix the minimum amount of yearly sales that the agent is required to negotiate, or it may fix both the minimum and the maximum amount of his sales.

3. *Extent of territory.* The agent may be limited in respect to the territory in which he is to operate (see the form on page 357), or he may be allowed, under the terms of the contract, to sell anywhere and everywhere. In some instances the manufacturer may find it advisable to grant to the agent the exclusive right to sell and distribute the product within a designated territory, under a so-called "exclusive agency agreement."

4. *Duration of agency.* The term of the agency may be unlimited (see the form on page 357) or it may be fixed. The contract also

generally contains specific provisions for termination prior to expiration of the term under certain contingencies. If the agency covers seasonal goods, the seller should fix the date for termination so that he can cancel the agreement some time before a new season starts, thus avoiding cancellation in the middle of the selling season. It is not uncommon to provide that the manufacturer may cancel the agreement, upon written notice to the agent, in the event of:

(a) Insolvency, bankruptcy, or other financial difficulty of the agent.

(b) Failure of the agent to conduct the business of the agency in a manner satisfactory to the manufacturer.

(c) Failure of the agent to perform the terms and conditions of the agreement.

Some agency contracts provide for termination at any time either by the manufacturer or by the agent, upon the giving of a designated amount of notice of intention to do so, with the proviso that orders accepted prior thereto shall be filled.

5. *Restriction against representing others.* Many agency agreements contain a clause providing that the representative shall not represent, or be directly or indirectly in any way interested in the business of competing lines without the principal's knowledge. The agent is also required to impose the same condition on any subagent whom he may appoint.

6. *Nontransferability of agency.* The agreement may provide that it is "personal," and that it cannot be transmitted by the agent to any other party.

7. *Sales assistance by principal.* The principal may be required to furnish advertising matter, information, and samples free. He may also be allowed to send his own salesmen into the agent's territory to promote sales. The agent, however, receives commissions on sales in the territory as provided in the agreement.

8. *Restriction against involving principal in obligations.* The agency agreement may include a provision forbidding the agent to involve the principal in any obligations beyond those fixed in the agreement, or to accept payments from customers for account of the principal, unless specially authorized by the principal.

9. *Disputes.* The agreement may be made subject to arbitration.

Exclusive agency contracts. An exclusive agency contract is an agreement by which a manufacturer gives to a distributor, dealer, or agent the exclusive right to sell the manufacturer's products in a designated territory, the agent, in turn, agreeing to push sales in that territory but not to sell outside of it. The validity of such contracts has now been generally established by the decisions of the courts. While the exclusive agency is always based on a definite understanding, the agreement need not be a formal one. It may be oral; it may be embodied in a letter; or it may be incorporated in a formal written document. The formal contract usually contains provisions with respect to the following:

1. *Selling rights.* The exclusive agency contract must give the agent a market that is wholly or partly his, exclusively. The manufacturer may give to the agent either:

(a) full exclusive sales rights, agreeing not to sell the article or line to any other jobber in the territory, or to any other dealer in the local market; or

(b) limited exclusive sales rights, agreeing not to appoint more than a certain number of agents, or not to sell the article or line to other dealers within a certain radius of the dealer's place of business.

Metropolitan agents are sometimes given joint exclusive rights; that is, the agents in the city are limited in number, but they may sell anywhere in the city. The manufacturer may reserve the right to sell direct to special customers, such as the United States Government, State, County, and Municipal bodies, and to certain classes of trade, such as consumers who purchase for use and not for resale.

2. *Territory.* The boundaries within which the agent is to have exclusive operation are clearly fixed in the agreement. This territory is generally large enough to induce the agent to push the product. The solicitation of business outside of the fixed territory is prohibited. The agent is specifically enjoined from soliciting business in territory belonging to other agents or assigned to branch offices of the manufacturer.

3. *Minimum quota of purchases.* Some exclusive agency contracts fix a minimum amount that the agent is required to sell within a year in order to retain his exclusive agency. The quota may be based on the population in the territory, on the amount sold by

competitors in the same territory, and so forth, and depends largely on the manufacturer's judgment and past experience. The total amount that the agent is to buy during the year may also be fixed in the exclusive agency contract.

4. *Maintenance of stock.* The agent generally agrees to maintain a stock of the manufacturer's product which will adequately represent the line that he is to sell. Generally the amount of stock is a fixed percentage of the quantity that the agent is required to dispose of within a fixed period.

5. *Purchase price from manufacturer.* Some manufacturers sell goods to their agents on a consignment basis; others make outright sales to the agents. The agency contract may include a price schedule, fixing the price from the manufacturer to the agent according to the quantity of the product purchased, or it may indicate that the price is determined by a schedule of discounts issued by the manufacturer.

6. *Resale price by agent.* In the case of trade-marked, copyrighted, or otherwise identified products, the exclusive agency contract may include a schedule of prices at which the product is to be resold. In thus seeking to maintain the resale price, the manufacturer should be careful to consider the State and Federal antitrust laws as well as the laws permitting resale price maintenance. This subject is treated further on page 359.

7. *Agreement not to sell competing lines.* Under some agency contracts the agent is required merely to push the product for which he is granted an exclusive agency. Under other contracts, however, the agent agrees to handle the manufacturer's products exclusively. The question has been presented to the courts as to whether such a provision violates the Clayton Act, Section 3 of which provides that it shall be unlawful for a person to make a contract for sale of goods on the agreement that the purchaser shall not deal in the goods of a competitor, where the effect is substantially to lessen competition or where it tends to create a monopoly. The rule is now fairly well established that an exclusive agency agreement does not necessarily restrain competition or tend to create a monopoly in violation of the antitrust laws. An agreement by the agent not to sell the product of some other manufacturer does not stifle competition, for other dealers may sell other products.

8. *Duration of agency.* Many exclusive agency contracts do not

definitely fix their duration. Where the period is fixed, it usually runs for the term of one year, with privilege on the part of the manufacturer to renew if the agency has proved satisfactory. Some contracts may provide for termination:

- (a) Upon the expiration of a fixed period of time.
- (b) By the manufacturer at will upon written notice to the agent.
- (c) By the manufacturer upon a specified number of days' notice to the agent.
- (d) Immediately by either party upon violation of the terms of the contract.

Contract appointing exclusive retail dealer for designated territory to sell company's products.

ARTICLES OF AGREEMENT, made this . . . day of, 19.., by and between The Company, of,, Party of the First Part, and, of,, Party of the Second Part.

WITNESSETH, That the Party of the First Part, manufacturing Stock Office Equipment at, hereby appoints Party of the Second Part its Exclusive Retail Dealer for the line of Office Equipment, consisting of for the territory of

IN ADDITION TO GRANTING THIS EXCLUSIVE FRANCHISE, Party of the First Part agrees:

1. To turn over all orders and inquiries received from the territory involved to the Party of the Second Part, in accordance with the National Policy of the Party of the First Part.

2. To furnish catalogues and all current advertising matter in reasonable quantities, free of charge.

3. To allow the Party of the Second Part the Trade Discounts as shown in the Current Published Trade Discount Sheet for the various divisions of the line.

4. To allow the Party of the Second Part to ship orders into other exclusive territory, provided the purchasing power is located in the territory of the Party of the Second Part or in open territory.

5. That, upon its acceptance by the proper authority located at, this contract will become effective.

6. To allow the Party of the Second Part the privilege to terminate this contract by giving the Party of the First Part thirty (30) days' written notice, or without previous notice, upon violation of any of the conditions set forth herein.

7. The Party of the First Part reserves the right to seek outlets through other dealers for products that the Party of the Second Part fails aggressively to sell.

IN CONSIDERATION OF THE GRANT OF ITS EXCLUSIVE FRANCHISE AND OTHER AGREEMENTS MADE BY THE PARTY OF THE FIRST PART, Party of the Second Part agrees:

1. [*Competing products*] To give the lines of merchandise made available on an exclusive basis by the Party of the First Part adequate floor and window display, and not to purchase, display, or offer for sale competing products, in any grades or styles, offered by other manufacturers.

2. [*Terms*] To pay bills for purchases made from the Party of the First Part on the basis of two (2) per cent cash discount if remittance is placed in the mail on or before midnight of the of the month following the date of the invoices, or on the basis of net payment on the 30th of the month following the date of invoices.

3. [*Restrictions on soliciting business*] Not to solicit business on products in territories assigned exclusively to other dealers, or in cities where Party of the First Part has branch stores or sales offices, it being understood that its branch stores stand in exactly the same relation to exclusive dealers as one exclusive dealer to another.

4. [*Sales by others in territory*] To allow Party of the First Part, or any of its agents or exclusive dealers, to solicit business and accept orders in the territory made a part of this agreement, provided the authority for purchase is located in some other territory.

5. [*Special cases*] To allow the Party of the First Part the privilege to develop and close, through its own representatives, any prospects that require special technical or expert service, apportioning the commission of Party of the Second Part according to the extra expense or special concessions involved. It is understood, however, that before projects of this class are closed, Party of the Second Part will be advised as to the terms of sale and amount of commission that will be received.

6. [*Cancellation of contract*] To allow the Party of the First Part the privilege to terminate this contract by giving the Party of the Second Part thirty (30) days' written notice, or without previous notice, upon violation of any of the conditions set forth herein.

7. [*Government orders*] To allow Party of the First Part, or any branch, or any duly appointed agent or dealer, to accept and execute without obligation or violation of the terms of this Contract orders from the United States Government.

8. [*Termination on sale or consolidation*] To allow the Party of the First Part the option to terminate this contract in the event that there is

a sale or consolidation of the business of the Party of the Second Part.

9. [*Notice of changes*] That all of the products, terms, prices, discounts, and conditions specified herein may be changed or discontinued by notice in writing or publication by the Party of the First Part.

10. [*Return of merchandise*] That Party of the First Part will be given the option of taking back all saleable merchandise in the possession of the Party of the Second Part in the event of a violation or cancellation of this contract.

This Contract cancels all other previous agreements.

	The Company,
Retail Dealer	By
By	Accepted

Resale price-maintenance agreements. All but a few of the states have enacted laws dealing with resale price maintenance, known as "fair trade" acts. The typical state fair trade law does two things: (1) It permits a manufacturer of branded merchandise to make a contract with a distributor whereby the distributor agrees to sell the product at a fixed price. (2) It provides for the enforcement of prices fixed in this way not only against dealers who sign price-fixing agreements, but also against non-signers.

The state fair trade acts do not permit horizontal price-fixing contracts; that is, such contracts are not permitted between wholesalers and wholesalers, producers and producers, or between retailers and retailers.

To be price-fixed, the article must be (1) identifiable by trademark, copyright, patent, or other means; and (2) in open competition with similar commodities. For example, the Federal Trade Commission, upheld by federal courts, prohibited a film manufacturer from entering into contracts fixing the price of his film because there was no competing product.

There are exceptions under the acts—for example, close-out sales of damaged goods, and sales in which the name, brand, or other identifying marks have been removed. Close-out sales and sales of damaged goods must be clearly described to the public as such.

The laws generally provide that any person injured by a violation of them may bring an action against the price-cutter.

The Miller-Tydings Act, passed in 1937, exempts from the Sherman Anti-Trust Act state-sanctioned contracts or agreements fixing

minimum resale prices. The Supreme Court construed this statute as allowing states to enforce "fair trade" agreements only against signers of a price-fixing agreement.* A law passed by Congress in 1952 overcomes this decision by providing that minimum resale price agreements can be enforced against non-signers as well as signers, if the state law applies to non-signers. Several states, however, have held their states' "non-signer" provisions to be unconstitutional.

Manufacturer—retailer contract form for use under state resale price-maintenance laws.†

AGREEMENT, made in the State of . . . , by and between the undersigned, "Manufacturer," and the undersigned, "Retailer,"

WITNESSETH:

WHEREAS, the "Commodities," shown on Schedule A hereto attached, as such Schedule shall be constituted from time to time, are, or may hereafter be, distributed under the trade-mark(s), brand(s), or name of "Manufacturer" in fair, free, and open competition with commodities of the same general class produced by others, and the parties hereto desire to avail themselves of the benefits of the Fair Trade Act of the State of . . . , the undersigned, "Retailer," of the address as shown below;

Now, THEREFORE, in consideration of the premises and the mutual obligations herein assumed, the parties hereto agree as follows:

(1) "Retailer" will not (except as specifically permitted by said Fair Trade Act) directly or indirectly advertise, offer for sale, or sell any of such "Commodities" in said state at less than the minimum retail prices stipulated therefor by "Manufacturer."

(2) The minimum retail prices stipulated by "Manufacturer" for the "Commodities" in said state are those now or hereafter designated in Schedule A, plus, in each sale, the amount of all sales and excise taxes applicable to such retail sale in said State.

(3) "Manufacturer," at any time and from time to time, upon ten (10) days' written notice to "Retailer," may eliminate "Commodities" from Schedule A, and/or may add to said Schedule, and stipulate minimum retail prices for, additional "Commodities," and may change the minimum retail price of any one or more of the "Commodities."

(4) (a) The offering or giving of any article of value in connection with the sale by "Retailer" of any of the "Commodities"; (b) the offering or making of any concession of any kind whatsoever (whether by the

* *Schwegmann Brothers, et al. v. Calvert Distillers Corporation*; *Schwegmann Brothers, et al. v. Seagram Distillers Corporation* (1951), 340 U.S. 928, 71 S. Ct. 941, certiorari denied, 71 S. Ct. 745.

† Form suggested by National Association of Retail Druggists. Reproduced by special permission

giving of coupons, trading stamps, or otherwise), in connection with any such sale; or (c) the sale or offering for sale of any of the "Commodities" by "Retailer" in combination with any other merchandise shall constitute a breach by "Retailer" of article 1 of this agreement.

(5) "Manufacturer" in good faith will employ all appropriate means, which in the circumstances shall be reasonable, including legal proceedings if such other means fail, to prevent, and to enforce the discontinuance of, any violation of said minimum retail-price stipulations by any competitor of "Retailer," whether the person violating or threatening such violation is or is not a party to a fair-trade contract with "Manufacturer" covering said "Commodities."

(6) "Retailer" will not, where statute or law permits such restriction, sell any of the "Commodities" except to consumers for use.

(7) In addition to any other legal remedy, the parties may have the remedy of injunction to prevent or to enforce the discontinuance of any violation of this agreement.

(8) This agreement may be terminated by either party on ten (10) days' written notice to the other, but termination by "Retailer" shall not affect the rights or obligations of either of the parties hereto under the Fair Trade Act of said State or by reason of any contract made pursuant thereto.

(9) Any notice given under any of the provisions of this agreement shall be well and sufficiently given by delivering the same personally to the party hereto to whom it shall be addressed, or by mailing the same in a sealed postpaid envelope addressed to such party at its address given below.

(10) This agreement shall become effective on the .. day of , 19...

IN WITNESS WHEREOF, the parties hereto have executed this agreement on the .. day of , 19...

.....					
<i>Retailer</i>			<i>Manufacturer</i>		
.....					
(Street)	(City)	(State)	(Street)	(City)	(State)
(attach store label)					

(To be printed at the foot of the contract after the signatures and addresses.)

SCHEDULE A

(If more space needed, add additional page or pages.)

.....

Unfair practices acts. Another group of State laws affecting sales is that prohibiting price discrimination and sales below cost, where the effect is to injure competitors or destroy competition. These acts are frequently referred to as unfair practices acts and fair or unfair sales acts. Some of the laws also prevent discrimination between distributors of commodities of like grade and quality and between purchasers in different communities. Some also prohibit secret payment or allowance of rebates, refunds, commissions, or unearned discounts.

The Federal Robinson-Patman Anti-price Discrimination Act, passed in 1936, amends the Clayton Act to prohibit specific abuses concerning price discrimination that the Clayton Act did not correct. The statute outlaws price-discriminatory practices in the sale and resale of commodities in the United States, including false brokerage, pseudo-advertising and other discriminating service allowances that were found unfairly to favor the large buyer as against the small and independent businessman. It is unlawful under the act for a buyer engaged in interstate commerce knowingly to induce or receive a discrimination in price that is prohibited by the act. The act permits due allowances for differences in the cost of manufacture, sale, or delivery resulting from different measures or quantities in which the commodities are sold or delivered to the purchasers, but allows the Federal Trade Commission to fix quantity limits beyond which no discount will be allowed.

9. CONTRACTS EMPLOYING SALESMEN

Essential provisions of employment contracts. It is the practice in many business houses not to enter into formal contracts in employing salesmen. The contention is that the psychological effect of requiring the employee to sign a formidable-looking paper is bad, and that, so far as the company is concerned, its interests are not furthered by having a legal document in its possession. The company wants good salesmen, not good lawsuits. However, the formal written contract of employment that puts into black and white the arrangements agreed upon between employer and employee still has its staunch adherents. The various provisions that may be included in such contracts are, perhaps, endless, but the following may be

listed as those items that it is most essential and most common to cover:

1. The product that the salesman is to sell.
2. The territory that he is to cover.
3. The obligation of the salesman to devote full time to his work.
4. Compensation; whether payment is to be a straight salary, or commissions, or a combination of salary and commissions; whether credit losses may be charged against commissions; whether the salesman is to have a drawing account against commissions, and whether he is to be paid traveling expenses; when commissions are payable.
5. Expenses for which company will be responsible, if any.
6. Furnishing of and responsibility for samples.
7. The making of reports by the salesman.
8. Restrictions on the employee's power to bind the company by orders.
9. Furnishing by the salesman of a fidelity bond for faithful performance of his duties.
10. Restrictions on salesman's activities before and after termination of employment.
11. Duration of contract.
12. Termination of contract—by advance notice, by expiration of fixed period, and so forth.

Agreement for employment of salesman in allotted territory, on commission basis; provision for drawing account and traveling expenses; restriction against representing others during period of employment.

AGREEMENT, made this . . . day of, 19 . . ., in the City of, State of, between the, Inc., a corporation organized under the laws of the State of and having its principal office at No. Street, City of, State of, party of the first part, and, of the City of, State of, party of the second part, WITNESSETH:

1. [*Nature and period of employment*] The party of the second part agrees to continue in the service of the party of the first part as a salesman of and other products manufactured by the party of the first part and of such articles as the party of the first part deems

necessary to assist it in the distribution of its products, in
 [here insert description of salesman's territory], for a period of
 years from , 19 ; this contract of employment may, how-
 ever, be sooner terminated by either party giving months
 written notice of termination thereof to the other party.

2. [*Obligations of employee*] The party of the second part agrees to devote all of his time, attention, and energies to the performance of his duties as such salesman, subject to the control of the party of the first part, to serve the party of the first part diligently and according to the best of his ability in all respects, to make every effort to get orders in all parts of the territory allotted to him as aforesaid, and to straighten out to the best of his ability any complaints that may arise in connection with such orders.

3. [*Restriction against representing others during period of employment*] The party of the second part agrees not to represent, either directly or indirectly, any other person; firm, corporation, or business during said period of employment, unless the consent of the party of the first part is obtained thereto.

4. [*Price of goods and acceptance of orders*] The party of the second part agrees to sell all goods at prices fixed by the party of the first part, which prices shall not materially differ from competitor's prices on similar goods. All orders taken by the party of the second part are subject to acceptance by the party of the first part.

5. [*Payment of commissions*] The party of the first part agrees to pay commissions to the party of the second part, as follows:

(a) cents per gross on orders for [here insert commodity] taken by the party of the second part.

(b) cents per gross on those orders for
 received from customers or others on whom the party of the second part has sent reports to the party of the first part, and called on in person at least once a year.

(c) cents per gross on orders from jobbers on whom the party of the second part has sent in reports to the party of the first part, and called on in person at least once a year.

(d) per cent of the selling price on all orders for
 from manufacturers of or others on whom the party of the second part has sent in reports to the party of the first part, and called on in person at least once a year.

(e) on all shipments from contracts taken by the party of the second part before the date of this agreement and paid for after , 19 , as follows:

. per cent per gross on shipments of
 per cent per gross on shipments of
 cents per gross on shipments of to jobbers.

Commissions as hereinabove provided shall not become due or payable

to the party of the second part until the goods ordered are paid for by the respective customers.

6. [*Drawing account and traveling expenses*] The party of the first part agrees to allow the party of the second part against commissions a drawing account of \$ _____ per week, to be paid to the party of the second part on Thursday of each and every week. Traveling expenses incurred by the party of the second part outside of the cities of _____, _____, and _____, shall be paid by the party of the first part to the party of the second part on Thursday of each and every week for the preceding week.

The party of the first part agrees to pay to the party of the second part, on demand, the amount of commissions in excess of \$ _____ due the party of the second part on _____, _____, and _____ of each and every year during the period of his employment under this contract.

7. [*Records and reports*] The party of the first part agrees to keep an accurate account of all orders taken by the party of the second part in, or otherwise received from, the territory allotted to him as aforesaid, and to render to the party of the second part a statement of such account on the first (1st) days of _____, _____, and _____ of each year during the period of his employment under this contract.

IN WITNESS WHEREOF, the parties hereto have hereunto set their hands and affixed their seals the _____ day of _____, 19....

By _____ Corporation

President

10. FOREIGN TRADE TERMS OF SALE *

It is strongly recommended to manufacturers and exporters that wherever abbreviated forms of export quotations are employed, the forms herein defined be used, so far as possible, to the exclusion of other forms.

I. "ex factory," "ex mill," "ex mine," "ex plantation," "ex warehouse," etc. (named point of origin)

Under this term, the price quoted applies only at the point of origin, and the seller agrees to place the goods at the disposal of the buyer at the agreed place on the date or within the period fixed.

* *Acknowledgment:* "Foreign Trade Definitions," Joint Committee representing the Chamber of Commerce of the United States of America, the National Council of American Importers, Inc., and the National Foreign Trade Council, Inc.

Under this quotation:

Seller must (1) bear all costs and risks of the goods until such time as the buyer is obliged to take delivery thereof; (2) render the buyer, at the buyer's request and expense, assistance in obtaining the documents issued in the country of origin, or of shipment, or of both, which the buyer may require either for purposes of exportation, or of importation at destination.

Buyer must (1) take delivery of the goods as soon as they have been placed at his disposal at the agreed place on the date or within the period fixed; (2) pay export taxes, or other fees or charges, if any, levied because of exportation; (3) bear all costs and risks of the goods from the time when he is obligated to take delivery thereof; (4) pay all costs and charges incurred in obtaining the documents issued in the country of origin, or of shipment, or of both, which may be required for purposes of exportation, or for purposes of importation at destination.

II. f.o.b. (named inland carrier at named inland point of departure)

[Note:—Seller and buyer should consider not only the definitions but also the “Comments on All F.O.B. Terms” at page 369.]

Under this term, the price quoted applies only at inland shipping point, and the seller arranges for loading of the goods on, or in, railway cars, trucks, lighters, barges, aircraft, or other conveyance furnished for transportation.

Under this quotation:

Seller must (1) place goods on, or in, conveyance, or deliver to inland carrier for loading; (2) provide clean bill of lading or other transportation receipt, freight collect; (3) be responsible for any loss or damage, or both, until goods have been placed in, or on, conveyance at loading point, and clean bill of lading or other transportation receipt has been furnished by the carrier; (4) render the buyer, at the buyer's request and expense, assistance in obtaining the documents issued in the country of origin, or of shipment, or of both, which the buyer may require either for purpose of exportation, or of importation at destination.

Buyer must (1) be responsible for all movement of the goods from inland point of loading, and pay all transportation costs; (2) pay export taxes, or other fees or charges, if any, levied because of exportation; (3) be responsible for any loss or damage, or both, incurred after loading at named inland point of departure; (4) pay all costs and charges incurred in obtaining the documents issued in the country of origin, or of shipment, or both, which may be required either for purposes of exportation, or of importation at destination.

III. f.o.b. (named inland carrier at named inland point of departure) freight prepaid to (named point of exportation)

Under this term, the seller quotes a price including transportation charges to the named point of exportation and prepays freight to named point of exportation, without assuming responsibility for the goods after obtaining a clean bill of lading or other transportation receipt at named inland point of departure.

Under this quotation.

Seller must (1) assume the seller's obligations as under II, except that under (2) he must provide clean bill of lading or other transportation receipt, freight prepaid to named point of exportation.

Buyer must (1) assume the same buyer's obligations as under II, except that he does not pay freight from loading point to named point of exportation.

IV. f.o.b. (named inland carrier at named inland point of departure) freight *allowed to* (named point)

Under this term, the seller quotes a price including the transportation charges to the named point, shipping freight collect and deducting the cost of transportation, without assuming responsibility for the goods after obtaining a clean bill of lading or other transportation receipt at named inland point of departure.

Under this quotation:

Seller must (1) assume the same seller's obligations as under II, but deducts from this invoice the transportation cost to named point.

Buyer must (1) assume the same buyer's obligations as under II, including payment of freight from inland loading point to named point, for which seller has made deduction.

V. f.o.b. (named inland carrier at named point of exportation)

Under this term, the seller quotes a price including the cost of transportation of the goods to named point of exportation, bearing any loss or damage, or both, incurred up to that point.

Under this quotation:

Seller must (1) place goods on, or in, conveyance, or deliver to inland carrier for loading; (2) provide clean bill of lading or other transportation receipt, paying all transportation costs from loading point to named point of exportation; (3) be responsible for any loss or damage, or both, until goods have arrived in, or on, inland conveyance at the named point of exportation; (4) render the buyer, at the buyer's request and expense, assistance in obtaining the documents issued in the country of origin, or

of shipment, or of both, which the buyer may require either for purposes of exportation, or of importation at destination.

Buyer must (1) be responsible for all movement of the goods from inland conveyance at named point of exportation; (2) pay export taxes, or other fees or charges, if any, levied because of exportation; (3) be responsible for any loss or damage, or both, incurred after goods have arrived in, or on inland conveyance at the named point of exportation; (4) pay all costs and charges incurred in obtaining the documents issued in the country of origin, or of shipment, or of both, which may be required either for purposes of exportation, or of importation at destination.

VI. f.o.b. vessel (named port of shipment)

Under this term, the seller quotes a price covering all expenses up to, and including, delivery of the goods upon the overseas vessel provided by, or for, the buyer at the named port of shipment.

Under this quotation:

Seller must (1) pay all charges incurred in placing goods actually on board the vessel designated and provided by, or for, the buyer on the date or within the period fixed; (2) provide clean ship's receipt or on-board bill of lading; (3) be responsible for any loss or damage, or both, until goods have been placed on board the vessel on the date or within the period fixed; (4) render the buyer, at the buyer's request and expense, assistance in obtaining the documents issued in the country of origin, or of shipment, or of both, which the buyer may require either for purposes of exportation, or of importation at destination.

Buyer must (1) give seller adequate notice of name, sailing date, loading berth of, and delivery time to, the vessel; (2) bear the additional costs incurred and all risks of the goods from the time when the seller has placed them at his disposal if the vessel named by him fails to arrive or to load within the designated time; (3) handle all subsequent movement of the goods to destination: (a) provide and pay for insurance; (b) provide and pay for ocean and other transportation; (4) pay export taxes, or other fees or charges, if any, levied because of exportation; (5) be responsible for any loss or damage, or both, after goods have been loaded on board the vessel; (6) pay all costs and charges incurred in obtaining the documents, other than clean ship's receipt or bill of lading, issued in the country of origin, or of shipment, or of both, which may be required either for purposes of exportation, or of importation at destination.

VII. f.o.b. (named inland point in country of importation)

Under this term, the seller quotes a price including the cost of the merchandise and all costs of transportation to the named inland point in the country of importation.

Under this quotation:

Seller must (1) provide and pay all transportation to the named inland point in the country of importation; (2) pay export taxes, or other fees or charges, if any, levied because of exportation; (3) provide and pay for marine insurance; (4) provide and pay for war risk insurance, unless otherwise agreed upon between the seller and buyer; (5) be responsible for any loss or damage, or both, until arrival of goods on conveyance at the named inland point in the country of importation; (6) pay the costs of certificates of origin, consular invoices, or any other documents issued in the country of origin, or of shipment, or of both, which the buyer may require for the importation of goods into the country of destination and, where necessary, for their passage in transit through another country; (7) pay all costs of landing, including wharfage, landing charges, and taxes, if any; (8) pay all costs of customs entry in the country of importation; (9) pay customs duties and all taxes applicable to imports, if any, in the country of importation.

Buyer must (1) take prompt delivery of goods from conveyance upon arrival at destination; (2) bear any costs and be responsible for all loss or damage, or both, after arrival at destination.

Comments on All F.O.B. (free on board) Terms

In connection with f.o.b. terms, the following points of caution are recommended:

1. The method of inland transportation, such as trucks, railroad cars, lighters, barges, or aircraft should be specified.

2. If any switching charges are involved during the inland transportation, it should be agreed, in advance, whether these charges are for account of the seller or the buyer.

3. The term "f.o.b. (named port)," without designating the exact point at which the liability of the seller terminates and the liability of the buyer begins, should be avoided. The use of this term gives rise to disputes as to the liability of the seller or the buyer in the event of loss or damage arising while the goods are in port, and before delivery to or on board the ocean carrier. Misunderstandings may be avoided by naming the specific point of delivery.

4. If lighterage or trucking is required in the transfer of goods from the inland conveyance to ship's side, and there is a cost therefor, it should be understood, in advance, whether this cost is for account of the seller or the buyer.

5. The seller should be certain to notify the buyer of the mini-

imum quantity required to obtain a carload, a truck load, or a barge-load freight rate.

6. Under f.o.b. terms, excepting "f.o.b. (named inland point in country of importation)," the obligation to obtain ocean freight space, and marine and war risk insurance, rests with the buyer. Despite this obligation on the part of the buyer, in many trades the seller obtains the ocean freight space, and marine and war risk insurance, and provides for shipment on behalf of the buyer. Hence, seller and buyer must have an understanding as to whether the buyer will obtain the ocean freight space, and marine and war risk insurance, as in his obligation, or whether the seller agrees to do this for the buyer.

7. For the seller's protection, he should provide in his contract of sale that marine insurance obtained by the buyer include standard warehouse to warehouse coverage.

VIII. f.a.s. vessel (named port of shipment)

Under this term, the seller quotes a price including delivery of the goods, along side overseas vessel and within reach of its loading tackle.

Under this quotation:

Seller must (1) place goods along side vessel or on dock designated and provided by, or for, buyer on the date or within the period fixed; pay any heavy lift charges, where necessary, up to this point; (2) provide clean dock or ship's receipt; (3) be responsible for any loss or damage, or both, until goods have been delivered along side the vessel or on the dock; (4) render the buyer, at the buyer's request and expense, assistance in obtaining the documents issued in the country of origin, or of shipment, or of both, which the buyer may require either for purposes of exportation, or of importation at destination.

Buyer must (1) give seller adequate notice of name, sailing date, loading berth of, and delivery time to, the vessel; (2) handle all subsequent movement of the goods from along side the vessel: (a) arrange and pay for demurrage or storage charges, or both, in warehouse or on wharf, where necessary; (b) provide and pay for insurance; (c) provide and pay for ocean and other transportation; (3) pay export taxes, or other fees or charges, if any, levied because of exportation; (4) be responsible for any loss or damage, or both, while the goods are on a lighter or other conveyance along side vessel within reach of its loading tackle, or on the dock awaiting loading, or until actually loaded on board the vessel, and subsequent thereto; (5) pay all costs and charges incurred in obtaining the documents, other than clean dock or ship's receipt, issued in the country of origin, or of shipment, or of both, which may be required either for purposes of exportation, or of importation at destination.

F.A.S. (free along side) Comments

1. Under f.a.s. terms, the obligation to obtain ocean freight space, and marine and war risk insurance, rests with the buyer. Despite this obligation on the part of the buyer, in many trades the seller obtains ocean freight space, and marine and war risk insurance, and provides for shipment on behalf of the buyer. In others, the buyer notifies the seller to make delivery along side a vessel designated by the buyer and the buyer provides his own marine and war risk insurance. Hence, seller and buyer must have an understanding as to whether the buyer will obtain the ocean freight space, and marine and war risk insurance, as is his obligation, or whether the seller agrees to do this for the buyer.

2. For the seller's protection, he should provide in his contract of sale that marine insurance obtained by the buyer include standard warehouse to warehouse coverage.

IX. c. & f. (named point of destination)

Under this term, the seller quotes a price including the cost of transportation to the named point of destination.

Under this quotation:

Seller must (1) provide and pay for transportation to named point of destination; (2) pay export taxes, or other fees or charges, if any, levied because of exportation; (3) obtain and dispatch promptly to buyer, or his agent, clean bill of lading to named point of destination; (4) where received-for-shipment ocean bill of lading may be tendered, be responsible for any loss or damage, or both, until the goods have been delivered into the custody of the ocean carrier; (5) where on-board ocean bill of lading is required, be responsible for any loss or damage, or both, until the goods have been delivered on board the vessel; (6) provide, at the buyer's request and expense, certificates of origin, consular invoices, or any other documents issued in the country of origin, or of shipment, or of both, which the buyer may require for importation of goods into country of destination and, where necessary, for their passage in transit through another country.

Buyer must (1) accept documents when presented; (2) receive goods upon arrival, handle and pay for all subsequent movement of the goods, including taking delivery from vessel in accordance with bill of lading clauses and terms; pay all costs of landing, including any duties, taxes, and other expenses at named point of destination; (3) provide and pay for insurance; (4) be responsible for loss of or damage to goods, or both, from time and place at which seller's obligations under (4) or (5) above

have ceased; (5) pay the cost of certificates of origin, consular invoices, or any other documents issued in the country of origin, or of shipment, or of both, which may be required for the importation of goods into the country of destination and, where necessary, for their passage in transit through another country.

C. & F. (cost and freight) Comments

1. For the seller's protection, he should provide in his contract of sale that marine insurance obtained by the buyer include standard warehouse to warehouse coverage.

2. The comments listed under the following c.i.f. terms in many cases apply to c. & f. terms as well, and should be read and understood by the c. & f. seller and buyer.

X. c.i.f. (named point of destination)

Under this term, the seller quotes a price including the cost of the goods, the marine insurance, and all transportation charges to the named point of destination.

Under this quotation:

Seller must (1) provide and pay for transportation to named point of destination; (2) pay export taxes, or other fees or charges, if any, levied because of exportation; (3) provide and pay for marine insurance; (4) provide war risk insurance as obtainable in seller's market at time of shipment at buyer's expense, unless seller has agreed that buyer provide for war risk coverage; (5) obtain and dispatch promptly to buyer, or his agent, clean bill of lading to named point of destination, and also insurance policy or negotiable insurance certificate; (6) where received-for-shipment ocean bill of lading may be tendered, be responsible for any loss or damage, or both, until the goods have been delivered into the custody of the ocean carrier; (7) where on-board ocean bill of lading is required, be responsible for any loss or damage, or both, until the goods have been delivered on board the vessel; (8) provide, at the buyer's request and expense, certificates of origin, consular invoices, or any other documents issued in the country of origin, or of shipment, or both, which the buyer may require for importation of goods into country of destination and, where necessary, for their passage in transit through another country.

Buyer must (1) accept the documents when presented; (2) receive the goods upon arrival, handle and pay for all subsequent movement of the goods, including taking delivery from vessel in accordance with bill of lading clauses and terms; pay all costs of landing, including any duties, taxes, and other expenses at named point of destination; (3) pay for war risk insurance provided by seller; (4) be responsible for loss of or damage

to goods, or both, from time and place at which seller's obligations under (6) or (7) above have ceased; (5) pay the cost of certificates of origin, consular invoices, or any other documents issued in the country of origin, or of shipment, or both, which may be required for importation of the goods into the country of destination and, where necessary, for their passage in transit through another country.

C. & F. and C.I.F. Comments

Under c. & f. and c.i.f. contracts the following points on which the seller and the buyer should be in complete agreement at the time the contract is concluded are:

1. It should be agreed upon, in advance, who is to pay for miscellaneous expenses, such as weighing or inspection charges.

2. The quantity to be shipped on any one vessel should be agreed upon, in advance, with a view to the buyer's capacity to take delivery upon arrival and discharge of the vessel, within the free time allowed at the port of importation.

3. Although the terms c. & f. and c.i.f. are generally interpreted to provide that charges for consular invoices and certificates of origin are for the account of the buyer, and are charged separately, in many trades these charges are included by the seller in his price. Hence, seller and buyer should agree, in advance, whether these charges are part of the selling price, or will be invoiced separately.

4. The point of final destination should be definitely known in the event the vessel discharges at a port other than the actual destination of the goods.

5. When ocean freight space is difficult to obtain, or forward freight contracts cannot be made at firm rates, it is advisable that sales contracts, as an exception to regular c. & f. or c.i.f. terms, should provide that shipment within the contract period be subject to ocean freight space being available to the seller, and should also provide that changes in the cost of ocean transportation between the time of sale and the time of shipment be for account of the buyer.

6. Normally, the seller is obligated to prepay the ocean freight. In some instances, shipments are made freight collect and the amount of the freight is deducted from the invoice rendered by the seller. It is necessary to be in agreement on this, in advance, in order to avoid misunderstanding which arises from foreign exchange fluctuations which might affect the actual cost of transportation, and from

interest charges which might accrue under letter of credit financing. Hence, the seller should always prepay the ocean freight unless he has a specific agreement with the buyer, in advance, that goods can be shipped freight collect.

7. The buyer should recognize that he does not have the right to insist on inspection of goods prior to accepting the documents. The buyer should not refuse to take delivery of goods on account of delay in the receipt of documents, provided the seller has used due diligence in their dispatch through the regular channels.

8. Sellers and buyers are advised against including in a c.i.f. contract any indefinite clause at variance with the obligations of a c.i.f. contract as specified in these definitions. There have been numerous court decisions in the United States and other countries invalidating c.i.f. contracts because of the inclusion of indefinite clauses.

9. Interest charges should be included in cost computations and should not be charged as a separate item in c.i.f. contracts, unless otherwise agreed upon, in advance, between the seller and buyer; in this case, however, the term c.i.f. and i. (cost, insurance, freight, and interest) should be used.

10. In connection with insurance under c.i.f. sales, it is necessary that seller and buyer be definitely in accord upon the following points:

(a) The character of the marine insurance should be agreed upon in so far as being w.a. (with average) or f.p.a. (free of particular average), as well as any other special risks that are covered in specific trades, or against which the buyer may wish individual protection. Among the special risks that should be considered and agreed upon between seller and buyer are theft, pilferage, leakage, breakage, sweat, contact with other cargoes, and others peculiar to any particular trade. It is important that contingent or collect freight and customs duty should be insured to cover particular average losses, as well as total loss after arrival and entry but before delivery.

(b) The seller is obligated to exercise ordinary care and diligence in selecting an underwriter that is in good financial standing. However, the risk of obtaining settlement of insurance claims rests with the buyer.

(c) War risk insurance under this term is to be obtained by

the seller at the expense and risk of the buyer. It is important that the seller be in definite accord with the buyer on this point, particularly as to the cost. It is desirable that the goods be insured against both marine and war risk with the same underwriter, so that there can be no difficulty arising from the determination of the cause of the loss.

(d) Seller should make certain that in his marine or war risk insurance, there be included the standard protection against strikes, riots and civil commotions.

(e) Seller and buyer should be in accord as to the insured valuation, bearing in mind that merchandise contributes in general average on certain bases of valuation which differ in various trades. It is desirable that a competent insurance broker be consulted, in order that full value be covered and trouble avoided.

XI. "ex dock" (named port of importation)

Under this term, seller quotes a price including the cost of the goods and all additional costs necessary to place the goods on the dock at the named port of importation, duty paid, if any.

Under this quotation:

Seller must (1) provide and pay for transportation to named port of importation; (2) pay export taxes, or other fees or charges, if any, levied because of exportation; (3) provide and pay for marine insurance; (4) provide and pay for war risk insurance, unless otherwise agreed upon between the buyer and seller; (5) be responsible for any loss or damage, or both, until the expiration of the free time allowed on the dock at the named port of importation; (6) pay the cost of certificates of origin, consular invoices, legalization of bill of lading, or any other documents issued in the country of origin, or of shipment, or of both, which the buyer may require for the importation of goods into the country of destination and, where necessary, for their passage in transit through another country; (7) pay all costs of landing, including wharfage, landing charges, and taxes, if any; (8) pay all costs of customs entry in the country of importation; (9) pay customs duties and all taxes applicable to imports, if any, in the country of importation, unless otherwise agreed upon.

Buyer must (1) take delivery of the goods on the dock at the named port of importation within the free time allowed; (2) bear the cost and risk of the goods if delivery is not taken within the free time allowed.

SECTION 4

Office Management

Office-management functions	381	Office machines and appliances	398
Qualifications of the office manager	381	How to determine the value of an office appliance	398
1. PLANNING AND MAINTAINING THE OFFICE FOR EFFICIENCY		Considerations in buying office appliances	398
Physical factors in office planning	382	Calculating machines	399
Elevators	382	Punched-card accounting equipment	400
Lockers	382	Advantages of punched-card accounting	401
Washrooms	383	Proof machines to speed sorting	401
Communications	383	Keysort for sorting data	401
Partitions, railings, and doors	383	Sorters	404
Floor coverings	384	Pegboard system to save time and reduce error	405
Lighting	385	Duplicating machines	407
Suggestions to increase the quantity of light	385	Photo-copy machines	409
How to improve the quality of light	386	Microfilm equipment	411
Air conditioning	386	Electric typewriters	412
Types of air-conditioning systems available	387	Addressing machines	412
Equipment-cost factors in air conditioning	389	Dictating and recording equipment	414
Operating-cost factors in air conditioning	390	Time recorders	415
Noise reduction	390	Maintaining office appliances	416
Office layout	390	Typewriter care	417
Steps to be taken in planning office layout	391	Typewriter ribbons	418
Office maintenance	391	Carbon paper	418
2. EQUIPMENT, FILES, AND APPLIANCES		Improving carbon-copy reproductions	419
Office equipment	392	Binders and saddlebacks for carbon paper	420
Desks	392	3. MAKING OFFICE PROCEDURE FUNCTION SMOOTHLY	
Tables	393	Reception and information service	420
Chairs	393	Duties of reception and information clerk	420
Filing cabinets	394	Qualifications of a reception clerk	421
Counter cabinets	394	Value of a well-organized mail department	421
Visible record equipment	395		
Rotary filing device	397		

Mailing-room equipment	422
Procedure for handling incoming mail	422
Messenger service	423
Handling office supplies	423
Operating a transcription department	424
Advantages of a centralized transcription department	424
Disadvantages of a centralized transcription department	425
How to make a centralized transcription department function smoothly	425
Instructions to correspondents to help transcribers	425
Daily supply folios for typists	427
Operating a central filing system	428
Advantages of centralized filing	428
Disadvantages of centralized filing	429
Types of filing systems	429
Controlling material taken out of the file	430
A tickler file system for correspondence wanted in the future	431
Destruction of records and files	433

4. ECONOMIES IN THE USE AND PRINTING OF FORMS

Designing forms	434
Ordering forms	435
Central control of forms	436

5. HIRING NEW EMPLOYEES

Sources of employees	436
Selection of new employees	438
Application for employment	440
Suggested questions for application blanks	441
Intelligence tests	442
Performance tests	443
Personality tests	443
Interest tests	443
Physical tests and examinations	444
Final approval of new employee	444
Introduction of new employees	444
Follow-up of new employees	444
Discharge of employees	446

6. TRAINING EMPLOYEES

Purpose of training employees	448
Whom to train	448
Methods of training	450
Employee manuals	452
Manuals for use at the management level	453
House organs	454
Company libraries	455

7. TELEGRAMS AND INTERNATIONAL COMMUNICATIONS

How to cut telegraph costs	456
What to consider in trying to economize on telegrams	456
Consider time difference between cities	457
Saving 78 cents by considering time differences	457
Saving through terse wording	458

Kinds of Domestic Messages

Full-rate telegrams	459
Night letters	459
Day letters	459
How the charges for a telegram are counted	459
Rates between principal cities	460

Special Services of Telegraph Companies

Telegraph money orders	461
Commercial news service	461
Telemeter service	461
Tie lines: teleprinter; Morse; telephone; Desk-Fax and telefax	461
Errand service	462
Parcel service	463
Messenger distribution service	463
Actual examples of the use of messenger distribution service	463
Merchandise surveys	464
Operator 25 service	464

Types of Cable and Radio Messages

International communications	464
Full-rate messages (FR)	465
Letter telegrams (LT)	465

Shore-to-ship and ship-to-shore messages	466
Radio photo service	466
Direct international services	466
How to save money by using time-difference table	467
Rules for counting words in international messages	468
Registered code addresses	470
Reversible code addresses	470
Report of delivery	470
Messages repeated back	471
Prepaid replies	471

8. TELEPHONE SERVICE

Station-to-station and person-to-person calls	471
Night and Sunday rates	471
Collect calls	472
Long distance credit card plan	472
Appointment calls	472
Messenger calls	472
Conference calls	472
Overseas and ship-to-shore calls	473
Private-line telephone services	473
Need for a P.B.X.	474
Connections through a P.B.X.	474
Manual and dial switchboards	475
Aids to efficient office operation	475
Pick-up	476
Holding	476
Audible signals	476
Visual signals	476
Cutoff feature	476
Intercommunicating feature	477
Conference loud-speaker equipment	477
Recording of telephone conversations	477
Automatic telephone answering	478
Mobile telephone service	478
Kinds of teletypewriter service	478
Private-line teletypewriter service	478
Teletypewriter exchange service	479

Telephone Company "Servicing" Services

Need for servicing services	479
Scope of servicing services	480

9. PRIVATELY-OWNED INTERNAL COMMUNICATION SYSTEMS

Advantages of an internal communication system	481
Factors to be considered in arranging for interoffice communication	481
Privately owned interoffice communication equipment	482
Executone Intercommunication	482
Dictograph intercommunication equipment	483
Webster Teletalk	483
Intercommunicating equipment for more than ten connections	484

10. POSTAL GUIDE FOR EFFICIENT HANDLING OF MAIL

How to save postage	485
Official sources of postal information	486
Classes of mail	487
Mailable items and how to dispatch them	487
First-class mail	488
Second-class mail	489
Third-class mail	489
Fourth-class mail (parcel post)	490
Matter mailable by air mail	491
Preparation for mailing	492
Special-delivery air mail	492
Air-mail envelopes	492
Mail that may be registered	494
Manifold mailing records	494
Limit of indemnity on registered mail	494
Declaration of value of registered articles	494
Mail that may be insured	495
Limit of indemnity on insured mail	495
Fee basis	495
Mail that may be sent C.O.D.	495
C.O.D. fees	495

Special Delivery, Special Handling, and Miscellaneous

Use of special delivery and special handling	496
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Delivery of special-delivery and special-handling mail	496	Precancelled envelopes	508
Fees for special delivery and special handling	497	Limitation	509
Fee for restricted delivery	497		
Sender's receipt or certificate of mailing	497	Stamps	
Forwarding of mail	497	Coils of stamps	509
Remailing of first-class mail	498	Exchange of stamps	509
Notice of change of address and reasons for nondelivery	498		
Return of mail	499	Envelopes	
		Stamped envelopes	509
Bulk Mail		Printed ("special request") stamped envelopes	509
Advantages of third-class bulk mailing	500	Privately printed stamped envelopes	510
Specifications for third-class bulk mail	500	Window envelopes	510
		Stamped window envelopes	511
		Postage-saver envelopes	511
Letters			
Correspondence letters	501	Government Postal Cards	
Form letters (regular third-class)	501	Sizes of Government postal cards	511
Form letters (bulk third-class)	502	Sheets of Government postal cards	511
		Messages on Government postal cards	512
Printed Matter		Redemption of Government postal cards	512
Printed matter (regular third-class)	503		
Printed matter (bulk third-class)	503	Private Mailing Cards	
Catalogues and books	503	Specifications for private mailing cards	512
Catalogues and books (bulk third-class)	505	Double (reply) post cards	513
		Messages on post cards	513
Metered Mail		Postage on post cards	513
Permit required for use of meter	506	Cards larger than $3\frac{3}{16}$ x $5\frac{5}{16}$ inches	513
Metered indicia	506		
Type and quantity of matter that may be metered	506	Business-Reply Cards and Envelopes	
		Specifications for business-reply cards and envelopes	514
Permit Imprints		Postage on business-reply cards and envelopes	514
Permit required for use of imprints	507		
Form of permit imprint	507	Money Orders	
Type and quantity of matter on which permit imprint may be used	508	Maximum amount of money orders	514
		Payment of money orders	514
Precancelled Stamps, Cards, and Envelopes			
Precancelled stamps	508		
Precancelled cards	508		

SECTION 4.

Office Management

Office-management functions. The office-management department is a staff or service department under the direction of an office manager, who is responsible to the treasurer, vice-president, president, general manager, or some other official. The functions of office management generally include direction of matters relating to the building, office appliances, furniture and equipment, stationery and forms, personnel, correspondence, stenography and typing, filing, office methods and routine, and services such as mailing, messenger, and intercommunication.

Qualifications of the office manager. The position of office manager calls for a person with the following four fundamental qualifications: intelligence, imagination, courage, and persistence.

1. *Intelligence.* Obviously anyone in a responsible executive position must have a keen mind that is able to grasp fundamental issues and problems and logically deduce sound conclusions.

2. *Imagination.* An office manager must be able to visualize the merits of plans and methods in order to select the most profitable and practical ones.

3. *Courage.* Courage to introduce, organize, and start a plan is essential if the office manager is to be successful in his work. Without courage, the best intelligence and imagination will not flower into practical results.

4. *Persistence.* Many men having the first three qualifications fail as executives because they do not follow through with their plans. It takes constant effort to bring a plan to a successful conclusion. The general manager, president, or the board of directors must be sold on the plan; employees must be encouraged and stimulated; co-operation from subordinates and department heads must be won.

Besides having the above fundamental qualifications, the office manager must be methodical, have an excellent knowledge of human

nature, be able to get along with people, and be able to judge their capabilities and capacity. In addition, he must be resourceful, have organizing ability, and possess the attributes that make for leadership. He should come to the position of office manager equipped with previous general business experience and some accounting training.

1. PLANNING AND MAINTAINING THE OFFICE FOR EFFICIENCY

Physical factors in office planning. Scientific office planning must take into consideration the physical factors affecting office routine. The purpose of office planning is to afford an easy and convenient flow of work and traffic. It is not enough to arrange perfect elevator service to avoid congestion and to neglect some other factor, such as location of lockers, which will offset the time saved.

The physical factors to be considered are the following:

- | | |
|---------------------------------|----------------------|
| 1. Elevators. | 6. Floor covering. |
| 2. Lockers. | 7. Lighting. |
| 3. Washrooms. | 8. Air conditioning. |
| 4. Communications. | 9. Noise reduction. |
| 5. Partitions, railings, doors. | |

A brief discussion of the physical factors in office planning is presented in the following paragraphs.

Elevators. It is best to have separate elevators for passengers and freight. If the organization is a large one with hundreds of employees, it is wise to stagger the working day and lunch hours so as to avoid congestion. For instance, half of the office force could start the day at 8:30, have lunch hour between 11:30 and 12:30, and leave at 4:30. The other half could come in at 9, have lunch between 12 and 1, and leave at 5.

Locate the departments using the freight elevator, such as the stock room and the mailing department, close to the elevator.

Lockers. Lockers may be centralized in one place, or they may be placed in every department. Having lockers in every department is preferable if there is sufficient space for them, because it avoids congestion at a central point and allows the employees to be at their desks without loss of time. Metal lockers that accommodate

the belongings of two people and take up very little space are available.

Washrooms. If washrooms are to be built into the building, locate them at convenient locations on every floor. If the washrooms are already installed, make sure that the arrangement of the offices permits easy access to them for every employee.

Communications. Messages to be conveyed may be oral or written. Oral messages are most frequently conveyed by telephone, although the use of interoffice communications systems, such as the dictograph, have become popular. Telephone service and interoffice communications are treated in another section of this book (pages 471-485). Buzzers, to call in stenographers and department heads, are frequently used. Oral messages to large groups of employees are sometimes conveyed by the use of loudspeakers. Most organizations reduce oral messages to a minimum, preferring written messages to oral messages. Written memos are always on record and help to fix responsibility.

Written messages may be sent by messenger (see paragraph on messenger service on page 423), or they can be sent through the central transcription department (see page 424). The use of pneumatic tubes is another method of conveying written messages, particularly in department stores and very large offices.

Partitions, railings, and doors. Many organizations are doing away with private offices, for they take up too much space, obstruct the proper flow of work and ideas, make the problem of office planning and supervision more difficult, and give to the general public an impression of secrecy and inaccessibility. There is a marked tendency to have large open offices with partitions made of wood and glass in instances where privacy is desired.

A few suggestions are given for the use of partitions, railings, and doors.

1. Use railings in offices that are in direct contact with the public, such as employment offices, to prevent people from flocking into the office and disrupting the work.

2. Arrange all partitions and railings so that they do not obstruct the flow of traffic.

3. Have doors and swinging gates at points near the exit to street or outer office.

4. Have passages wide enough to allow traffic to travel in opposite directions.

5. Swinging doors should be partly of heavy glass to allow visibility. If clear plate glass is used, have printing on the door to make it noticeable.

Floor coverings. Floors are made of wood, concrete, or marble. The type of covering depends not only on its decorative appeal but on a consideration of the purchase price, wearing quality, and maintenance cost. Floor coverings reduce the noise in the department and help to prevent fatigue and discomfort of employees caused by hard, cold floors. Waxed wooden floors are slippery and dangerous. Rugs and carpets are used chiefly in private offices and sometimes in foyers and hallways; linoleum, rubber, cork, or composition are used in other offices.

Lighting. Poor lighting arrangements cause defective eyesight, increase fatigue, lower production in the office and factory, and increase the number of accidents. Any additional expense involved in improving lighting is usually more than offset by the benefits derived, and in many cases no additional expense is involved.

Lighting troubles are caused by an insufficient amount of light, or a poor quality of light. To determine whether there is sufficient light at a particular spot, measure it with a light meter (an instrument, that can be purchased or borrowed from a local power company, which measures the intensity of light in foot-candles) and compare it with the standards given below. To check the quality of light, which involves such considerations as color, glare, and shadows, follow the suggestions on page 386.

Standards for the quantity of light. While the human eye is able to adapt itself to widely varying amounts of light, ranging all the way from 10,000 foot-candles and more on the beach on a bright summer day, to less than two foot-candles in the average poorly lighted hallway, *it works best in natural daylight.* Artificial illumination, therefore, should approach natural daylight as nearly as possible.

Many tests have been made to determine the best light for office and factory tasks. The General Electric Company summarizes these as follows:

0-5 Foot-candles: For perceiving larger objects and for casual seeing. Satisfactory for corridors and stairways.

5-10 Foot-candles: For interrupted or casual work in which seeing is important but does not involve discrimination of fine details or low contrasts. Satisfactory for conference and reception rooms, vaults, etc.

10-20 Foot-candles: For ordinary reading when not prolonged, or moderate and prolonged office and factory tasks. Suitable for filing, mail sorting, intermediate reading, and writing at a desk.

20-50 Foot-candles: For moderately critical and prolonged tasks, such as clerical work, benchwork, prolonged reading, rough drawing and sketching, bookkeeping and accounting, and stenographic work.

50-100 Foot-candles: For severe and prolonged tasks, such as proof-reading, drafting, difficult reading, watch repairing, fine machine work, etc.

100 Foot-candles and over: For very severe and prolonged tasks, such as fine engraving and penwork, and discrimination of fine details of low contrast, as in inspection.

Suggestions to increase the quantity of light. If, after testing different locations with the light meter, you find that in some places the light is insufficient, here are ways to increase that light, often at no expense:

1. Clean the lamps and reflectors. A recheck with the light meter will usually then show a higher reading. Arrange for periodic cleaning of lamps and reflectors.

2. Replace blackened bulbs with new ones; blackened bulbs are inefficient, since they do not give out so much light as new ones.

3. Make sure there are no gaps in the lighting due to burned-out bulbs or empty sockets.

4. See that bulbs of the correct voltage are being used. This will insure maximum efficiency. Lamps of too high a voltage will not burn brightly, but will last longer, while lamps of too low a voltage will burn too brightly and burn out much faster.

5. Examine the reflectors to see if the surface has deteriorated, in which case the reflecting parts should be replaced.

6. Insufficient illumination may be due to dark and dingy walls and ceilings. They are important sources of secondary light because they receive and reflect light from the lamps. Walls painted in light colors, such as buff, light-green, and gray tints, will increase illumination a great deal. Ceilings should be painted white.

7. Increase the wattage of the bulbs used. This should not be

done until a check has been made to see that the circuits can stand the increase.

8. Sometimes the overhead lighting will be adequate if supplemented by Illuminating Engineering Society approved-type desk lamps. This will build up the proper amount of light on the desks.

How to improve the quality of light. The quality of light is just as important as the quantity. Too much glare and harsh shadows make office work very tiring, even though the light may be sufficient in amount. The following suggestions are offered to improve the quality of light:

1. If bare lamps are visible, shield them.
2. If globes are objectionably bright, shade them with parchment shades, or replace with (1) oversize globes, (2) semi-indirect fixtures, or (3) indirect fixtures.
3. If illumination is spotty, provide more outlets. Often outlets can be provided by surface wiring connected to one of the outlet circuits that is not loaded to capacity. The distance between ceiling outlets should not exceed the height above the floor.
4. If sharp shadows occur, correct them by changing to fixtures of low brightness. If the shadows are caused by the fact that the light source is too small, conical parchment shades placed around the globes will help.
5. If the lamps are too dim, the reason may be a voltage drop due to inadequate wiring. In this case rewiring is necessary. To determine whether wiring is adequate, have a licensed electrician check with a voltmeter when the maximum load is on.
6. Daylight fluorescent bulbs very closely approach natural daylight and can be used to advantage where form and color must be checked closely, as in certain types of color matching and in inspection. For general office work, they supply cooler light at higher efficiencies. Special starting auxiliaries are built into the lighting fixtures.

Air conditioning. Various studies have been made which show that our thinking and seeing faculties vary with changes in temperature.* Air conditioning corrects the slump periods that studies

* Huntington, Dr. Ellsworth, *Season of Birth*. New York: John Wiley & Sons, Inc.

indicate occur in the hot summer months by cooling the air and thereby increasing mental activity. By proper control of the air supply in an office, management can greatly reduce the time and work lost due to colds and other illnesses that occur when resistance is low.

Air conditioning is the process of providing, by the use of mechanical equipment, the desired conditions of air temperature, humidity, cleanliness, and motion, and controlling these conditions to provide the atmosphere that is best suited for human health and comfort.

The system installed may be either a permanent part of the building or it may be portable, so that the investment need not be lost if the office location is changed.

Most air-conditioning installations at the present time provide: (1) proper ventilation (air supply, air filtering, and air circulation), and (2) air cooling and dehumidification in the summer time. For winter use, air heating and humidification equipment can be added to the large units.

Types of air-conditioning systems available. Several types of air-conditioning equipment are available, the choice depending upon the size of the office or building, the individual needs of the organization, the amount of money to be spent, and the special characteristics of each.

1. A small compact unit can be installed in each room to serve a small area. The smallest ones are placed in the window frame and serve only to ventilate the room or part of it. They keep out dust, dirt, and outside noises, since the windows are kept closed, and supply fresh air from the outdoors by means of intake fans, but do not cool and dehumidify the air. If cooling and dehumidification are desired, the unit just described must be replaced with one that ventilates and in addition cools and dehumidifies the air.

Portable air conditioners that are not connected with the windows can also be purchased. While they do not provide a fresh supply of air from the outdoors as the window units do, they will take care of a larger area.

These small units provide the maximum flexibility; individual offices can be conditioned one at a time, and the occupant of each office has complete control over the operation. Certain disadvantages exist, however. Since each unit requires a separate motor, the

combined load of several of them may necessitate extensive rewiring. The air-intake supply for the window units may be difficult to arrange. The maintenance of a large number of fans, motors, and compressors may be a serious problem.

2. Larger self-contained units to ventilate and cool can be installed to handle several rooms at once. These conditioners have a refrigerating capacity of from three to ten tons each, depending upon the size, and can be used in groups to condition an entire floor. A refrigerating capacity of three tons is the ability to melt three tons of ice in twenty-four hours. The five-ton installations will handle an area of about three thousand square feet. They can be used either without ducts to serve one large space, such as a drafting room, or with ducts to serve several small rooms. They will cool and dehumidify the air, as well as provide proper ventilation. Heating and humidifying equipment can be added for winter usage to supply warm, moistened air if desired.

3. Air conditioning can also be installed with a central station at a distance from the area to be conditioned. For example, the direct-expansion method utilizes a compressor and cooling water and air supply equipment in the basement. The cooled and filtered air is conveyed in ducts to various parts of the same floor and the floor above. It is not practical for more than two floors, since the ducts would have to be too large. Fire-code regulations in some places limit the use of this system to either the basement and first floor or the top two floors of a building.

The indirect-expansion system has the compressor and cooling water tank in the basement. The cool water is pumped to a maximum of three or four floors to air-handling equipment on each floor. Here are located the fans, air filters, and supply and return grilles to provide the cooled air. The water, after circulating through the mechanism, returns to the cooling tank to be used over again.

Smaller units are often added to these central systems to air-condition individual offices that are likely to be used at times when it is not necessary to cool the rest of the office or floor, such as an office in which a lot of overtime work is done. Such units are connected by separate water pipes to the central compressor and cooling tank. The use of such units as auxiliaries helps to reduce operating

costs, since it is cheaper to operate a small unit to condition an individual office than to run the fans, and so forth, which supply the whole floor.

Equipment cost factors in air conditioning. No air-conditioning installation should be made, of course, without a survey to determine any special conditions that would affect the type of equipment to be used. The following factors are important in determining the needs for a particular installation:

1. *Geographical location and exposure.* Places where hot, humid weather exists for long periods require larger equipment. Buildings more exposed to the sun's rays will require larger equipment than those that are for the most part in the shadow.

2. *Size and shape to be conditioned.* Heat passing through the walls and windows is an important factor in the heat load of an area. Irregularly shaped offices, since they have a higher ratio of wall surface to floor area, are more expensive to condition than rectangular offices of the same area.

3. *Type of building construction.* Porous walls or those in which windows are loosely set in the frames are more expensive to condition than others.

4. *Window area.* Heat passes more quickly through glass than through thicker and more resistant wall construction. Therefore, the greater the ratio of window area to wall area, the greater the cost.

5. *Ventilation requirements.* Conditioning an office where a lot of smoking is done, or where unusual odor conditions exist, will be more expensive than otherwise.

6. *Number of people.* A large number of people in an office will make the system more expensive to operate, since more body heat will have to be removed.

7. *Number of lights and office appliances.* A large number of light bulbs and office machines in use will increase the amount of heat to be removed and therefore the cost.

8. *Water characteristics.* The characteristics of the water available to remove from the equipment the heat taken from the room will affect the type of equipment to be installed.

9. *Kind of power.* While electric motors usually drive the condi-

tioning equipment, steam-driven equipment may in some cases be feasible. This type of equipment will affect the costs.

Operating-cost factors in air conditioning. The hours of operation will affect the costs of running the air-conditioning system, as will protracted heat spells, type of work, amount of lighting facilities, business machines in use, and other factors. Charges for electricity and cooling water will vary with different localities. Maintenance and repairs will be necessary. The regular operating crew will be able to handle some of these, but outside organizations will occasionally have to be utilized.

The fixed charges should also be considered. Depreciation might be based on permanency of occupancy or expected life of the equipment. The usual maximum is fifteen years. Rental of the space occupied by the equipment is another element. Insurance and taxes will depend on local conditions.

Noise reduction. Excessive noise in an office increases mental fatigue and is a disturbing factor, hampering efficient production. In some cases the ceiling and walls have to be treated with sound-absorbing materials such as felt, porous plaster, Acousti-Celotex, or Akoustolith. If the office or factory is so noisy that it is necessary to sound-proof the walls and ceilings, it is best to consult an acoustical engineer, for the job is highly technical. Usually simple precautions, such as the following, will reduce a large percentage of the noises in the average office:

1. Keep all machines, sliding drawers, doors, and so forth, in good condition and well oiled.
2. If possible, centralize all noisy machines in one department.
3. Use a floor covering of sound-absorbing quality.
4. Place sound-absorbing materials close to noisy machines.
5. Fix all noisy radiators and windows.
6. Shut off noises from hallways with doors.
7. Muffle high-pitched telephone bells or have a lower-pitched bell installed.

Office layout. The aim of office layout is to arrange offices and equipment in such a manner that work and traffic flow in as straight a line or as continuously in one direction as possible. On the surface, such an arrangement seems simple, but the problem is com-

plicated if space is limited, if a number of people have to use the same files, or if there are a number of windows, posts, railings, and doors limiting space available for equipment and machines. Furthermore, offices must be located in relation to other offices; for instance, the credit department should be next to the bookkeeping department, because credit men are always consulting ledger records. Offices dealing with the public should be next to passenger elevators or on the ground floor. Likewise, offices requiring the use of freight elevators should be located conveniently to them.

Steps to be taken in planning office layout. The following steps are recommended in planning office layout:

1. Determine the amount of space needed for every employee, his desk and chair, the files, tables, machines, coat racks, and shelves.

2. Estimate the space required for future expansion, basing the estimate on past growth. The total requirements shown by steps one and two indicate the amount of space needed.

3. Study the usefulness and desirability of the existing equipment and machines and eliminate those that are not needed.

4. Make a rough sketch of the new office, showing all doors, windows, and posts and the approximate location of desks, files, and machines.

5. Cut out templates of cardboard for every piece of equipment in the office. Make them to the scale of $\frac{1}{4}$ inch to a foot. In making templates of safes, files, and cabinets, be sure to cut them large enough to allow for opening of doors and drawers.

6. Make an exact scaled drawing of the new office, showing all the windows, doors, and posts, and using the same scale of $\frac{1}{4}$ inch to a foot.

7. Place the templates on the scaled drawing as planned on the rough sketch. The templates will give an exact picture of the new office. If the arrangement is not satisfactory, the templates can be shifted around to another position and yet be in the correct proportion to the room.

8. When the arrangement is satisfactory, take a picture of the plan as a permanent record.

Office maintenance. A clean, well-kept office has an effect upon employee morale. It is short-sighted economy to try to save money by neglecting office maintenance.

Since the office manager is responsible for the maintenance of offices, it is up to him to establish a definite plan and schedule for the work instead of depending on haphazard methods. A simple card, filled out by the maintenance men every day, stating the date, office cleaned, work done, and the time taken provides a convenient record for the office manager and aids him in checking and controlling the work.

The following suggestions are given to aid the office manager in planning a systematic maintenance schedule:

1. Offices should be swept and dusted every night, and provision should be made for occasional washing or scrubbing of floors.

2. Windows should be cleaned at least once a month, and preferably twice a month; lighting fixtures, at least twice a month.

3. Washrooms and lavatories must be cleaned every night.

4. The condition of chairs and desks should be inspected periodically. If a desk top is badly worn, have the surface refinished or have it covered with a special desk covering of a color that does not reflect light. If chairs have splinters and are causing runs and tears in clothes, have them sanded and refinished.

5. Set aside one day a year for general office cleaning, having the entire office personnel participate.

For maintenance of office equipment, see page 416.

2. EQUIPMENT, FILES, AND APPLIANCES

Office equipment. Office space, especially in large cities, is expensive. Consequently, the maximum utilization of space means money saved. Although economical use of space is primarily an office layout problem, the proper selection and use of office equipment are also important cost-cutting factors.

The standard equipment of an office consists of desks, tables, chairs, and filing cabinets. All of this equipment is made of wood or steel. Chairs are also made of aluminum. Metal has the advantages of durability and indestructibility by fire.

Desks. The desks to be selected depend on their use. Four types are generally used in offices—the clerical desk, the typewriter desk, the secretarial desk, and the executive desk.

The clerical desk is for writing use only. The desk may be single-pedestal, 42 by 30 inches, or double-pedestal, 60 by 34 inches, with five drawers.

The typewriter desk is used for typing. The drop-head type is a double-pedestal desk, 54 by 30 inches, with drawers on each side and a space directly in the center on which the typewriter is placed. When the typewriter is not in use, the center section can be closed, giving the desk a plain-topped writing surface. There is also the fixed platform typewriter desk.

Desks are also designed for use with computing machines.

The secretarial desk is designed for employees who do typing and have need for a clear writing space for clerical work. It is about the same size as the typewriter desk, but the typewriter occupies the space normally occupied by the left-hand or right-hand drawers. When not in use, the typewriter is let down and pushed into the desk under the writing space.

The executive desk is a large desk, usually about 66 by 34 inches, having five or seven drawers.

Where space is a factor, "space-saver" desks that are 50 and 55 inches wide are obtainable in different models.

Shaw Walker Company established the standard height for desks at 29 inches, after studying the correct seating height from the floor. The former standard desk height was 30½ inches, but no one knows why. Obviously, an office equipped with desks 30½ inches from the floor cannot immediately discard them. Only rarely is it possible to cut them down to 29 inches because the change will usually bring the center drawer too close to the worker's legs. The best solution is to make a wooden platform about 1½ inches high to fit under the desk. If the chair permits comfortable good seating posture, the foot rest will permit the worker to keep his feet squarely upon the floor. The latter is an essential of good seating.

Tables. The tables in offices vary in size depending on their use. The usual size is 60 by 36 inches, with the surface about 30 inches from the floor. If rough work is to be done on the table, it is advisable to cover the top with linoleum or some other covering.

Chairs. Office chairs are designed primarily for correct posture, for it is recognized that the posture of an employee has a bearing on fatigue and also on the quality and quantity of his work. The

so-called posture chair, designed for such operations as posting, typing, and tabulating, has increased production and lessened fatigue. Its height is easily adjusted to conform to the height of the desk and the size of the worker. The correct seating height from the floor in relation to a desk that is 29 inches high, is 17 inches.

The four types of chairs found in offices are: (1) stenographer chairs, which are adjustable swivel chairs with posture back rests; (2) executive chairs, which are orthopedically designed swivel chairs with arms; (3) swivel chairs without arms; and (4) straight-back non-swivel chairs. All of these chairs, except the straight-back non-swivel chairs, are set on four small, roller-bearing, swivel wheels.

Filing cabinets. Although manufacturers make filing cabinets of various sizes to accommodate letters and forms of standard sizes, the standard filing cabinet is the four-drawer, 8½ by 11, steel cabinet. Where space is limited, a five-drawer cabinet is available.

The features built into the file cabinet are important from the standpoint of efficiency in filing. Equipment now on the market provides file folders that hang and slide easily back and forth on suspension frames. This adds to available filing space and prevents individual folders from sagging.

The type of drawer is also important. The three basic drawer types currently on the market are: (1) rigid—both front and rear ends of the drawer are rigid; (2) drop front—the front of the drawer inclines outward as the drawer is opened, but the back remains rigid; and (3) automatic—both the front and back of the drawer incline outward simultaneously as the drawer is opened. The forward tilting of the drawer provides ample working space; the backward tilting of the rear provides maximum visibility of folders and thus facilitates finding and filing.

Card cabinets for filing job tickets, requisitions, and other small size tickets and record cards are part of the equipment of most offices.

Counter cabinets. Counter cabinets of convenient height, built to be used as counters, and having drawers in the back, are used in offices dealing with individuals who come into the office. The information used by the clerk is filed in the counter cabinets. Cabinet counters are obtainable in various combinations of units, such

as letter file drawers, legal files, card files, cash drawer, cupboards with shelves, and an insulated safety cabinet for vital records.

Visible record equipment. Visible-record equipment speeds the location of information and facilitates follow-up. Pertinent facts can be seen at a glance, instead of having to be rooted out of a mass of papers. The following is a description of several types of visible-record equipment:

1. *Board and ticket holders.* This type of visible record is used for housing copies of production orders, job tickets, sales slips, and other individual records. It consists of a board with spring clips that hold a number of papers in place. The last paper filed is almost completely visible since the clip covers only a small part of the filed paper. Some types hold several panels of spring clips. The panels are placed in a swinging position on a stationary or revolving rack.

2. *Visible index equipment for reference and posting.* This equipment provides visibility of an index classification for records to which reference must be made or items posted. The unit consists of (a) the card on which the record is made, (b) the pocket which holds the record card, (c) the tray which holds the pockets in filing position with the index edges exposed, and (d) movable celluloid signals to emphasize particular data. All the forms or cards in each tray or slide are visible at once, thus making the location of a particular card almost instantaneous.

3. *Visible index reference equipment.* This equipment is used where long lists of names with related information must be referred to frequently; for example, customers' lists, or lists of materials and parts used in the planning and production control department. It consists of a frame into which strips are inserted with the name or item in the list. The strips are removed and new names or items are inserted as required. Tube inserts are used if the file gets rough treatment. The frames that hold the strips are housed in various types of holders; for example, rotary stands with single or double tiers, wall brackets, and others.

4. *Looseleaf visible binders.* Accounts and other forms are filed in tiers in a looseleaf binder. The index edge of each account is visible.

Some of the applications of visible-record equipment are described in the following paragraphs.

Visible records in sales management. The cards to be used in sales management must, of course, be well planned, so that the most useful information will be readily seen. The sales-record card might be designed to indicate on the visible margin, by the use of movable colored celluloid signals: (1) the month of the last call by the salesman; (2) the month of the most recent purchase; (3) the percentage of the customer's requirements being filled; and (4) whether or not the customer bought anything in the previous year; in addition, the name and address of the customer are visible. The balance of the card gives details showing individual sales by product and amount, comparisons with other years, what the customer buys and how much, and so forth.

The records are held securely in overlapping kraft pockets, which are mounted on slides to fit into various types of cabinets. The colored signals permit immediate analysis of entire groups of records without the necessity of "drawing off" figures. A positive control over salesmen is provided, making checkups easier.

The cards can be kept up to date very easily, merely by moving the signals when postings are made.

Visible records in accounts receivable. The application of visible records to accounts receivable is particularly useful in installment collections. Here the visible margin shows the name and address of the customer, and the celluloid signal indicates to what date he has paid. A delinquent account is easily spotted because the signal will not have been moved as far as the signals on the nondelinquent accounts.

The pocket behind the name usually contains a ledger card with credit data and details of installments paid. This card can easily be pulled out for posting and can be found very quickly with the eye because the names are visible. If desired, statements can be kept in the same pocket with the ledger cards.

The immediate visibility of the delinquency data greatly aids in keeping up collections, thus strengthening the retailer's cash position, increasing the accounts-receivable turnover rate, and reducing bad-debt losses and collection costs.

Another advantage of visibility in connection with accounts receivable is that the operator will spend a larger proportion of his

time in making entries on the cards and a smaller proportion in hunting for the proper sheets, thus increasing his production.

Visible-record equipment aids purchasing. Another application of visible-record installations is in the field of inventory control. The card used is a regular stock card containing the information on orders and requisitions. The visible edge gives the name of the item. The celluloid signal shows how many weeks' supply is on hand. As the supply is used up, the signal is moved over. Thus the stock-record clerk or purchasing agent can tell at a glance how long the supply of each item will last.

The visual signal shows when the ordering point is reached, when the supply is getting dangerously low, and when the item is overstocked. This device saves both clerical and executive time in analyzing and reduces the cost of keeping the record. The progressive signal instantly points out the items needing attention.

Visible panels in the credit department. The panel type of visible-record equipment is extensively used in the authorizing section of the credit department in department and retail stores.

The visible cards on the panels contain the name, address, and credit limit of the customer. Different colored cards indicate whether an account is delinquent or closed. A numbered code is used to indicate various restrictions regarding the account. The panels are arranged alphabetically and have the main alphabetical divisions designated by a celluloid tab fastened to the edge of the panel.

The visible-panel filing system is also used as a master reference file in credit departments that file their accounts numerically. The cards on the panels contain the name, address, and account number of the customer. The clerk can easily find the credit record by first consulting the master file for the account number and then locating the numbered record in the visible file.

Rotary filing device. Office-equipment companies have developed a plastic wheel for rotary filing, to which are attached metal segments holding cards. The whole is enclosed in a cabinet, the top of which is open to reveal the wheel and a section of the cards. A wheel measuring 21 inches in diameter can hold 6,500 cards. By turning the wheel, the clerk can bring the desired card into view.

It is not necessary to make up a special type of card for the machine. Cards already in use can be fitted into the device.

Individual cards can be slipped out if desired. Groups of cards can also be removed, since the metal segments on which they are fastened are detachable. This feature permits easy division of the work on peak-load days, as different clerks can take segments of cards to their own desks.

The unit is portable and can be locked at night. It is desk height, thus enabling hand posting to be done more quickly and more easily and in the most natural writing position.

The device has been used by organizations with large membership lists, because it facilitates looking up the status of persons who are being registered for attendance at conferences and conventions.

Office machines and appliances. Office machines and appliances are introduced into an office in order to save time and money and to increase the quantity and quality of work.

The types of office machines in general use are calculating machines, duplicating machines, addressing machines, time recorders, and dictating machines. These machines are being improved and modernized constantly so that the discussion given on page 399, *et seq.*, is limited to a description of their operation and use.

How to determine the value of an office appliance. Modern office devices often seem expensive when the original cost is examined. A simple way of checking the economy of office appliances is to compare the estimated monthly depreciation with the operator's salary and production. If output is increased as a result of the introduction of the machine, sufficiently to offset the depreciation charge, the machine can be introduced economically.

Considerations in buying office appliances. The following suggestions will aid in the consideration of the purchase of an office appliance:

1. Buy your office equipment from a scientific viewpoint. Standardization of equipment reduces maintenance costs, makes employee transfer easier, and allows quantity discounts. Nevertheless, standardization should not be carried so far that a \$200 machine is bought

for each clerk when a \$50 machine would be perfectly satisfactory for some.

2. Decide whether it is necessary to perform the task that the machine is designed to do.

3. Test the machine under actual working conditions to check claims for increased production. Do not permit yourself to be biased for or against any equipment, but be sure to get supporting evidence for every claim made about it.

4. If the equipment does increase production, will you be able to utilize the spare time of the operator? If you cannot, there is not much point in getting the machine.

Calculating machines. Adding, billing, and bookkeeping machines are the most common of the calculating machines.

Adding machines. The simplest and most common calculating machine is the adding machine. Its use primarily is to add columns of figures. There are machines that will add, subtract, divide, and multiply, but they are not generally used in smaller offices.

The adding machine may be hand or electrically operated, listing or nonlisting. A listing adding machine records the row of figures on a strip of paper, whereas the nonlisting machine shows the accumulated total on the top or bottom of the machine. The two general types of listing-adding machines are known as full keyboard machines and ten-key machines.

Billing machines. A billing machine is a combination typewriter and calculating machine. There are various types of billing machines adaptable for various uses. The machines are able to do a number of calculating jobs, such as adding, subtracting, dividing, and multiplying. They permit an operator to post entries on ledger accounts at the same time that invoices are being made up. Some of the machines accumulate totals of all postings; others make extensions automatically.

The billing machine is used in large and small organizations to prepare monthly bills. It eliminates the necessity of typing the bills with a typewriter at the end of the month.

Bookkeeping machines. Space does not permit a detailed discussion of the various bookkeeping machines. In principle they are similar to billing machines, and both machines can be used with a little change for similar work. The bookkeeping machine is used

in preparing records such as customers' statements, accounts-payable records, cash-received records, cost sheets, stores records, payroll records, and many others.

Punched-card accounting equipment. Punched cards are used for general and cost-accounting work as well as for statistical and analytical research. The cards in many companies comprise the accounts receivable and accounts payable ledgers, stock records, and payrolls. In cost accounting, punched cards can be used to show the cost of direct labor, indirect material and overhead applicable to each job, thus replacing the cost sheets. Examples of statistical and analytical uses are classification of sales by salesmen, by price lines, by territories, by profit lines, and by kinds of merchandise sold. Department stores use the equipment for inventory analyses and classifications, for charge-account analyses, and the like.

Three types of machines are generally necessary to set up a punched-card-accounting process: (1) a key punch, to perforate the tabulating card with the desired holes; (2) a sorter, to separate the punched cards into the desired groups; and (3) the accounting machine, to compute, record, and print the results.

Each card is divided into "fields," in each of which are vertical columns of figures from zero to nine. The figures applicable to each field are recorded by punching out holes in the appropriate columns. The fields are arranged according to the data desired. For example, the accounts-payable card used in a retail store might have fields showing invoice data, vendor's invoice number, vendor's number, department, due date, terms, gross amount, discount, net amount, transportation, total cost, retail price, percentage markup, and posting data.

When punching has been completed, the cards are usually not in any usable order and must be arranged according to the desired classifications. This is the function of the sorter. Since the sorting is done one column at a time, the cards must be passed through the machine as many times as there are columns in the particular field being sorted. This is not a serious drawback, however, as 480 cards can be sorted per minute.

The sorted cards are then run through electric accounting machines, which are so designed as to provide complete flexibility in the arrangement of the data appearing on the forms. As much or

as little information as is desired can be printed. The sorted cards can also be run through tabulating machines to give subtotals and grand totals, which are transcribed to report forms by the operator.

Advantages of punched-card accounting. The punched holes are permanent and unalterable, so the cards, once punched and proved, eliminate errors of omission and transposition. Since the operations are entirely automatic, a uniform accuracy for all reports is assured. Reports are available much more quickly than under manual procedures, and many more reports and analyses can be made with punched cards than would be possible if costly manual preparation were necessary.

Many models of machines are available, ranging from very inexpensive to quite elaborate and expensive ones. The manufacturers of the equipment have service bureaus in leading cities that will prepare analyses and reports on a fee basis if desired, thus eliminating part of the outlay for equipment.

Proof machines to speed sorting. Proof machines are available to list, sort, and prove bank checks, sales tickets, vouchers, and other business documents in one operation. The results, ordinarily obtained with three or more separate manual operations, are obtained with but one clerical handling. The items themselves are sorted into different desired classifications; money amounts for each classification are listed and totalled; and all amounts are listed, identified, and totalled on a single proving tape. The automatic proving eliminates the necessity for tedious, time-wasting checking and cross-checking to locate errors.

Keysort for sorting data. Keysort is a system of sorting accounting information by the use of specially printed and punched cards and a selecting needle that resembles an ice pick. An extremely flexible system, it can be used for sales, timekeeping, and payroll records, cost distribution, personnel statistics, and other records.

Description of cards. The information to be sorted is transcribed onto cards, different sizes and styles of which are manufactured to meet varying needs. The four margins are divided into sections according to the classifications desired. Into each section the manufacturer has punched round holes $\frac{1}{4}$ inch apart, which are used

to indicate numbers within the classification. Four holes are required for each digit in the classification and are labelled, respectively, 1, 2, 4, and 7. By using combinations of these four digits, it is possible to notch out in the margin any number from 1 to 9, as indicated by the following table:

1—by notching out 1	6—by notching out 4 and 2
2—by notching out 2	7—by notching out 7
3—by notching out 2 and 1	8—by notching out 7 and 1
4—by notching out 4	9—by notching out 7 and 2
5—by notching out 4 and 1	

The indication of the number is made by notching out that portion of the card between the hole and the outer edge of the card. Each group of the four holes 1, 2, 4, and 7 is termed a field. If the classification has three digits in it, three groups of four holes, or three fields, will thus be required for that section.

As an example, the Keysort card illustrated in Figure 35 is being used in connection with labor cost records, one card being used for each operation worked on by each man. The workman's name, order number, clock number, date, starting, ending, and elapsed times, amount applicable to the operation, and other necessary information appear on the body of the card. On the margin of the card appear various classifications: order number, department, employee number, operation number, and others. In this particular case, the workman's number is 213, the order number 12, the opera-

8 7 6 5 4 3 2 1				7 4 2 1				7 4 2 1				7 4 2 1							
DEPT								HUNDREDS				TENS				UNITS			
279 07 0455												ORDER NO 12							
213												TIME FINISH							
Young, Frank												TIME START							
												ELAPSED TIME 2							
OPERATION												LABOR AMOUNT 1.90							
OPERATION NO 3 DATE																			
THE MCBEE COMPANY												NO. 12345							
1 2 3 4				5 6 7 8				9 10 11 12				13 14 15 16							

Figure 35. Example of Keysort Card.

tion number 3, and the department number 4, as can be seen by an inspection of the notches made in the illustration.

Types of Keysort cards used. The cards used may in some cases be carbon copies of invoices or other original records. They may be the original records themselves, such as the time cards just described. Again, they may be prepared from some original records as a separate operation, in which case the information to be sorted will be punched on the cards, and the amounts to be tabulated will be written on the face. In most cases only those classifications to be sorted are punched.

The most advantageous use of Keysort cards is obtained when they are used as original records, since such use does not entail transcribing data from the original records to Keysort cards, as the data are written there first.

How notching of Keysort cards is done. Four types of punches to notch the Keysort cards are available from the manufacturer:

1. A hand punch, similar to a railroad conductor's ticket punch.
2. A hand key punch, which has 34 keys arranged in 8 vertical rows.
3. An electric key punch, similar to the hand key punch, but faster in operation, with which an average operator is able to punch the four edges of 600 cards in an hour, each card differently.
4. A gang grooving machine, with which 200 cards in a single position can be punched at one time.

How Keysort cards are classified. The notching is done only for sorting purposes. Tabulation or adding of data on the sorted cards is done on a calculating or adding machine.

The cards to be sorted are placed edgewise on a table, face forward and right side up. One corner of each card has a diagonal cut, to make it possible to tell at a glance whether all the cards are in the right position. The selecting needle is then inserted in the hole for which classification is desired.

As an illustration, assume that from a group of time cards those pertaining to employee number 936 are to be segregated. The needle is first inserted in the 7 hole of the hundreds' field and lifted. All those cards on which the hundreds' digit is 7, 8, or 9 will fall. The needle is then inserted in the 2 hole of the hundreds' field of those cards dropping from the first sort. Cards on which the

hundreds' digit is 9 will drop, since the only cards that can drop this time are those in which both 7 and 2 in the hundreds' field have been notched out. The needle is now inserted in the 2 hole of the tens' field. All cards that drop this time will begin 92-, 93-, 96-, or 99-. A sort is now made by inserting the needle in the 1 hole of the tens' classification of the dropped cards, and those cards beginning 93- will drop, since the only cards that can fall are those in which both the 2 and the 1 have been notched out of the tens' field. Two more similar sorts are necessary for the units' field, first by sorting through the 4 hole and then through the 2 hole, thus dropping all cards on which the number 936 has been punched out.

Sorters. Filing time can be greatly reduced by the use of the following types of sorting equipment:

1. *Box or pigeon-hole rack.* Boxes are built in tiers and labeled for alphabetical, numerical, or other groups.

2. *Leaf sorter.* This device consists of fibre leaves hinged to a board. Each leaf has a celluloid tab into which is inserted the letter of the alphabet, name of the state, or other index according to which the papers are to be sorted. The leaves overlap one another so that only the tabs are visible. The sorting clerk lifts the proper tab with her left hand and inserts the paper under the leaf with her right hand.

A similar device has fibre tabs hinged to a circular base that revolves on a ball-bearing spindle at the touch of a finger. Label inserts at the end of the tabs are arranged in alphabetical order, with about ten tabs for each letter of the alphabet. The operator sorts the correspondence by turning the circular tab-wheel to the proper tab, lifting the tab, and inserting the correspondence behind it. Portable, lightweight desk units with from 25 to 100 sorting divisions are also available.

3. *Table and tray sorter.* This is a large sorter consisting of a table for the operator, on each side of which are one to four movable trays, several feet long, each placed on a track. Each tray contains subdividing tabs the width of the papers to be sorted. The tabs are labeled according to the filing system used. The papers to be sorted are placed on the table and are inserted behind the proper subdivision by the operator, who can move the trays back and forth

on the tracks by a push of the finger. The operator thus sits at her work and does not have to reach far to place a paper behind the correct tab.

4. *Needle sort.* The Keysort described at page 401 is an example of a needle sort.

5. *Machine sort.* This is one of the basic units of punched card accounting equipment. (See page 400.)

Use of sorters. With the use of sorters it is not necessary to file material daily in the filing cabinets. The tabs can be used to accumulate material for any desired period, depending upon the capacity of the sorter. Papers are as easily available as in the file cabinets, so that no time is wasted hunting for unfiled material.

One very practical application of a sorting device is in the accounts receivable department of a department store. Here the sales slips are sorted by customers and held until the end of the month. No postings are made during the month to the customer's statement. At the end of the month, the sales checks are totalled, and only the total is entered on the statement. Copies of the sales checks comprising the total are stapled to the statement and mailed to the customer. This practice eliminates the work of posting charges daily and also avoids any chance of error. Each customer gets a copy of the original sales slip just as it was made out at the time of purchase.

Pegboard system to save time and reduce error. The use of the pegboard system makes unnecessary the transcribing of information from several individual records to one summary record. The pegboard system consists of a steel strip, in which pegs are inserted at fixed distances apart, and forms punched across the top margin to correspond with the distance between pegs on the strip. The forms must be carefully printed so that all horizontal lines on the forms will be on the same plane.

The pegboard system used by Continental Baking Company in connection with daily orders for bread taken by the various salesmen illustrates the short cut furnished by this system. Daily each salesman turns in a "salesman's invoice." This form constitutes the order for bread to be delivered the following day. In the center section of the form, under the word "Kind," are printed the names of the different kinds of bread, and in the column headed

INVOICE		Name		19__		
Summary Sheet						
TRIP	TRIP	TRIP	+OR-	KIND	REC'D	AMOUNT
500	800	1300		Wonder .08		
200	300	500		Wonder Sliced .08		
100	200	300		Wonder Spec. Pan Rls. .08		
50		50		Wonder Wheat .08		
50	100	150		Wonder Wheat Cut .08		
50		50		Wonder W. Pull No. 2 .18		
				Spec Wheat Pullman .26		
	100	100		Jail Bread .06		
				Pullman No. 1 .12		
				Pullman No. 2 .16		
				Pullman No. 3 .14		
10		10		Pullman No. 4 .28		
	25	25		Pullman No. 5 .08		
				Special Pullman .29		
	20	20		Baby Buns .10		
5		5		Individual Buns .12		
	10	10		Red Bird Buns .15		
				Spec. Red Bird Buns .12		
5		5		Tavern Buns .12		
	15	15		Coneys .12		
				Small Rye .08		
				Large Rye .16		
Route No	Route No	Route No	Salesman			

Figure 36. Peg Board Forms for Determining Day's Orders.

"Trip," the quantity ordered of each. The slips turned in by all the men are then placed on the strip from left to right, as illustrated in Figure 36, so that the "Trip" section of each form is exposed. A blank sheet is then added at the extreme right of the strip, next to the last order. A comptometer operator adds the total of each variety across the sheets and enters the totals on the blank.

The procedure described renders unnecessary the copying of all individual figures from each sheet to a summary record. Time is saved, and errors in transcribing are eliminated.

Duplicating machines. Many instances occur in an office in which numerous copies of a paper are needed. Among the various processes available for obtaining numerous copies are stencil, hectograph, direct and offset printing, and automatic typewriting. These processes are briefly described in the following paragraphs.

Stencil duplication by Mimeograph. Stencil duplication (Mimeograph) provides exact reproduction of typewritten work. The stencil is placed in a typewriter and the ribbon is adjusted or removed, so that the letters, instead of being printed, are cut into the stencil, thus exposing the fibers through which the ink can pass when the stencil is placed on the machine. Illustrations, drawings, and other handwritten matter may also be stencilled by means of a stylus.

The stencil is placed over an ink pad that partially covers a hollow, perforated, revolving cylinder. The ink is applied to the inner surface of the cylinder and passes through the perforations to the pad and then through the letters or designs cut in the stencil, making an impression on the paper as the cylinder revolves. The paper may be fed to the machine either automatically or manually, depending upon the type of machine. With the automatic duplicator, from 1,500 to 7,500 copies can be made per hour. Removable cylinders are available, so that one can be substituted for another when two-color reproduction is desired.

Hectograph method of duplication. Under this method of duplication, impressions are made from an original writing, known as a master copy, to a secondary copy which enables additional copies to be made. The gelatin method and the direct method of hectographing (Ditto) are described below.

(a) Gelatin method. Gelatin duplicators make copies by transferring ink from a typewritten or handwritten master copy to a

gelatin duplicating composition that dissolves and holds the ink on its surface until all the copies have been run off. Hard bond paper and special duplicating ink, a duplicating typewriter ribbon, or an indelible pencil are used in preparing the master copy. Different colors may be combined on one original.

The duplicator consists of a flat printing bed over which is stretched a gelatin-covered roll. After one surface has been used, a fresh one may be brought into position by turning a handle.

The original is placed face down on the gelatin copying surface and smoothed with the palm of the hand or a roller. It is then lifted off, having left an impression on the gelatin. The blank sheets are placed one at a time on the gelatin surface and allowed to remain a few seconds until the imprint is made.

(b) *Direct method.* In this method, a master copy is prepared by writing or typing on a sheet of paper that is backed up by a piece of hectograph carbon paper, with the carbon side against the master sheet. Thus, whatever is written or typed on the master copy appears in reverse on the back of the master. The carbon sheet is removed and destroyed and the master is placed on a drum for rotary reproduction. The master can be re-used a number of times.

Direct printing (Multigraph). Direct printing may be done with a machine such as the Multigraph. The type may be composed by hand or by a keyboard-operated machine that operates at the usual typing speed. In either instance, type is placed directly onto ruled segments. The composed segment is then placed on the duplicating machine, and a wide typewriter ribbon is wrapped around the form, or ink is applied by an inking mechanism. As the printing drum of the machine revolves, paper is fed between the ribbon-covered type or the directly inked type and a rubber-covered platen, thus producing a facsimile typewritten letter or an ink-duplicated form at each revolution. Up to 6,000 copies can be produced per hour. Forms may be numbered consecutively with an optional numbering device.

Offset printing (Multilith). Offset printing can be done by the Multilith. The matter to be reproduced is prepared on any one of several metal or paper base duplicatory masters, either directly by typing, by drawing with ink or crayon, by tracing through carbon paper, or by photo-contact process. The prepared plate is placed

on a drum of the duplicating machine, and ink and a repellant are fed by rolls to the surface of the plate automatically during revolution of the drum. The drum is in rolling contact with a second drum, which has a smooth rubber blanket wrapped around it and to which the inked image is offset. The paper is fed between the offset blanket drum and impression cylinder or platen, and at each revolution of the drums a complete offset duplicated copy is made on the sheet. Up to 5,800 reproductions can be made per hour.

See page 10 for a description of the super-process—flat-bed process used in preparing letters for quantity distribution.

Automatic typewriter duplication. Automatic typewriters are designed to produce rapidly actual typewritten letters. The machine consists of a standard typewriter operated by an electric mechanism that is controlled by a perforated strip of record paper similar to a player-piano roll. Part of the equipment consists of a perforator with a standard typewriter keyboard, with which the perforations are made.

The typist cuts the material to be produced on the perforator, each perforation representing a character in the typewriter keyboard. When the cutting of the perforations is completed, the perforated paper is cut off and the ends cemented together to form a roll, which is then placed on a drum in front of the automatic typewriter. In the drum are a number of lengthwise slots over which the perforations in the record paper rest. When the machine is started, the drum revolves, carrying the record paper forward under a set of pins. As a perforation passes under a pin, the pin drops into a slot in the drum, actuating a typewriter key as though by hand. After all the perforations have passed over the drum once, the operator removes the finished letter and repeats the process.

The machine may also be used as a standard typewriter, so that at any point the operator may stop the automatic mechanism and typewrite, by hand, information of interest only to the recipient of that particular letter.

Photo-copy machines. Photo-copy machines comprise various types of machines that make facsimiles of documents, papers, signatures, art work, and other material. They are differentiated in the trade from the duplicating machines described above. Three well-

known types of photo-copy apparatus (Photostat, Portagraph, and Ozalid) are described below.

Photostat. Photostat Photographic Copying Apparatus provides a simple and practical method for the rapid reproduction of clear, readable copies by means of photography. All models of this apparatus will make copies quickly, accurately, and inexpensively of anything that is written, printed, drawn, typewritten, blueprinted, or photographed. Small objects may also be photographed. These copies may, with few exceptions, be made at same size, or enlarged or reduced as desired.

The various models consist principally of a large camera with a magazine for holding a roll of photographically sensitized paper and compartments for developing and fixing prints within the apparatus. In such models as are mechanically and electrically operated, washing and even drying of the prints is also accomplished.

The magazine and processing compartments are mounted on a stand to the front of which is attached a movable subject-holder of a type suitable to the particular needs of each individual installation. This may be either a Bookholder or an Engineering Board. The Bookholder has a hinged glass top held open by springs while the subject is being inserted. The Engineering Board is made of wood, has no glass cover, and is intended to hold larger subjects than can be placed on the Bookholder. Both subject-holders are charted with lines and numbers to determine the focus and size of copy possible.

The mechanical means for quickly focusing and handling Photostat Photographic Copying Apparatus makes it simple in operation, with no previous knowledge of photography being necessary. Perfect copies are produced with speed, accuracy, and convenience.

The subject matter to be copied is photographed through a lens with a prism attached to the front. The prism provides the means whereby the image, normally reversed by the lens, is again reversed and carried to the sensitized paper in its original position without the need of an intervening negative.

Prints made by this method produce copies in which the original blacks and whites are transposed; that is, white becomes black and black becomes white. If this first print is copied, the black and white will be reversed again to provide black letters on a white background.

Portagraph. The item to be copied is placed on a plate-glass surface at the top of the machine. It is then covered with a piece of

sensitized paper, a lid is closed down over the two sheets, an automatic timer is set in motion, and a few seconds later the exposed paper is ready for development. No photographic experience is necessary to operate it, and, since the printing paper used is not sensitive to daylight, no dark room is necessary for either printing or developing. The unit is compact, can be easily carried, and can be used wherever electric current is available. It is particularly useful where facsimiles of art work, maps, signatures, seals, trade-marks, letters, documents, and so forth, are desired.

Ozalid. Copies called Ozaprints are produced by placing a translucent original or master on a sheet or roll of Ozalid sensitized material and feeding it into an Ozalid printmaking machine. In passing through the printmaking machine, the original or translucent master and the sensitized material are exposed to a source of ultra-violet light. The light passes through the translucent material, except where blocked by opaque lines on the original, and changes the chemicals on the sensitized material to a colorless compound. The original is then delivered to a receiving tray on the printmaker and the sensitized material is carried by a moving belt into the developer. Here it is exposed to ammonia fumes which develop the chemicals remaining on the paper; that is, the portions protected by the lines or images on the original. The entire procedure is accomplished in a few seconds and the finished print is ready for immediate use.

Although the Ozalid process has long been used for making copies of engineering drawings and tracings, its versatility is now recognized and demonstrated by a wide variety of other uses. Several large banks use Ozalid machines to produce copies of customers' statements. A nationally known credit rating agency uses Ozalid machines to produce multiple copies of credit reports. Many organizations using Ozalid machines have all their forms, file cards, letterheads, and so forth, printed on translucent material. By this method every letter and record is an Ozalid master, just like an engineering drawing or tracing, and copies can be run off on the Ozalid machine whenever required.

Microfilm equipment. Microfilming is the photographing of records at a high rate of speed and at a high ratio of reduction. The film comes in 16 mm. and 35 mm.; the former is used for ordinary business papers, and the latter for drawings and newspapers. Various

types of cabinets are made to house the camera. There is a slot into which the papers are fed and they come to rest in a hopper at the bottom of the cabinet. Some of these machines may be purchased outright; others are rented on a month-to-month basis. A reading machine, which is part of the microfilming equipment, enlarges the documents photographed on the film to original size or larger. Improvements in the design of reader machines enable a clerk to load, adjust, focus and operate the reader while she is seated at a desk.

The film may either be sent back to the manufacturer for processing (and in that case the price of processing is included in the price of the film) or it may be processed in one's own office by means of a special developing machine.

Special cabinets are obtainable from the manufacturers of microfilm equipment for the proper storage of the films. For best preservation of the films, the cabinet should meet the specifications of the United States Bureau of Standards as to humidity and circulation of air among the films. A cabinet that holds 99 100-foot rolls of 16 mm. film will house the equivalent of approximately 2,700,000 letter-size records.

The most essential use of microfilming is to save file space and equipment that would otherwise be used for inactive records. (See page 433.) It is also used to make copies of papers that are to be sent to other locations. For example, some department stores make microfilm records of customers' sales checks and send the checks back to the customer with a statement, but with no description of the items purchased.

Electric typewriters. Electric typewriters have several advantages over nonelectric typewriters. The entire keyboard is electrically powered, including carriage return, backspacer, tabulator, shift and space bar. The touch is a much lighter one, and, since each character receives the same power impulse, the type impression is uniform and even. Fatigue is prevented and production greatly speeded up. As many as twenty clear carbon copies can be printed on some electric typewriters.

Addressing machines. Much time is often lost in typing the name and address of a new customer on the various forms used in the office. This time can be saved by the use of addressing machines, which are of two types: (1) machines that use a fiber stencil

cut out with a typewriter, and (2) machines that use an embossed metal plate prepared by a special machine. The plates or stencils are fed into the addressing machine in the order in which they are filed. The machine is able to print all the names, but it can be adjusted to select any group of names desired. Tabs placed in a certain position on the plates or slots cut out from the stencil guide the machine automatically to reject or select any plate. Addressing machines can be used to print the name and address of a customer on various forms. For instance, a group of Chicago insurance companies prepared an Addressograph plate and printed the name and address on the following records:

1. Customer's ledger card.
2. Postal acknowledgment of application to the applicant.
3. Identification card.
4. Policy enclosure with instructions for use in case of accident.
5. Two index cards for alphabetical and numerical files.
6. File folder.

An attachment is available for automatically feeding standard marginal punched forms on the Class 1900 Addressograph, directly across the Addressograph table. The flat-folded forms to be imprinted are placed in a loading tray at the front of the writing table, and are fed underneath the impression head of the machine, and finally to a tray at the rear, where they are re-folded into another pack. The strip of forms moves automatically (being propelled by two pin wheels which mesh with the holds along both margins of the forms) a predetermined distance, and stops when the space to be imprinted is correctly positioned under the impression head. After the imprint is made, the strip advances to the position of the next imprint, as long as there are plates in the magazine.

The pin wheels which propel the forms are adjustable to accommodate forms up to $1\frac{3}{4}$ inches wide. Forms from 3 inches to 11 inches in length can be handled. The rigid action of the impression arm of the Addressograph facilitates preparation of clean carbon copies.

This attachment can be put to the following uses: preparation of installment, dividend, premium, and meeting notices; letters; labels; dividend lists; payroll registers; credit memos; collection devices;

dividend, payroll, pension, and annuity checks; statements; time cards, and many others.

Continuous-form feeding devices of different types are available to meet different requirements.

Dictating and recording equipment. Many mechanical devices are available for recording and transcribing dictation. They are used for letters, memos, and other office dictation. Lightweight models are available for conference recording, hospital research, and countless other purposes. Other models are equipped for the recording of both sides of telephone conversations.

Field organizations have vastly improved their chain of communication through the installation of dictating machines in salesmen's cars. Field men dictate customer reports on the spot and mail the dictated recording to the home office.

The most commonly used dictating and recording equipment may be classified by the medium used for recording the voice—wax cylinder, plastic belt, plastic disc, and wire.

Wax cylinder. This is the oldest type of equipment and therefore is most frequently found in offices, though it is steadily being replaced by the plastic belt machine. The wax cylinder equipment consists of a dictating unit, a transcribing unit, and a shaving machine for preparing the cylinders for re-use. The possibility of breakage of cylinders is its chief disadvantage. About eight one-page letters can be dictated on a cylinder.

Plastic belt. The plastic belt is a flexible, non-breakable medium weighing a fraction of an ounce. Its weight and size make for easy mailing and filing. Because of its inherent shape, it offers exclusive advantages: constant groove speed, uniform back-spacing for the secretary, perfect visibility, and proved economy. Belts for 15 or 30 minutes of recording may be obtained. The system includes a dictating and a transcribing unit; combination dictation-transcribing units are also available.

Plastic disc. The disc recorders are of different sizes. A large-size disc will take about fifteen minutes' dictation on each side. The discs can be mailed in a special envelope since they are light in weight and unbreakable, and can also be filed after transcription. Transcription units are also used with some models; other models are combined dictation-transcription machines.

Wire recorder. Wire recorders magnetically record sound on spools of stainless steel wire. A spool of wire will hold more than an hour of sound. It offers good fidelity of voice and therefore is a good device for "live" messages that are not transcribed but reproduced in sound.

If the dictator wants to make a change or correction, he simply dictates where the change is desired and any error is corrected over the previous dictation on the wire. This feature eliminates the need for correction slips and saves time both in dictating and transcribing. However, a chief disadvantage lies in the secretary's difficulty of place-finding. It takes more time to locate an early portion of the recording for listening-back purposes than on other recording media, such as the belt. The same unit serves for dictating and transcribing.

A buzzer cautions the dictator if the machine is not properly set for dictation, and a bell rings to warn the dictator that he has reached the end of the cylinder.

Time recorders. Small minute wastes grow very rapidly into large money losses. For example, in a factory employing 100 people at 75 cents an hour, the annual loss for 300 working days is over \$1,500 if each employee is a minute late in the morning and after lunch and a minute early in leaving for lunch and again at the close of the day. *Attendance time recorders* will eliminate minute losses by revealing the sources and by promoting punctuality. Such clocks are also of particular value today because they provide the kind of record that enables management more easily to comply, and prove compliance, with the various social and labor laws that require accurate accounting for employee time.

The efficiency of any cost system depends partly upon the accuracy with which time records are kept. In the first place, workmen tend to eliminate fractions in filling out job time cards. Moreover, if they wait until the end of the day to fill out their cards, their records are likely to be inaccurate because of hazy memories. This lack of accuracy, of course, upsets the cost determination. *Job time recorders* make it possible for employees to record the time at the exact moment each job is started and finished. Cost determination is thus made more reliable because there is an accurate accounting of the exact amount of time spent on each job or operation. Mechanical job time recorders also help management to determine man

and machine efficiency and reveal the amount of time lost between jobs.

Time stamps are used for recording the date and time when mail, documents, rush orders, telegrams, telephone calls, packages, etc. are received. See page 422 for use of time stamps on incoming mail.

Master clocks keep all clocks under control with the accurate time. Each clock in the system is automatically brought into agreement with the master.

Maintaining office appliances. To prolong the life of office appliances, obtain the greatest amount of service, and protect the initial investment in expensive machines, the establishment of a definite maintenance policy is necessary.

Maintenance and repair costs can be kept down by keeping a card index of all the office machines in use. (See Figure 37.) Include on the cards all purchase data, including credit allowed on an old machine, expected life, amount of depreciation to be charged off, and so forth. On the reverse side enter all details of repairs. The record helps to determine whether repair is advisable, or whether the age and condition of the machine warrant replacement instead. Excessive maintenance costs are decreased by making replacements at the proper time.

Record of _____	Card # _____
Carriage Length _____	Serial # _____
	Type _____
Order # _____	Date Purchased _____
	Guarantee Expires _____
Purchased from _____	
List Price	\$ _____
Discount _____ %	\$ _____
Credit on old machine	\$ _____ \$ _____
	Cash Difference \$ _____
Turned in _____	
Date _____	Department _____
	Operator _____

Figure 37. Record of Office Machines.

Maintenance work can be handled in three ways:

1. *Maintenance contract.* Most appliance manufacturers and their sales distributors provide a maintenance service on a yearly basis. This includes regular inspection, cleaning, adjusting, and oiling. The charges are predetermined and the rates for special service calls are usually indicated in the contract.

2. *Individual service calls.* A call for service is made each time it is required, as well as for regular cleaning and oiling of machines. The cost is likely to be higher than if service is supplied under a maintenance contract.

3. *Company's own repair department.* Large organizations often find it more economical and convenient to train and maintain their own service departments.

Typewriter care. An instruction sheet on how to care for typewriters (Figure 38), distributed among those who use typewriters,

KEEP YOUR TYPEWRITER IN GOOD REPAIR

1. Keep your machine covered when not in use.
2. Move the carriage to extreme right or left when erasing to prevent eraser dust from clogging segment.
3. Oil sparingly—just an occasional drop on the carriage rails is sufficient.
4. Use only light oil—preferably a 3-1 quality, that will not gum; never use Dictaphone oil or motor oil.
5. Never oil any other part of the typewriter—wait for the repairman to oil your machine generally.
6. Clean type with a good quality brush and type cleaning fluid.
7. Wipe off entire machine occasionally with soft cloth, slightly dampened with cleaning fluid; never use alcohol as this will destroy the finish on your typewriter.
8. Use properly-inked ribbons for the style of typeface.
9. Change typewriter ribbons when necessary.
10. Fasten machines to desks for best typing results.

**TYPEWRITERS ARE MONEY!
TREAT THEM AS SUCH**

Figure 38. Typewriter Care Instruction Sheet.

will help keep the machines in good condition and will reduce repair costs. The instruction sheet shown in Figure 38 has effectively reduced costs in one organization.

Typewriter ribbons. For superior legibility, good appearance of the finished product, and most efficient use of typewriter ribbons, it is best to use special ribbons for special purposes, rather than to make one type of ribbon do all types of work. Below are outlined ribbon characteristics for various kinds of work: *

For the sharpest and cleanest typewritten impressions, as in executive correspondence, use a silk ribbon with a high thread count to the square inch and with a thickness of .003 inches.

When strength, durability, and long ink life are sought, along with a clean-cut, sharp write, use a cotton fabric with a count of 320 to 330 threads per square inch and a body thickness of .0045 inches.

For quality at a lower cost, use a cotton fabric having a count of approximately 304 threads per square inch and a thickness of .005 inches.

For interdepartmental correspondence, where economy, long ink life, durability, and legible impressions are required, rather than an extra sharp write, use a cotton fabric with a count of 260 threads per square inch and a body thickness of .0057 inches.

To meet the stress of unusual mechanical functions as in billing and accounting machines, electrical typewriters, typewriters with hard rubber or brass platens, or flat writing beds, use a reinforced cotton fabric with a count of 260 threads per square inch and a body thickness of .0061 inches.

Old machines (since they are usually more severe in action) and those with hard platens require lightly inked ribbons. Elite type requires a more lightly inked ribbon than do Pica and Gothic types.

Thinner ribbons should be used on noiseless machines than on others. Operators with a light touch also require thin ribbons. The greater the thickness of the letterhead and copy papers, the greater the need for a thin ribbon.

Carbon paper. Carbon paper should be selected on the basis of the type of work to be done. For example, a lighter weight of carbon paper should be used to make fifteen copies than to make three copies. Also, it must be remembered that different finishes of paper will produce different results. If the print is too black, or too dense, use a harder finish carbon. If it is too light or sharp, use a softer finish. Most carbon papers will improve with age, if properly stored.

* From *Bankers Monthly*, "There's a Ribbon for Every Job," by Norman D. Stone, October, 1940, p. 578.

The relative durability of two pieces of carbon paper can be tested in an adding machine that has an electric repeat mechanism. Remove the adding machine ribbon and hold a strip of carbon paper in place in front of the tape where the keys strike it. Repeat the same number over and over again on the machine. Each time it will strike the carbon in the same place, but the adding-machine tape will move on. Run the number off as many times as a legible print results. Repeat the same process for the other piece of carbon paper. The paper that provides the greater number of legible impressions is the more durable. To make an accurate test, use papers of the same weight and finish.

Improving carbon-copy reproductions. Poor carbon copies may be caused by mishandling the carbon paper, using the wrong grade for the results desired, by faulty carbon paper, or by the faulty condition of the typewriter.

The carbon paper should be kept carefully in the desk to avoid curling and wrinkling; keep it face down, out of the sunlight, and away from steam pipes. Poor interleaving of the carbon paper before insertion in the typewriter will also result in poor copies.

Lack of uniformity in the carbon imprint may be due to lack of rhythm on the part of the operator. It may also be due to defects in the product, such as variations in absorbency of the base paper, even though checked at the factory, and insufficient aging.

Poor carbon copies on a typewriter may be due, not to the carbon paper, but to lack of care in handling the typewriter. The type should be cleaned periodically to prevent its becoming gummy and causing poor impressions. A harder platen is needed if a great many copies are to be made, but if the platen is too hard for the number that are being made, or if it is pitted or slippery, typewriter troubles will occur. If the spools, ribbon guides, and reversing mechanism are out of order, the ribbon will cut, fray, tear, and wear quickly, thus producing streaks on the original and on the copy.

Offset of the carbon coating to the copy will result if the feed rolls are too hard or are improperly adjusted and press too hard on the platen. If the pressure rolls are out of alignment, and force the paper in two or three different directions, the carbon paper will "tree" and cause streaks on the copies.

Binders and saddlebacks for carbon paper. Binders and saddlebacks facilitate the making of carbon copies. Binders are a form of carbon-paper pad that is manufactured by folding over a piece of paper (not carbon paper) about $\frac{1}{2}$ inch from the end and inserting and stitching several sheets of carbon paper into the fold. The copy sheets are inserted between the leaves of the pad. The pad holds carbons and copy sheets together so that no jockeying or aligning is necessary after the setup has been inserted in the typewriter.

When two or three copies are desired, saddleback carbons can be used to advantage. The most common use is in billing operations, when the ledger card, the customer's statement, and a duplicate of the customer's statement are all made at once. A saddleback carbon sheet is a piece of carbon paper folded in half, forming four pages. The second and fourth sheets are carbonized. The original is placed in front of the first page; the first copy is placed between the second and third pages; and the second copy in back of the last page. Saddleback carbon sheets to make three copies are also available. In this type, an extra fold is made in the sheet, and three carbonized surfaces are provided instead of two.

3. MAKING OFFICE PROCEDURE FUNCTION SMOOTHLY

Reception and information service. Many organizations have found it necessary and beneficial to maintain a reception and information bureau located at a central and convenient point in the building. The need for a reception and information service is two-fold: (1) to greet and direct visitors, and (2) to save employees' time.

The reception office should be spacious and simply and tastefully furnished. The equipment of the office should consist of a desk for the clerk, a telephone, comfortable chairs for visitors, and a table with literature on it, preferably pertaining to the company or its business.

Duties of a reception and information clerk. Organizations are constantly being visited by customers, other individuals who come to transact business, and persons seeking information. It is the duty of the reception clerk to intercept these people, find out what

the purpose of their visit is, whom they represent or who sent them, and whom they wish to see. Individuals who come on business, such as salesmen and dealers, should be announced by telephone to the proper party. If the employee is busy, the visitor should be asked to return, or he should be seated. Personal friends of employees should be requested to be seated, and the supervisor should be notified of the nature of the visit. Visitors, such as collectors, insurance salesmen, solicitors, and the like, who attempt to reach employees at their place of business should be tactfully turned away. Undesirable visitors should be reported to the supervisor or to someone capable of handling them. Applicants for employment should be directed to the employment office or told when to call back if definite interviewing hours are maintained.

A capable reception clerk not only creates goodwill for the company but saves the time of busy employees who otherwise would be annoyed and interrupted throughout the day. The reception clerk should report the visit of all important callers on a daily report sheet noting the name, the company they represent and the person they called to see.

Qualifications of a reception clerk. The reception clerk should have the following qualifications:

1. Good appearance.
2. Ability to converse well.
3. Pleasing personality.
4. Tolerance.
5. Courtesy.
6. Ability to make people feel comfortable
7. Ability to think and act quickly.

Value of a well-organized mail department. A well-organized mail department can find many opportunities to be of service. As both the first and the last point of contact between the company and those of its customers with whom business is done by mail, it can expedite the prompt handling of correspondence by early delivery of incoming mail and systematic handling of outgoing mail. In addition, the mail department is in a position to handle and operate the interoffice messenger service.

Mailing-room equipment. Most large organizations have separate mailing rooms in which both incoming and outgoing mail is sorted. Vertical racks with separate pigeonholes for each department are set up on tables. One large insurance company has a separate section in which mail that is not addressed to the attention of any particular department is sorted. Similar racks are used to sort outgoing mail.

Hand- or electrically-driven letter openers are available to expedite opening the mail. When such equipment is used, letters of the same size are gathered together, and their contents jogged down to the bottom of the envelopes by striking the bottom of each envelope on a hard, flat surface. They are then run through the machine one after the other without cutting the enclosures.

In many large organizations envelope-size trays divided into compartments are used by the messenger to transport mail between the different departments and the mailroom.

Procedure for handling incoming mail. The first morning mail as a rule is the largest. It should be placed on a table where it will not get mixed up with other matter, and, until it is sorted, no one except the sorters should have access to it. A systematic procedure for handling the mail is outlined below:

1. *Sorting.* Separate first-class mail from all the rest and place letters addressed to individuals to one side. Do not open mail addressed to individuals unless it is the company policy to do so.

2. *Opening.* Open special-delivery and air-mail first, then other first-class mail addressed to the firm. Slit the end as well as the flap of the envelopes to make sure that nothing of value is left in the envelope.

3. *Time-stamping.* Time-stamp correspondence and other papers upon arrival to speed up handling by the recipients. The time of the stamp will quickly indicate any undue delay in taking care of the matter.

4. *Money enclosures.* Attach all money enclosures to the letter accompanying each and route at once to the cashier.

5. *Routing the mail.* Route mail to each addressee, whether an individual or department, giving precedence to officers and executives, in the order of their importance.

6. *Damaged mail.* When a letter is received in damaged condi-

tion, note the fact on the envelope and letter and check contents.

7. *Illegible or missing return address.* Where the sender's identification is missing from the letter, be sure to attach the envelope securely to the letter, for even if there is nothing on the envelope to identify the sender, the postmark or handwriting may give a clue to its origin.

Messenger service. In making mail deliveries and pickups the mail department can at the same time deliver and pick up interoffice messages. The following procedure shows how the messenger service can be made to function in conjunction with the mail department:

1. Have incoming and outgoing mail trays placed on every desk.
2. Establish a definite schedule for mail and message pickups and deliveries.
3. Designate one messenger for each floor or section and have him responsible for all pickups and deliveries for that floor.
4. Maintain a central station, preferably in the mail department, and have all mail and messages delivered to the central station. Separate messages from the mail and sort them according to floors.
5. At the scheduled time, have the messengers gather all the mail and messages from the central station, routed for their floors, and make their deliveries, commencing at the same time another pickup.

Handling office supplies. In most organizations the purchasing agent is responsible for the buying of office supplies, but the office manager is responsible for the office-supply room and its operation.

The little sums of money that dribble away every week in wasted paper, pencils, erasers, and the like, amount to a considerable figure at the end of the year if they are uncontrolled. The following suggestions are given to aid in handling and controlling the office stockroom to prevent waste:

1. Provide a central supply room that is adequately lighted and neatly arranged. Be sure that the supply room has sufficient shelf space and is provided with alleys and ladders so that the stock is accessible.
2. Appoint one person who will be held responsible for the appearance of the supply room and the issuance of all supplies.
3. Require everyone to have written stock requisitions before issuing any supplies.

4. Use bin tags that identify the contents of containers to mark the reorder point for supplies.

5. Standardize the shape, size, and quality of forms and paper whenever possible. It will make storage easier and require less space.

6. Eliminate waste wherever possible. Old mimeograph sheets can be cut up and glued into scratch-pads.

Operating a transcription department. Where stenographic work is decentralized or departmentalized, an impartial survey is likely to reveal waste and inefficiencies. Usually more stenographers and typists are employed than are necessary; for example, one department having too much work for one girl but not enough for two will employ two people, and neither will be occupied all the time.

Through the introduction of dictating machines, this difficulty can be eliminated. Where such machines are installed, the usual practice is to supply each dictator with a machine and concentrate the transcription work under the direction of a supervisor in a centralized transcription department.

Centralization is not applied to those in the secretarial classification, since secretaries are valuable to their employers not merely for their stenographic ability but because of their familiarity with the work and detail involved in their employer's duties.

Advantages of a centralized transcription department. A centralized transcription department has the following advantages:

1. Distribution of work is equalized.
2. Uniform standards are promoted.
3. Time is saved.
4. Better training of employees is possible.
5. Job classification is simplified.
6. Distracting noises are reduced in other departments.
7. Greater continuity of work is effected since the absence of one worker does not mean that the work will not be done.
8. Letters are handled more speedily.
9. The quality of work is improved.
10. Equipment is more readily standardized.
11. Less space is used.

Disadvantages of a centralized transcription department. The disadvantages of a centralized transcription department may be summarized as follows:

1. Opposition may develop during organization.
2. Department heads do not have direct control of typists and tend to be more critical of mistakes and delays.
3. Time is spent in sending back inaccurate letters.
4. Delays may result if the transcription department is rushed.
5. Rush letters may disrupt proper handling of work.
6. A supervisor must be employed.

How to make a centralized transcription department function smoothly. A centralized transcription department must function smoothly if it is to give the most efficient service. The following ideas will help it to function smoothly:

1. Give correspondents written instructions on how to use the dictating machine. See below.
2. Have messengers collect recordings every hour from the different machines.
3. Have a separate proofreader to check letters for style, punctuation, and errors. This will save the time of typists. Furthermore, errors are more likely to be caught by the proofreader than by the typist doing the work.
4. Use posture chairs to eliminate fatigue.
5. Supply the typists with letterheads and tissues already stuffed with carbons. It takes less time to insert carbons for a large number of letters all at once than to insert them individually for each letter as it is typed. The carbons can be taken out by the typist after the letter is finished and used over again.

Instructions to correspondents to help transcribers. Speed and accuracy in the centralized transcription department can usually be increased by co-operation of the correspondents. Thus it is well to give instructions on the use of dictating machines and to include the following items:

1. Place a check mark on the indicator strip where any mistake occurs, so that the typist may know ahead of time where corrections have been made.

2. Spell out proper names and unusual words to make certain the typist understands them without having to listen back.

3. While commas and periods may be judged from the inflections of your voice, it is better to dictate them. Paragraphs and unusual punctuations such as parentheses should be dictated.

4. Dictate special instructions at the beginning, or else write them on the indicator strip.

5. Tag rush correspondence with a signal for immediate action. This signal can be a red tag inserted into the indicator strip pocket or the correspondence folder.

6. When possible, place correspondence in the correspondence folder. This will save time in dictating and assure accuracy in the

To: Date

In order that we may serve you efficiently, your co-operation is requested as indicated below:

- ☐ Please hold mouthpiece touching the upper lip and tilted slightly away from the lower lip.
- ☐ Please dictate in a higher pitch voice.
- ☐ Please dictate in a louder tone and enunciate your words more distinctly.
- ☐ Please dictate more slowly.
- ☐ Please spell such proper names as do not appear in accompanying files; also spell technical and unusual words.
- ☐ Please indicate all instructions or corrections on indicator slip; also indicate end of each case or letter on indicator slip.
- ☐ Please preface corrections, instructions, or interpolations of any nature in your dictation with the word "OPERATOR."
- ☐ Please dictate periods and paragraphs; also dictate such other punctuation as you do not wish to leave to the judgment of the operator.
- ☐ When listening back, be sure that control lever is in the extreme upward position; also be sure that the carriage has cleared the previous dictation, i.e., that you have *heard* the last word, before you pull control lever downward to resume dictation.

☐ TRANSCRIPTION DEPARTMENT

Figure 39. Form Used by Transcription Department.

name and address. If there is no correspondence in the folder, mark "no correspondence" on the indicator strip. In the latter case, to assure accuracy, dictate the name of the person to whom the letter is addressed and write the name and address on the indicator strip.

A company with a centralized transcription department uses the form on page 426 when letter writers do not use the dictating machines to best advantage. The form (Figure 39), appropriately checked, is sent to the dictator by the head of the transcription department.

Daily supply folios for typists. A daily supply folio for each typist will help to cut stationery losses. From a stationery-supply center, each typist is provided with a day's supply, according to the number of letters she is supposed to write. At the end of the day she returns her folio and is credited with the material left over. Each typist is thus made aware of any waste in letterheads, for she has a fixed number, plus error allowance, to cover estimated needs.

The folio is made with several manila envelopes sufficiently large to hold the size stationery being used. Seal the flaps. Slit open the top and right-hand side of each envelope, trim the under side to the size of the stationery, and the upper side two inches shorter, to allow the typist to see what is in it and to simplify taking the paper from the envelope. Next, glue the envelopes together, so that the top edge of the under side of each envelope is even with the top edge of the upper side of the one beneath it, thus forming a series of pockets, one above the other. The whole can then be mounted on heavy cardboard, and each pocket identified by printing the intended contents across the top. Finally, cut slits in the top pocket (see Figure 40) to accommodate the envelopes.

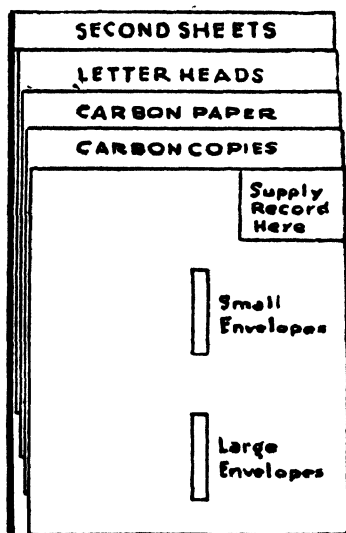


Figure 40. Stationery Folio.

Operating a central filing system. Filing may be centralized or decentralized. Offices with little correspondence, a small amount of filing, and little need for consulting filed material would find it simpler to file material departmentally. Offices having numerous records, voluminous correspondence, and constant need for consulting filed material would benefit from a central filing system, provided that the central files are easily accessible to all departments, and competent file clerks are available.

The following material can normally be included in the central file:

- General correspondence
- Interoffice and branch communications
- Orders
- Invoices
- Shipping tickets
- Bills of lading
- Vouchers
- Estimates and quotations for customers
- Credit memoranda

Material of a confidential nature or of purely departmental interest should not be placed in the central file. The following material can ordinarily remain in the departmental files:

- Payroll information
- Financial statements
- Tax matters
- Legal correspondence
- Unfilled orders
- Unpaid bills
- Matters of departmental interest only, such as tariffs for the traffic department, sales analyses for the sales departments, quotations for the purchasing department, electrotypes and cuts for the advertising department, and blueprints and drawings for the engineering department.

Advantages of centralized filing. A central filing system has the following advantages over a departmental filing system:

1. Filing is speedier and more accurate, and papers are located more quickly.
2. Duplicate copies for different departments can be eliminated.
3. Files can be kept in better condition.

4. Standardization of equipment is promoted.
5. Weeding and transferring can be made more systematic.
6. Greater control can be exercised over material out of the file.

Disadvantages of centralized filing. Certain disadvantages of a central filing system must be considered before such a system is adopted.

1. Department heads often resist the idea.
2. Additional floor space is usually required, and frequently an immediate outlay is required for additional equipment.
3. Full-time file clerks may have to be employed.
4. Selection of material for the central file from the existing department files creates certain problems.

Types of filing systems. Five basic systems of filing are in common use: alphabetical, subject, numerical, geographical, and chronological. Since each system is adapted to certain classes of work, fitness for the work in question is the test that must be met in selecting a system.

The *alphabetical* system is the simplest, oldest, and most common. Since room for expansion must be allowed in each drawer, additional equipment and more room for files are necessary.

Subject filing is a modification of the alphabetical system. It is used when there are a great number of letters from different persons or concerns relating to the same subject. A common example of such a case is in connection with the letting of large contracts. Great care must be exercised in the selection of headings, in order to avoid confusion. It is advisable that one person select all the titles, because two people rarely view a subject in the same light, and each may give the same letter a different title, equally correct.

The *numerical* filing system is an indirect filing method, since it must be used in conjunction with an auxiliary index. Under this system each new correspondent is given a number, the numbers being assigned consecutively. An index card is made out with the correspondent's number and name and is filed alphabetically in a card index. Thereafter, whenever a letter comes from a correspondent, his name is looked up in the index and his number marked on the letter to be filed. Advantages of the system are the rapidity and accuracy of refiling and the opportunity for indefinite expansion.

For most companies, however, these advantages are more than offset by the disadvantage of having to maintain the auxiliary card index and to make two searches, one of the index and the second of the files, every time papers are withdrawn or new material added.

Geographical filing is used principally in sales work and in cases where the country, state, county, or community, rather than the name of a company or individual, is the chief consideration. An auxiliary alphabetical card index is ordinarily used in conjunction with this system.

In *chronological* filing, all letters are filed according to date, either in the order in which they are received, or according to the date upon which they should have attention. This system is often used in collection work. For example, a customer whose account is past due writes that the account will be paid August 6. The letter is filed in the folder for August 6, and on that date is automatically brought to the collection manager's attention. An auxiliary alphabetical index must be used if it is necessary to refer to a letter other than by date. The chronological system is often used in a "tickler" file. See page 431.

Controlling material taken out of the file. A method should be devised for controlling papers taken from the file in order that the file clerk may be able to locate them at any moment. An essential of any method is that no one outside of the filing department be permitted to go to the files to take material.

A simple method of handling requests for filed material is to require a requisition in writing, such as that illustrated in Figure 41, for anything that is to be taken out of the file. In addition, guides of the same size as the folders used in the files should be provided. These guides should preferably be of a different color stock and should have printed on the tab the word "OUT." The guide may provide space on which an entry can be made of the material taken from the file, showing the date, what material was taken, the person requisitioning it, and the date it will be returned. This guide is then placed in the files where the extracted material was located.

Another method, which saves the work of transferring the record from the requisition to the guide, is to have a pocket on the guide into which the requisition may be placed.

A third method, which eliminates the use of guides, is to insert

the requisition amid the correspondence where the letter was located. Under this method it is advisable to have a separate 3 × 5 inch card index identifying alphabetically all material out of the files at any time. When any requisition is made, the file clerk first looks in this index to see whether the requested material is already

DATE:
TO FILE CLERK:
Please send to
Correspondence with
Dated In re
.
.
.

Please send me order for:
(Name of customer, as billed)
.
(address)
Order Number (s)

Miscellaneous material:
.
.
.
Signature

Figure 41. Requisition for Filed Material.
[Actual size 6" x 9"]

out, and thus does not waste time looking in the files for material that is not there. When any correspondence is returned to the files, the card pertaining to it in the index is destroyed, and the requisition is taken out of the place where the correspondence is inserted.

A tickler file system for correspondence wanted in the future.
The following procedure for handling material that someone in the

organization wants to come up in the future has been in operation for many years in a large organization and has been found to function smoothly.

The person who will want the correspondence or material in the future fills out the form shown in Figure 42.

	DATE:
TO FILE CLERK:	
FROM	
BRING UP THIS MATERIAL:	
JANUARY:	
FEBRUARY:	
MARCH:	
APRIL:	
MAY:	
JUNE:	
JULY:	
AUGUST:	
SEPTEMBER:	
OCTOBER:	
NOVEMBER:	
DECEMBER:	
REMARKS:	
.....	

Figure 42. Form Requesting Correspondence Wanted in Future.

The form is attached to the correspondence and sent to the file clerk, who makes out a 3×5 inch card with the name of the company or person from whom the correspondence was received, the date it will be wanted, and the name of the person wanting it. She files this card alphabetically by name of company in a card index containing similar cards for all other correspondence that will be wanted in the future. The correspondence itself, together with the follow-up form, is filed chronologically in a separate section of the correspondence files. The separate alphabetical card index is kept to facilitate look-ups. When someone requisitions a certain letter,

the file clerk first looks in the follow-up card index to see whether it is in the follow-up section.

The first thing each morning, the file clerk takes out of the chronological file all the correspondence which is wanted that day, and removes the corresponding 3×5 inch cards from the file. The correspondence is distributed by the messengers to the proper people indicated on the follow-up forms attached to the correspondence. Since this organization uses the "out" control mentioned on page 430, the 3×5 inch cards are placed in the card index used for "out" material, because the correspondence is now out of the files completely. At the same time, a memorandum is placed in the general files where the correspondence should be located.

Destruction of records and files. In order to conserve space, a definite procedure for the destruction of accumulated records and correspondence should be established. A schedule should be worked out showing the various kinds of records that accumulate and the period during which they should be kept. In fixing the period, the statute of limitations will serve as a guide in some cases. All states have such statutes limiting the period for bringing legal action. (See table of the statutes on page 1074.)

After the schedule has been worked out, the following diagram may be printed on all carbon second sheets and a hand stamp of

FILE RECORD		
1 yr.	Destroy	
	Review	
6 yrs.	Destroy	
	Review	
Permanent		

the same diagram may be made up to be used in connection with other data. The persons handling correspondence check the proper square before any material is filed. At the end of the year, the file clerk will sort the material to be destroyed. Any questionable matter can be reviewed by the proper person.

Microfilming of important records can be undertaken in connection with the program of selective records preservation. It must be applied, however, with discrimination. Microfilming of vital records for security provides protection otherwise unobtainable for all practical purposes.

4. ECONOMIES IN THE USE AND PRINTING OF FORMS

Designing forms. The first consideration in designing forms is the matter of size. It is advisable to use form sizes that can be cut without waste from standard sizes used by printers. The following table shows sizes and quantities of forms that can be cut from standard-sized sheets:

<i>Size of Form (in inches)</i>	<i>Cuts Without Waste from Standard Sheet Measuring</i>	<i>Number Obtained from Single Standard- Size Sheet</i>
2¾ x 4¼	17 x 22	32
2¾ x 8½	17 x 22	16
3½ x 4¼	17 x 28	32
3½ x 8½	17 x 28	16
3½ x 17	17 x 28	8
4¼ x 5½	17 x 22	16
4¼ x 7	17 x 28	16
4¼ x 11	17 x 22	8
4¼ x 14	17 x 28	8
4¼ x 28	17 x 28	4
5½ x 8½	17 x 22	8
5½ x 17	17 x 22	4
7 x 8½	17 x 28	8
7 x 17	17 x 28	4
8½ x 11	17 x 22	4
8½ x 14	17 x 28	4
8½ x 22	17 x 22	2
8½ x 28	17 x 28	2
11 x 17	17 x 22	2
14 x 17	17 x 28	2

The second consideration is the quality of stock to be used. Examine the life and amount of handling of the forms used in your organization to see whether a cheaper stock of paper will serve the purpose. If a form is to be thrown away shortly after it is used, an inexpensive stock should be used. One corporation saved \$4,000 in one year as the result of such a study. Its examination revealed that 75 per cent. of its forms could be printed on a good grade of sulphite bond, instead of the much higher grade of paper it had been using.

A study of the stock used may also result in greater standardization of quality, which in turn may result in reduction in price through quantity orders. The degree of permanency of the form should determine the grade of paper to be used. The following table indicates the grades:

<i>Permanency</i>	<i>Grade of Paper</i>
1- 3 years	100% sulphite
3- 6 years	75% sulphite, 25% rag
6-10 years	50% sulphite, 50% rag
Over ten years	100% rag

Lastly, the question of how to arrange data on the forms for practical use must be considered. The following suggestions will make the forms more useful:

1. Print the name of the form plainly at the top and provide a place for the date.
2. Give the form an identifying number.
3. Design the form to fit double typewriter spacing. This will speed up work if the typewriter is used and will provide sufficient space for handwriting.
4. Align the printed data that precedes the blank lines on the right-hand side rather than the left-hand side. This will permit the blank spaces to begin one exactly under the other, and the typist can use the tabular key when filling in the form.
5. Where possible, provide boxes in which to enter information, to encourage more economical use of words.
6. Group information by departments, so that each department which uses the form can find the information it needs in one section.
7. Confine information as much as possible to one side of the page..
8. Provide sufficient margin if the form is to be placed in a binder.
9. Make most important items prominent, and place them preferably near the top.
10. Design the form to fit a window envelope.
11. Have everybody who must use the form approve its design.

Ordering forms. When a new form is made up, have a small quantity printed first so that waste will not result if changes have

to be made. When the form has proved satisfactory, a quantity sufficient for six or eight months can be ordered.

Order forms of the same size and approximately the same quantity at the same time, to utilize full capacity of the press. This system of ordering will reduce the element of press time in the printer's bill. An additional saving is possible by arranging with the printer to print some of the forms during his slack period or at his convenience. Under this arrangement he can utilize otherwise unused press space for the forms. This policy will result in lower quotations from the printer.

Keeping large quantities of forms on hand necessitates storage space which is often expensive. Many printers will make contractual agreements for an annual supply of forms and print them on order. Have the type left standing in the case of permanent forms, to reduce composition costs.

Central control of forms. To eliminate waste caused by unnecessary forms, facilitate standardization, and bring about greater economy in ordering forms, establish a central control of forms. The person responsible can then gather all forms together for a systematic review. The results of central control are likely to be:

1. Elimination of unnecessary forms.
2. Better dovetailing of two or more related forms.
3. A systematic plan of design, classification, and identification.
4. A procedure for introducing new forms.

All proposed forms should be reviewed by the person in control of forms before they are ordered.

5. HIRING NEW EMPLOYEES

Sources of employees. The success of a business organization depends to a great extent on the caliber and capacity of its employees. Furthermore, when the expense of training new employees is considered, it is essential for the employer to know where to get reliable and capable personnel. The sources for new employees upon which an employer can draw are as follows:

1. *Present employees.* Employees frequently know of friends and relatives who are either out of work or who are anxious to change

jobs and who are qualified for positions in the company. It is not advisable to depend heavily on this source, for the maintenance of proper discipline is complicated when the personnel of an office is related or too friendly. Present employees, especially executives, are a good source for employees needed to fill positions such as junior executives or supervisors, for an executive usually feels responsible for his candidate and makes recommendations only after careful consideration.

2. *Applicants coming or writing to the employment department.* A company with a good reputation and sound personnel policies attracts a great many applicants, who either come in or write to the company for positions. The files of the employment department are an excellent source for new employees.

3. *Employment bureaus.* Nearly all cities have private, commercial employment bureaus that are continually advertising and interviewing individuals seeking positions. Business organizations use the services of these bureaus extensively as a source of employees. These employment bureaus save the employer the time necessary to conduct preliminary interviews by weeding out the obviously unqualified applicants and sending only those who meet the employer's specifications. These bureaus operate on a fee basis, which is usually paid by the applicant. The local State employment service, an affiliate of the Federal employment service, is a free public employment bureau that should not be overlooked as a source of new employees.

4. *Trade journals, trade schools, and competitors.* Industries that require skilled or specialized employees will find good sources by consulting the "position wanted" ads in trade journals and by contacting trade schools. Competitors or businesses that have similar trade problems will sometimes co-operate in finding new employees. Many companies that receive an application from a desirable applicant and cannot hire him at present or in the future will, in many cases, refer the applicant to a competitor.

5. *Colleges, universities, and business schools.* A good many colleges and universities maintain employment bureaus for their undergraduates and graduates. Part-time and temporary positions can be filled by students who are seeking employment while going to school. In many cases large companies send talent scouts to colleges, prior to graduation, to interview the top ten per cent of the graduating

class. Business schools are a good source for secretaries, stenographers, and typists.

6. *Appliance manufacturers.* Office-appliance manufacturers occasionally know of, and recommend, individuals who are skilled in the operation of various office machines.

7. *Customers.* If good customers are told of the need for new employees, they are sometimes in a position to make recommendations.

8. *Associations, welfare organizations, and fraternal societies.* Associations such as the Y.M.C.A. and Y.M.H.A., various welfare organizations, churches, and fraternal societies may be used as sources of new employees.

9. *Newspapers.* Newspapers can be used in two ways as a source of employees: (1) by inserting ads in the "help-wanted" column, and (2) by watching the "situations-wanted" column. Great care must be exercised in selecting the paper in which to run the advertisement. The choice is determined by the type of personnel wanted and by the class of people reading the paper. There are disadvantages to the use of newspapers. Unless an organization has an employment office capable of handling large numbers of applicants, this method is not recommended. A single advertisement placed in a newspaper, especially during depressions, attracts not only qualified applicants but also those who think they are qualified or those who apply merely because it is another lead. To overcome this drawback, many companies insert blind advertisements in the paper requesting a written outline of the applicant's background and experience, together with a photograph, to be mailed to a post-office box.

Selection of new employees. The call for a new employee originates in the department needing help in the form of an employment requisition. This requisition is sent to the employment department together with information about the position, such as, nature of the position, hours, working conditions, salary, the type of employee required, his duties, age, sex, physical requirement and other information useful for the interviewer. With this information available, the personnel department can make an intelligent selection of the applicants.

The steps in the selection procedure are as follows:

1. *The preliminary interview.* Some companies require a preliminary interview, in which case a simple form, having space for name, address, and position desired, is given the applicants to fill out. A preliminary interviewer quickly interviews the applicants and eliminates those who are obviously not qualified or who do not meet the standards established by the company. An application blank is given to those who pass this preliminary interview.

2. *The application form.* The employment application forms in common use vary in size and design. Basically, all employment applications have space for the following data.

(a) *Personal history.* Name, address, telephone number, age, sex, height, weight, date born, and place born.

(b) *Education.* Schools, duration of attendance, degrees held.

(c) *Previous employment and experience.* The name, address, and line of business of previous employers, applicant's duties, date employed and date left, reasons for leaving and salary.

(d) *References,* both personal and business.

(e) *Position applied for and minimum salary expected.*

(f) *Interests and hobbies.*

(g) *Additional information.*

The application form also contains space for interviewer's remarks and rating, results of tests, and applicant's signature. Some applications contain a clause as to the conditions of employment, such as the right of the employer to terminate the employment at any time, the right to inventions, patents, and other conditions deemed necessary. A typical application blank is presented in Figure 43.

3. *The interview.* The applicants who have been given an application form are next interviewed by a more experienced interviewer. The interviewer should attempt to put the applicant at ease and try to encourage him to do most of the talking, asking questions only to draw out information. Specifically, the interviewer attempts to get the following information about the applicant:

(a) *What is the applicant's background?* The social and economic environment under which the applicant has lived are important factors influencing his habits, temperament, and outlook on life.

(b) *What does he know?* A consideration of the applicant's education and scholastic training largely answers this question. Nevertheless, it is unwise to place too much stress on academic train-

(c) *What does he want?* A person with a clear, well-defined aim in life has a better chance of success. He is able to mobilize and concentrate all of his energies and intelligence toward his goal. Under normal circumstances, beware of the applicant who appears ready to do any kind of work or take any position. He apparently has no well-defined goal.

APPLICATION FOR EMPLOYMENT

SOC. SEC. NO. _____

**Print
Name
and
Address**

NAME _____
First _____ Middle _____ Last _____

DATE _____
PHONE NO. _____

POSITION DESIRED _____

SALARY EXPECTED _____

DATE OF BIRTH _____

CITIZEN OF U.S.? _____ HEIGHT _____ WEIGHT _____

SINGLE, MARRIED, DIVORCED, SEPARATED, WIDOW(ER) _____ NUMBER OF DEPENDENTS _____ RELATIONSHIP _____

LIVE WITH PARENTS, KEEP HOUSE OR BOARD _____ WHO REFERRED YOU TO US _____

NAMES OF RELATIVES OR FRIENDS EMPLOYED BY THIS COMPANY _____

EDUCATION

HIGH SCHOOL _____ DATE _____ COURSE _____

COLLEGE _____ DATE _____ MAJOR COURSE _____

OTHER SCHOOLS _____

BUSINESS EXPERIENCE
(LIST MOST RECENT EMPLOYMENT FIRST)

PREV. NAME	NAME OF POSITION	DATE OF EMPLOYMENT	SALARY	REASON FOR LEAVING

PERSONAL REFERENCES
(LIST RELATIVES OR FORMER EMPLOYERS)

NAME	BUSINESS	ADDRESS

PLACE A CHECK MARK TO THE LEFT OF EACH OF THE FOLLOWING KINDS OF WORK WITH WHICH YOU ARE FAMILIAR. IF YOU HAVE HAD MORE THAN ONE YEAR'S EXPERIENCE PLACE A DOUBLE CHECK MARK. IF YOU ARE AN EXBERT PLACE AN "E." ADD ANY NOT LISTED IN BLANK SPACES.

ACCOUNTING	ENGINEERING	STENOGRAPHY	COMPOSITION	PHOTOGRAPHY
CLERICAL	PLUMBING	TELEGRAPHY	BOOKBINDING	TABULATING
SALES	BAKING	TYPEWRITING	DRY CLEANING	
CALCULATING	PAINTING	UNDESKILLED	SEAMSTRESS	
CRAFT EXPERIENCE	REPAIRING	CHIEF CLERK	BOOKS BOUND	
CLERICAL EXPERIENCE	SELLING	ASSISTANT	BOOKS BOUND	
COMPOSITION	SHIPPING	BOOKS BOUND	BOOKS BOUND	
	STATISTICAL			

SIGNATURE OF APPLICANT

THIS SPACE FOR USE IN PERSONNEL DEPARTMENT

Figure 43. Typical Application Blank Suitable for Positions of Average Responsibility.

SUGGESTED QUESTIONS FOR APPLICATION BLANKS

An analysis of a number of application forms used in the employment of clerical help showed that most forms cover the basic subjects mentioned on page 439. The following is a list of out-of-the-ordinary questions that companies may care to consider in preparing or revising application blanks.

PERSONAL HISTORY

1. How long at present residence? If less than a year, give previous residence and length of stay.
2. Are you a citizen? By birth or naturalization? Give naturalization and immigration details if born in another country
3. Give birthplace.
4. Do you have any friends or relatives with this company?
5. Names, occupations, and addresses of immediate family.
6. Names of near relatives now living in foreign countries.
7. If you live with parents, do they own home, rent, etc.?
8. Are you the head of a family?
9. In case of emergency, notify
10. Give details of any injuries and operations.
11. List accidents (driving) you have had that were reported to the police or involved personal injury.
12. How much time have you lost in illness in the past two years?
13. Have you ever worked under any name other than shown above? If so, give full particulars.
14. What are your sports and recreations?
15. Are you sympathetic to Communism?
16. Are you entirely dependent upon your salary? Other sources of income?
17. Name banks where you have had accounts.
18. Do you carry life insurance?
19. What is your total indebtedness? Give details if you wish.
20. Give any unusual details of your financial condition.

EDUCATION

21. Give titles and authors of three texts you studied in college.
22. What did you do during your college vacations?
23. What bookkeeping, accounting, economics, and mathematics courses have you taken?
24. What foreign languages do you speak, read, or write?
25. In what studies were you most interested? Which were most difficult?
26. Where did you rank in your class?
27. What are your present plans for improving your education?
28. What magazines or books have you read recently?

PREVIOUS EMPLOYMENT AND EXPERIENCE

29. Are you right or left handed?
30. Indicate type of position for which you can qualify. (List given.) Why?
31. Of which of your past positions (or what piece of work that you did in them) are you most proud?
32. Ever hired by this company before? When and where?
33. Account for all intervals of unemployment.
34. Give details if ever discharged or requested to resign.
35. If now employed, why would you prefer to work for us rather than present employer?

MISCELLANEOUS

36. For what period do you want employment?
37. Please ask any questions you would like to ask about (name of company).

(d) *What are his interests?* A person who is really interested in a subject usually does a better job than one who has little or no interest.

(e) *What is his ability?* The answer to this question depends on the mental and physical qualities of the applicant. The results of the applicant's previous work or scholastic experience or of physical, intelligence, and aptitude tests, throw some light on this question.

During the interview the interviewer makes observations as to the applicant's appearance and characteristics. Is the applicant neatly dressed, cleanly shaved? Are his nails clean, shoes polished? Does he sit properly in his chair or does he fidget around? Does he appear excessively nervous? Does he speak well and intelligently? These observations not only give a key to the applicant's background, education, and habits but throw some light upon his temperament.

The applicant also is entitled to information about the company and the position for which he is applying. The interviewer, during the interview, should outline briefly the company's business and background, its policies, the nature of the position, duties, hours, working conditions, salary, and opportunities for promotion and advancement. The interviewer should at all times be frank and truthful. He should not be too optimistic, or encourage applicants as to the possibilities of getting a position when one is not available, or discourage youngsters in their attempt to get their first job. The interview offers an excellent opportunity to spread goodwill in the community and to establish a sound employee-employer relationship.

4. *Tests.* Tests are tools used by employment interviewers to aid them in rating the physical and mental abilities and aptitudes of applicants. Some companies have a large variety of tests; others do not have any. It must be remembered that tests do not reveal everything, and too much reliance must not be placed on them. Tests simply give additional information. The usual tests given employment applicants may be classified as (1) intelligence tests, (2) performance tests, (3) personality tests, and (4) interest tests. Special physical tests and medical or physical examinations are also given. Each of these tests will be explained briefly.

Intelligence tests. These tests are sometimes called mental alertness or personnel tests. They seek to measure the reasoning ability

of the applicant and not his education or knowledge. Dale Yoder * says of these tests:

"The actual relationship of intelligence to job success in any particular situation deserves careful analysis. A principle of major importance here is that they are not always related in a simple and uniform manner. In other words, high scores on an intelligence test do not mean success on all jobs. On the contrary, high scores may be associated with job failure, whereas middle or low scores may be an indicator of job success. Or the relationship of test scores and success on the job may be curvilinear, with poor performance for those who score very low or very high. In part, of course, these various relationships reflect differences in job requirements. In part, also, they reflect the fact that abilities measured by intelligence tests may be complex. Several types of intelligence may be measured by a single test."

Some well-known intelligence tests are Benge Test of General Knowledge, Otis Self-Administering Test of Mental Ability, and the Henmow Nelson Test of Mental Ability.

Performance tests. These tests indicate what the individual can do on specific tasks. They are simple to administer and the results are usually reliable guides for selection of office employees. Clerical tests, typing tests, shorthand tests, tests in operating calculators, adding machines, bookkeeping machines, and simple mechanical equipment fall into this classification.

The following are examples of clerical performance tests: Benge's Clerical Test, Minnesota Vocational Test for Clerical Workers, Thurstone Examination in Clerical Work, Form A.

Personality tests. These tests are also sometimes classified as adjustment and stability tests. They are designed to appraise the presence or absence of such traits as honesty, reliability, stability, dependability, co-operativeness, loyalty, and persistence.

In this group are Allport's Systematic Questionnaire, Pressey's X-O Test, Humm-Wadsworth Temperament Scale.

Interest tests. Tests of this kind seek to determine the type of work in which the applicant is genuinely interested. Patterns of

* *Personnel Principles and Policies*. New York, Prentice-Hall, Inc., 1952, page 185.

interest associated with success in a variety of occupations are the basis of the tests.

Among the interest tests are Strong's Vocational Interest Tests for men and women and the Kuder Preference Record.

Physical tests and examinations. For certain occupations, employees may require special physical qualifications, such as strong hands, or sensitivity to sound or touch. There are tests for these purposes.

The most common examination given to applicants is the medical or physical examination. Large companies have their own doctor, who tends to the medical needs of employees and examines new applicants. Small companies usually send the applicant to his own doctor. The purposes of the medical examination are: (1) to detect diseases and defects in order to have the worker correct them; (2) to prevent the spread of contagious diseases; (3) to make the proper placement of workers; (4) to reduce absenteeism; (5) to lessen accidents; and (6) to reduce the possibility of unjust claims for injuries.

Final approval of new employee. After the personnel department has interviewed, tested, and rated the applicants and checked on their references, the top three or four candidates are sent to the department head who sent in the requisition. The department head has the authority to accept one of the applicants or reject all of them and request the personnel department to send others. Forms sent to former employers and to schools, for reference, are given in Figures 44 and 45. Most organizations hire employees on a trial basis, usually three months, and if, within that period, the new employee has proved satisfactory, he becomes a member of the regular staff of the company. In cash a rush placement is necessary, the applicant is hired pending the check on his references, which usually do not come in for several days.

Introduction of new employees. The applicant who is accepted is introduced to his fellow workers and is started on his training program. (See page 450 for methods of training employees.) The personnel department furnishes the applicant with an employee manual or other literature concerning the company. (See page 452.)

Follow-up of new employees. The personnel department makes periodic visits to the new employee for the purpose of checking his

To _____ 19____

The person named below has applied to us for a position as _____. We would consider it a favor if you will give us your appraisal. It is perhaps natural to say the best we can for a former employee. But is it not true that a frank, careful and well-weighted opinion concerning applicants for positions will help reduce turnover among employees as well as the expense incident thereto? Indeed, a complete and frank appraisal is fairer to the applicant, for with a knowledge of weaknesses, the new employer can help to overcome them and perhaps prevent failure in the new work. If you will fill out this blank in the same way you would like us to fill it out for you, we shall greatly appreciate your co-operation. We are enclosing a stamped, self-addressed envelope for your reply.

New York, N. Y.
Personnel Director.

Name of Applicant _____

Address _____

PERSONAL APPRAISAL	BETTER THAN AVERAGE	AVERAGE	BELOW AVERAGE	REMARKS
1 Is applicant a hard worker?				
2 " " enthusiastic?				
3 " " resourceful?				
4 " " ambitious?				
5 " " honest?				
6 " " courteous?				
7 Has " a good memory?				
8 How is applicant's health?				
9 How about applicant's habits?				
GENERAL ANALYSIS	Yes	No	REMARKS	
10 How long was applicant in your employ?				
11 Were applicant's services satisfactory?				
12 Was applicant a good producer?				
13 Was applicant co-operative with your office?				
14 Was applicant co-operative with customers?				
15 What were applicant's last average yearly earnings?				
16 Would you re-employ applicant?				
17 Why did applicant leave your employ?				
18 Please add other pertinent information and sum up your appraisal				

Signed _____

Figure 44. Form Sent to Employers for Reference.

progress on the job and his attitude about his position. A simple rating form, filled out by the department head, containing the name of the new employee, the date he started to work, and a series of questions as to his progress, ability to do his work, co-operative spirit, faults, and prospects, provides a good method for following up the progress of a new employee. This information also pro-

Sch. _____ A B C COMPANY 300 Main Street, New York City	Address _____ Date _____			
ATTENTION OF PERSONNEL DIRECTOR. Gentlemen:— In response to your request I give below, in confidence, the school record of a former student of this school. And also our estimate of ^{his} her general ability and future possibilities. I am placing a cross (X) in the appropriate column below.				
	Poor	Fair	Good	Exceptional
Record in studies				
Attendance and punctuality				
Conduct				
Sociability				
Estimate of general ability and possibilities				
The student made the best showing in the following subjects _____ _____ The following list of observations may be of service to you, _____ _____ _____ _____ _____ Yours truly, _____				

Figure 45. Form Sent to Schools for Reference.

vides a sound promotional record and a good check on the training program. These rating forms should be filled out, if possible, by more than one executive qualified to judge the new employee. A consensus of judgment is thus provided, and the danger of personal prejudice on the part of the department head is eliminated. A form of follow-up of new employees, addressed to department heads, is given in Figure 46.

Discharge of employees. Employees may leave the services of a company voluntarily; they may be discharged; or they may be laid off because of slackened business activity. Whatever the reason for the separation of an employee from the company, it is a sound policy to allow the personnel department to interview all employees about to leave. The reasons for the "exit interview" are as follows:

1. It uncovers weaknesses in the personnel program.
2. It provides data for the study of labor turnover.
3. It suggests improvements in the training program.
4. It promotes goodwill.

It should be a policy of the company never to allow a department head to have the final authority to discharge an employee without

CONFIDENTIAL

Name

Began

The following confidential report is to be made out by you without conferring with the person about whom you are reporting. If, for any reason, any other person is better qualified than you to make the report, return the form immediately with a note to that effect, naming the person who should make out the report.

The purpose is to get a report on each new employee, once a week for four weeks, and thereafter monthly until such time as the employee can surely be trusted to do his work without supervision. Remember, the general purpose is to be as mutually helpful as possible, but at the same time to prevent wasting time on a person who is not likely to prove satisfactory. No action will be taken on your report without personal conference with you and others who may be able to shed some light on the new employee

(Name of executive)

1. How has he done his work during the past ?

2. How does he measure up in respect to:

Good Fair Poor

a. Grasping instructions

b. Following instructions

c. Initiative

d. Industry

e. Accuracy

f. Clearness

g. Speed

h. General cooperative spirit

3. Any other faults that should be corrected?

4. May he be trusted next week to do his work without further supervision?

5. What is the prospect that he will work out satisfactorily?

6. Other comments? (over)

Date Signed

Figure 46. Record of Employee's Performance.

the concurrence of the personnel department. In many cases the department head or supervisor may be to blame, and a transfer to another department may save the company the valuable services of an employee.

In many companies a written record of the employee's performance is maintained to help management when faced with the problem of lay-offs. These records are reviewed by the department head and the personnel department to determine which employees are the

most valuable. These records determine also the order in which laid-off employees will be called back to work.

6. TRAINING EMPLOYEES

Purpose of training employees. Training programs are established for the following purposes:

1. To break in new employees in the cheapest and quickest manner.
2. To improve the quality and quantity of the employee's work
3. To equip and develop employees for higher positions and more responsibility.
4. To improve employee morale.
5. To stimulate interest in the company and for the work.
6. To keep employees alert for new ideas and make them flexible for changes.

Whom to train. The common practice among a number of companies that have a training program is to train only new employees. In most cases this elementary training is very scanty. A good, sound training for all new employees is essential, but it is not by any means a complete training program. Training must be a continuous process, including old employees, supervisors, foremen and executives, in order to obtain maximum results.

Training new employees. The extent to which new employees are trained depends on the work for which they are assigned and the nature of the company's business. In some cases, as with industries employing highly skilled or specialized workers, the training is extensive and lengthy. In other cases, as with the training of new employees assigned to simple clerical or nonskilled work the training is brief. The point to remember in training new employees is to show the best and quickest way to do the job. It is easier to teach a person to do the job in the right way than it is to undo the results of wrong training or of no training at all.

The following suggestions will aid in planning a training program for new employees:

1. Find the best way to do the job and establish that method as a standard. Teach all beginners the standard method of doing the job.

2. Illustrate and develop one point at a time. The average person is not capable of grasping more than one fact thoroughly.

3. Develop your training along logical lines and show the relationship between various steps in the job and between other jobs. It is much easier to follow and learn a method if the steps are presented in logical sequence and the job is presented in its proper relation with other jobs.

4. Establish the standard time to do the work and define production standards. Train the worker to develop speed and accuracy to meet standards set for speed and production.

Training old employees. Old employees are trained for the purpose of stimulating greater activity, illustrating newer methods, reviving interest in the work, and preparing the employees for promotions and transfers. Old employees are harder to train and tend to offer more resistance to training programs than new employees. New employees realize that they do not know the business and are anxious to learn and co-operate. Old employees feel that they know all about the business and resent being treated like schoolboys. New employees may be trained in a formal manner, whereas old employees react better to informal training, where they are given an opportunity to plan and participate in the training program.

Training supervisors and foremen. Perhaps the most common weakness of most training programs is the lack of training offered to supervisors and foremen. Supervisors and foremen have a responsible, key position in business and industry. When it is realized that most employees are in closer touch with supervisors and foremen than with any other executives, the importance of training supervisors can be appreciated. A supervisor or foreman not only guides, directs, and supervises the quality and quantity of work produced by his group, but he is also the person who actually puts into practice the personnel policies of the company. A foreman or supervisor capable of getting work done efficiently with the co-operation of the workers and with the minimum amount of friction and antagonism between groups is rapidly replacing the overlord type of foreman of the past.

Supervisors and foremen are usually old employees who thoroughly know the work and have supervisory ability. It is necessary,

nevertheless, to train these men in newer and better methods. Besides this training, they should be: (1) fundamentally grounded in the psychology of handling men; (2) thoroughly familiar with the personnel policies of the company; and (3) aware of the importance of teamwork and co-operation between the various units and departments in the company.

Training executives. Executives, more than any other group of employees, are responsible for the operation and management of a business enterprise, and it may be truthfully stated that the measure of success of a business depends to a large extent on the wisdom of the management group, if not of one individual. For this reason a training program designed to broaden the outlook of executives and to develop a reservoir for new executives is a matter of great importance. Employees will co-operate and show more interest in the training program as a whole, if they realize that the management group feels the need for training.

Suggestions of what to include in executive training, designed to broaden the outlook of executives, are as follows:

1. A study of the company policies and the aims of such policies.
2. A study of methods for evaluating and appraising the work and operations of departments, supervisors, and employees.
3. A study of business history and future social, economic, and political trends.
4. A study of the management's responsibility toward stockholders, customers, and workers.

A careful and comprehensive training program, along with promotions based on merit and along clearly defined promotional channels, creates the best reservoir of future executives. Some companies select college graduates for the purpose of training them for future executives. The candidates receive a thorough training in every department of the company. Still other companies have gone back to the plan of hiring men secretaries to important executives and promoting them to executive positions.

Methods of training. Training may be given to employees by three basic methods: (1) on the job, (2) in a classroom, or (3) by conference.

Training on the job. The most common method of training

employees is to show them the work under actual working conditions and then have them do it. Explanations, suggestions, and corrections are made while the new employees are actually working. Care should be taken to have the work supervised by someone who knows the work thoroughly and who is in a position to watch the new employees and devote some time to them. This method requires no special equipment, is easy, and, if properly done, is the cheapest way to train new employees. The method is used extensively in training routine and nonskilled workers.

Training in a classroom. The classroom method is advisable where large groups of employees are to be trained. This method requires the use of considerable space, classroom equipment such as desks, writing materials, blackboards, slides, books, and formal classroom procedure. The question of who is to train the employees is important. Some companies hire outside professional teachers to do the teaching. The disadvantages of this policy is that such instructors seldom know the particular problems confronting the company. Company executives who are at the same time capable teachers will sometimes devote their time to training employees. The classroom method of training must be considered as a preliminary or background training. The new employees who have successfully completed the classroom training are next placed on the job and closely observed. Those who require further classroom training are requested to attend class until their performance on the job shows a fundamental grasp of its problems.

In some cases companies will send their employees to evening school for specialized training, paying part of the tuition fee. Appliance manufacturers will co-operate in the training program by supplying lecturers and demonstrators to teach employees the use of office machines.

Training by conference method. The conference or meeting method of training is used extensively in the training of old employees, supervisors, and executives. This method differs from the classroom method in that it is informal, depending more on the active participation of the members and less on formal lectures and guidance. The success of a conference depends on the amount of thought given to its planning and the co-operation and participation in the conference given by its members. The program of the meeting should be carefully planned and advance notice given as

to the subjects to be discussed. It is advisable to allow the members to have an active part in the planning of the program, thereby stimulating interest and co-operation. Such participation is made possible by sending questionnaires to the conference members asking their suggestions and opinions, or by discussing, at the meeting, the topic to be dealt with at the next meeting. The conference chairman or group leader introduces the subject, encourages active participation, maintains order, and keeps the discussion within the scope of the subject. Various committees may be appointed to study and report on special problems. Meetings should be held regularly and on definite dates and as frequently as is thought necessary.

Employee manuals. Employee manuals are used as a tool for training new and old employees. Three broad types of manuals are prepared for the use of all employees: (1) company manuals, (2) departmental manuals, and (3) procedures manuals.

Company manuals. A company manual may be a simple handbook containing the rules and regulations about practices regarding hours of work, vacation periods, holidays, personal mail, personal telephone calls, and the like. Such a manual may also contain information of a general nature to acquaint new employees with the business. In that case it might cover a history of the particular industry; give information about the origin of the particular company and the people who have brought the company to its present status; tell where the company ranks in the industry; and give other background information. In addition, a company manual may explain all the different types of employee benefit plans in existence in the company. A section may be devoted to technical terms used in the industry.

Departmental manuals. A departmental manual is generally prepared by the department head. It sets down the departmental policies, practices and procedures for the guidance of employees in whatever section of the department they may work. Employees should be able, by referring to the manual, to get the answers to most of the questions that arise in their work. The manual, if properly prepared, becomes an important tool in the training of new employees. The departmental manual is set up in such form that the portions relating to various sections of the department can

be given to the employees in those sections. Some department heads prefer to give their employees a complete departmental manual in order that each employee may see how the entire department functions and how his particular portion of the work fits into the whole.

The departmental manual usually contains procedures that describe the specific steps involved in carrying out the department's activities and operations. Each procedure tells how the work is done and refers to forms, reports, and other paper work. The cost of keeping a manual up-to-date may be decisive in fixing the amount of detail to be included. Where omission of a single step might result in error, it is usually advisable to describe the procedure in detail.

Procedures manuals. In some companies all company procedures are set up in a formal way in a procedures manual. Sometimes all standard practice procedures are issued in a single manual. But this plan may prove too bulky as the number of procedures increases. More commonly, a series of manuals is issued, each tailored to the needs of selected departments or employees. The procedure instructions may be written up in narrative form, by the outline method, through the use of charts, or in a combination of all of these methods.

Manuals for use at the management level. Three broad types of manuals are prepared for use of employees at the management level: (1) policy manuals, (2) organization manuals, and (3) administrative manuals.

Policy manuals. The policies of any company are basic, general, or departmental. *Basic* policies are determined by the board of directors. They establish the principles that management will follow in carrying out its business and tell clearly the company's broad aims as well as its approach to business problems. Since these problems are diversified, the basic policies may be a series of recitals covering a number of fields, such as research, service to the public, free competitive enterprise, human relations, adequate compensation, quality products at fair prices, fair profits, sound advertising, modern selling, realistic accounting, public relations, and high output and lower prices. The *general* policies deal with everyday operations that affect more than one department or division of the company. They are established by the general management group.

The *departmental* policies lay down the guiding principles on which operations of a particular department are to be based, and are formulated by department heads.

Organization manuals. This manual sets forth the functions, responsibilities, authority, and principal relationships of a particular position or a series of positions in the organization. It sometimes includes organization charts to show these relationships and job descriptions. The manual ordinarily affords the answer in any situation in which a member of management is unsure of obligation or authority. Similarly, the question of what channels to use in obtaining approvals of proposals or decisions on important matters can be determined by consulting the manual. Conflicts between individuals over jurisdiction can be immediately resolved by reference to it. The manual also provides a certain amount of training of employees for the positions covered in it. It aids in the selection of candidates for positions since it permits individual capabilities to be compared with the requirements of the position.

Administrative procedures. Administrative procedures are general instructions dealing with matters of policy, organization, and coordination. They explain how policies are to be applied and carried out and clarify organization assignments and relationships affecting several areas of the company. For example, the administrative procedures might include (1) the financial, sales, and production aspects of inventories, (2) the research and production relationships in developing a new product, and (3) the co-operation between manufacturing and industrial engineering in setting production standards.

A manual of instructions for department heads is a manual of administrative procedures. It enumerates the duties of all department heads and gives detailed instructions to be followed in such areas as personnel, attendance, illness and injury, long-distance calls, and office procedures. Sample forms to be used in the procedures described are included in the manual.

House organs. A house organ is an employee publication, prepared, edited, and published by employees for the purpose of stimulating interest in the company, promoting the feeling of fellowship, and building employee morale. House organs contain interesting news and timely items about the company, hints and suggestions for improving methods of performing tasks, personal news about

employees (such as vacations and promotions), announcements of contest winners, and stories and jokes pertaining to the company or the employees. The house organ should receive contributions from all employees, from the president to the office boy. The design of house organs varies with each company, but in every case a house organ should be printed on good paper and in a presentable manner. It should not be too bulky, and its style should be breezy, human, and interesting.

Company libraries. A company library is a *special library*. A special library has been defined simply as a "special collection serving a special clientele and using special methods for the purpose." * More than 2,500 business firms have company libraries. The purposes of a company library may be (1) to serve those in the company who are engaged in research or who have need for information in carrying out their duties, by acquiring and making available sources of information or by knowing where they may be secured, (2) to encourage and enable employees to pursue a program of self-education, and (3) for employee recreation. To serve the purposes for which it is established, the library must be organized and maintained with a view to making it vital and dynamic, rather than static. It calls for proper selection and adequate arrangement of the collection, and for maintenance on a controlled basis by competent personnel to permit the best use of the facilities by the greatest number.

The library should be under the supervision of a competent librarian. The librarian should be responsible to one of the officers of the company, or to a library committee appointed by management. The responsible executive acts as liaison between the library and the organization. The library committee may have such broad functions as determining policies, selecting library material, and reviewing requests for publications by employees. The committee is usually made up of representatives from the major divisions of the company. If the library is exclusively for employee education and recreation, the administration is frequently left to the personnel department or to the training department.

The books should be catalogued, classified, and arranged on shelves in a systematic manner. Some small libraries have found an index

* Marian C. Manley, *The Special Library Profession and What It Offers*, pages 181-186. New York: Special Libraries Association, 1938.

system unnecessary; they merely place their books on "general subject" shelves, all economic books in one section, all accounting books in another, and so on. The two prevailing systems of classification and cataloguing are the Library of Congress and the Dewey Decimal systems. The first is highly complex, intended for extremely large (say, over 30,000 volumes) or deeply technical libraries and should be attempted only by one who has had considerable experience in cataloguing.

The Dewey System is flexible enough to meet the needs of small, growing, or large libraries and is easily learned, even by a nonprofessional. Basically, it is divided into ten general areas of knowledge, each with ten subdivisions, which, in turn, have ten subdivisions, and so on, thus making possible the classification of the smallest topics. The numbers and their subjects are listed in one volume.*

7. TELEGRAMS AND INTERNATIONAL COMMUNICATIONS

How to cut telegraph costs. Waste in the use of telegrams and international communications—a few cents here and a few cents there—is costing many business houses a considerable amount of money each year. This waste results from a lack of exact and up-to-date knowledge of the various types of services that telegraph, cable and radio companies offer, and of how they can be used most economically. Western Union is constantly improving its services and is adding new types of services to meet changing business needs. From time to time it issues circulars and advertising pieces which, in terms of dollars and cents, are well worth the few moments that it takes to read them. These circulars and the personal advice of experienced telegraph people are obtainable at any local office of Western Union.

What to consider in trying to economize on telegrams. In trying to make economies in the use of telegraph services, consider three things:

* *Dewey Decimal Classification*, Standard 15th ed. Lake Placid Club, Lake Placid, New York: Forest Press, Inc., 1951. (This can be purchased through H. W. Wilson Co.)

1. The urgency of the message. In some cases delivery on the same day may be essential; in others delivery on the morning of the following day would be satisfactory. The fastest service is, of course, the most expensive; it should therefore be used only where the utmost speed is necessary. A description of the various types of domestic messages is given on page 459 *et seq.* An outline of the various types of cable and radio messages is given on page 464 *et seq.*

2. The time difference between cities and countries.

3. Terse wording of the message.

Consider time difference between cities. The difference in hours among the various standard times used throughout the United States must be taken into consideration in sending telegrams. The following list shows what time it is in localities using the various standard times, when it is 12 o'clock noon in places using Eastern Standard Time:

Eastern Time	12 Noon
Central Time	11 A.M.
Mountain Time	10 A.M.
Pacific Time	9 A.M.

The use of Daylight Saving Time must also be considered. Daylight Saving Time is one hour faster than standard time. Thus, if two cities under consideration are on Daylight Saving Time, the differences indicated above apply. If one of the cities is on Daylight Saving Time, the normal difference indicated is either increased or reduced by one hour. For example, normally it is three hours earlier in San Francisco, which uses Pacific Time, than it is in New York City, which uses Eastern Time. However, if Daylight Saving Time were in effect in New York City, and not in San Francisco, it would be four hours earlier in San Francisco. On the other hand, if San Francisco were on Daylight Saving Time and not New York City, the time difference would be two hours. Daylight Saving Time is in effect in many parts of the country usually between the last Sunday in April and the last Sunday in September.

Saving 54 cents by considering time differences. As an illustration of the loss of money that may result from thoughtlessness in the use of telegrams, consider the case of the Jones Company,

located in San Francisco. At 3:30 in the afternoon the Jones Company decides to send to New York the following telegram:

WIRE CORRECT REFERENCE FOR INFORMATION
TO GET STEEL FOR GRAIN BIN PRODUCTION.
M14 REFERENCE IN CONTROLS CHECKLIST AP-
ARENTLY INCORRECT.

If the Jones Company merely typed this message, marked it as a fast telegram, and dispatched it, it would cost them \$1.99. All that it need cost them is \$1.45.

The difference, 54 cents, is accounted for as follows:

1. It is 3:30 in San Francisco. Hence it is 6:30 in New York. The people to whom the message is being sent have probably left the office for the day.

2. Since the message will, in any event, probably not be deliverable until the following morning, it should be sent as a night letter. The rate for a night letter of fifty words or less from San Francisco to New York is \$1.45. This is all that the Jones Company's message need cost them.

If 54 cents can be saved on a single telegram, the amount saved in a year might be considerable.

Saving through terse wording. Although terse wording of the message should not be carried so far that the person receiving the telegram has difficulty in understanding it, considerable savings can be effected by the exercise of a little care and ingenuity. For example, notice how much more tersely the above message is expressed than the following message:

WIRE CORRECT REFERENCE FOR INFORMATION
NECESSARY TO GET STEEL FOR GRAIN
BIN PRODUCTION. YOUR ANALYSIS OF EMER-
GENCY CONTROLS CHECKLIST FOR GRAIN BINS
REFERS TO M14. THIS REFERENCE IS IN
ERROR.

The second message contains thirty words, and, if sent from San Francisco to New York City, would cost \$2.65. When reduced to nineteen words, as in the first case, it cost \$1.99. Sixty-six cents has been saved by cutting out unnecessary words and expressing the same thought clearly in fewer words.

Kinds of Domestic Messages

Fast telegrams. The fast telegram is given precedence over all other messages and therefore is faster than any other class of telegraph service. The charge for a fast telegram is based on a minimum of fifteen words, an additional charge being made for each word in excess of fifteen. Thus the charge for a fast telegram sent from New York City to Detroit is \$1.30 for the first fifteen words and 5 cents for each additional word. Nothing is gained by condensing the message to less than fifteen words. The address and the signature are not counted as words. Code may be used.

Night letters. A night letter is the least expensive message service. Delivery is made on the morning of the next day (morning of next business day in case of business messages). A night letter may be filed with the telegraph company at any time up to 2 A.M. The charge is based on a minimum of fifty words, with an additional charge for each *group* of five words or less in excess of fifty. Nothing is gained by condensing the message to less than fifty words. The cost for a fifty-word night letter is less than the cost of a fifteen-word fast telegram. Thus a fast telegram (fifteen words) from Detroit to New York costs \$1.30. A night letter (fifty words) between the same cities costs \$1.10. Code may be used, if desired.

Day letters. The day letter is a deferred service at reduced rates, the transmission being subordinated to that of fast messages. The charge is based on a minimum of fifty words. Nothing is gained by condensing the message to less than fifty words. The charge for a 50-word day letter is approximately 40 per cent more than the initial charge for a fast telegram. Thus a fast telegram sent from New York City to Detroit costs \$1.30 for fifteen words; a day letter of fifty words to the same city costs \$1.85. There is an additional charge for each *group* of five words or less in excess of fifty. The address and the signature are not counted as words. Code may be used.

How the charges for a telegram are counted. The following rules are applied in counting the number of chargeable words in telegraphic messages:

1. No charge is made for essential matter in the address and signature.

2. Names of cities, states, and countries that are made up of two or more words—such as New York, South Dakota, and United States—are counted according to the number of words they contain (in these instances two words each).

3. Abbreviations of single words count as one word, provided they do not exceed five characters.

4. Common abbreviations—such as OK, AM, PM, FOB, COD—are counted as one word.

5. Initials, if separated by a space, are counted as separate words, but if written together with no spaces, one word for each five characters or fraction thereof. Personal names are counted in accordance with the way they are normally written; for example, Van der Gross is counted as three words; Van Dorne, as two words; and O'Connell, as one word.

6. Mixed Groups of letters and figures, affixes, and the characters \$, /, &, #, ' (indicating feet or minutes) and " (indicating inches or seconds) are counted at the rate of five characters, or fraction thereof, to the word in messages between points in the United States, and between points in the United States and points in Alaska and Mexico. Thus, "one hundred" is counted as two words, but "100" is counted as one word; "3rd" is counted as one word, the same as "third"; "44B42" (a group of two figures, one letter, a group of two figures) is counted as one word, but "1000th" (composed of six characters) is counted as two words.

7. In messages sent to Canada as well as to other points outside the United States in North America (except Alaska and Mexico), groups of figures, affixes, bars, dashes, and signs are counted as one word each.

8. In messages between points in the United States and points in Alaska, Canada, Labrador, Mexico, Newfoundland and Saint Pierre and Miquelon Islands, punctuation marks are not charged for, but the words "stop," "comma," etc., are counted.

Rates between principal cities. Western Union publishes a table of "Rate-Square Numbers Between Cities." By using this table in conjunction with a "Relationship of Rates" table, also published by Western Union, it is a simple matter to calculate the

charge on any class of message, having any number of words, between the principal cities and towns in the United States.

Special Services of Telegraph Companies

Telegraph money orders. Money may be telegraphed to any point in the United States and to almost any country in the world. Money is telegraphed quickly and safely from one point to another in the United States more than 10,000,000 times each year. The rates are the same as a regular telegram of fifteen words plus a small money-order fee. For Night Letter Money Orders, night-letter rates apply, plus the money-order fee.

Commercial news service. Western Union furnishes ticker services that report prices and transactions on the trading floors of all principal exchanges. In addition to continuous quotations by ticker, interval quotations by telegraph from all leading exchanges in the United States and Canada are available via Western Union.

Telemeter service. By use of this service many large companies have direct and instantaneous telegraph connection between their main offices and branches or correspondents. Telegraph usage is measured by meter and the charge is for the number of words a company transmits monthly.

Tie lines: teleprinter; Morse; telephone; Desk-Fax and telefax. Tie lines are direct wires provided without charge by the telegraph company, where the volume of telegraph business justifies their installation, to connect the offices of business houses direct with the operating room of the telegraph company. There are four types of tie-line services:

- | | |
|-----------------|--------------------------|
| 1. Teleprinter. | 3. Telephone. |
| 2. Morse. | 4. Desk-Fax and telefax. |

A *teleprinter* is operated in much the same way as a typewriter. When a key is struck on a teleprinter located in a business office, the letter so selected is simultaneously recorded on a paper tape on that teleprinter and on the tape of a corresponding machine in the local main operating room of the telegraph company. The message thus typed is at once transferred to a trunk circuit for transmission. In the delivery of messages the procedure is reversed.

Morse tie lines are similarly used for messages sent and received over them by Morse code. Specially trained operators are required.

A *telephone tie line* is a direct telephone connection between a business house and the local main office of the telegraph company. When the telephone is lifted, a telegraph operator is automatically signalled. The message is read to the receiving operator, who transcribes it and releases it for transmission to its destination.

Desk-Fax and telefax. The Desk-Fax is a miniature facsimile of a telegraph machine, which takes up less than a square foot of space on the desk of a businessman. It sends and receives telegrams instantly and automatically in picture form, simply by pushing a button. The telegram to be transmitted on the optical Desk-Fax is typed or handwritten on ordinary paper of the proper size. It is placed on the drum and the outgoing button is depressed; nothing further is required of the user. The Western Union office picks up the call with a *Telefax* recorder and by means of a line signal starts transmission. Upon completion of transmission the machine automatically shuts down and returns to the normal stand-by condition.

Receiving a telegram with the Desk-Fax is equally simple. Upon receiving a buzzer call, the user places a Western Union "Tele-deltos" receiving blank on the drum, depresses the incoming button and after reception acknowledges receipt by pressing the accept button. If the wrong button is accidentally pressed in either reception or transmission, the machine will not function.

The direct two-way operation of the Desk-Fax machine saves the time formerly required for messenger pickup and delivery. There can be no mistake because the Desk-Fax sends just what it sees, right down to the last period. Telegrams may be sent or received over the machine at any time, day or night. No carbon is necessary since the sender retains his original message after transmission. Telegrams sent and received by Desk-Fax are charged for at regular telegraph rates.

Errand service. Telegraph messengers perform a wide variety of errands; for example:

Business errands. Pickup and delivery of envelopes, documents, blueprints, press releases, advertising cuts, mats and drawings, proofs; carrying of salesmen's samples, and so on.

Personal errands. Pickup and delivery of notes, gifts, and packages of all kinds; securing of forgotten articles from home or office, of garments from tailor, of books from library; taking of prescriptions to pharmacist, and so on.

Gift deliveries. Delivery of candy, flowers, cigars, perfume—for birthdays, weddings, anniversaries, and so on.

General errands. Messengers are also available to act as temporary employees, as guides for visitors, and as intracity couriers.

Errand service is available either on a trip or an hourly basis.

Parcel service. Telegraph messengers are used by retail merchants, drug and department stores, and so on, for scheduled pickup, consolidation and delivery of merchandise on a deferred basis, or as "specials." The rates depend on local specifications and volume.

Messenger distribution service. This is an advertising, merchandising, and sales-promotional service offered to national, regional, and local advertisers and agencies. The service includes delivery, reshipment, and remailing of addressed material of all kinds, distribution of unaddressed samples and printed matter, placement of displays, gathering of market analysis data, making of traffic counts, and a score of other services.

Distribution service rates are established generally on a per unit or per thousand basis, the cost depending upon service specifications and volume.

Actual examples of the use of messenger distribution service. Among the numerous instances in which messenger distribution service was successfully used are the following:

1. The Hudson Motor Car Company used messenger distribution service to announce a new model just being placed on the market.

2. E. R. Squibb & Sons used messenger distribution service as a supplement to its sales campaign when Squibb's Aspirin was placed on the market.

3. The Acacia Mutual Life Insurance Company wrote more than \$1,000,000 worth of life insurance in about two months by using messenger distribution service.

4. The *Atlantic City Pictorial Magazine* used messenger distribution service to attract people to Atlantic City as a health and vacation resort.

5. National Oil Products Company used messenger distribution service to introduce a new shampoo.

6. The Southern Cotton Oil Company utilized messenger distribution facilities to distribute purchase coupons to housewives.

7. Thompson Products, Inc. used messenger distribution service to deliver 70,000 catalogues directly from the printer to service managers of repair shops and garages.

8. F & F Laboratories used messengers to distribute more than 30,000,000 cough drop samples on busy corners.

9. Procter & Gamble used messenger distribution service to deliver more than 850,000 copper skillets offered as premiums.

Merchandise surveys. The telegraph company conducts fact-finding surveys of various kinds among jobbers, retailers, and consumers. For example, a food concern had a "pantry count" made from house to house in certain sections to ascertain the names of cereals kept on hand by housewives, the object being to determine how well the company's own product was represented. A shoe manufacturer had the telegraph company conduct an inspection of window displays in retail stores, to ascertain whether his brand was being displayed, and, if so, in the prescribed manner. A drug company utilized the services of the telegraph company to count the number of pedestrians passing certain intersections, the results being used as the basis for determining locations for branch stores.

Operator 25 service. By arrangement with the telegraph company, advertisers may announce through advertising media that the name and address of their nearest dealer or agent may be obtained by calling operator 25 at the local office of the telegraph company. In conjunction with this service, arrangements may be made to have samples and promotional material delivered by messenger to prospects calling the telegraph company as a result of the advertisement.

Types of Cable and Radio Messages

International communications. Messages to foreign countries may be sent over either cable or radio facilities, filed directly with any of the international carriers, or at any Western Union telegraph office. If it is desired that a message go by any specific carrier, the name of the desired route should be written or typed on each mes-

sage immediately after the destination. The services and rates described below are available by all carriers except where otherwise indicated, and are in conformity with the revised telegraph regulations which became effective internationally July 1, 1950.

Full-rate messages (FR). This is the standard fast service for messages in plain or secret (code or cipher) language. The charge per word varies according to the destination of the message and generally does not exceed 30 cents per word. For example, the charge for a full-rate message sent from the United States to England is 19 cents per word and to western European countries is 23 cents per word. There is a minimum charge for five words. Both the address and signature are counted in the charge. See page 467 for the rules for determining charges.

Letter telegrams (LT). Letter telegrams (variously called Cable Letters or Radio Letters) provide a service designed for lengthy messages that are not sufficiently urgent to warrant full-rate dispatch. Letter telegrams may be written only in plain language; however, a registered code address or signature may be used. The charge for a letter-telegram is one-half of the charge per word for a full-rate message; a charge is made for a minimum of twenty-two words. For example, the cost of a full-rate message from the United States to a European country other than England is 23 cents per word; the cost of a night letter to the same country is \$2.53 for twenty-two words. A charge is made for the address and the signature.

Letter telegrams are deferred in transmission to all other traffic, but overnight service is generally available in all countries except Australia, New Zealand, the Far East, the Middle East, and in some countries in the Near East. Each country in these areas sets its own limits on delivery of LTs. The following list gives the earliest delivery limits in each country. The times indicated are those *after* which the messages are deliverable.

<i>Country</i>	<i>"LT" Messages Are Deliverable After:</i>
Australia	8 AM, Second day
Burma	2 PM, Next day
Ceylon	2 PM, Next day
Continental China	10 AM, Next day, when filed before 12 Noon 4 PM, Next day, when filed after 12 Noon
Formosa	4 PM, Next day, when filed before 4 PM 8 AM, Second day, when filed after 4 PM

<i>Country</i>	<i>"LT" Messages Are Deliverable After:</i>
Hong Kong	4 PM, Next day
India	2 PM, Next day
Indonesia	2 PM, Next day, when filed before 4 PM 8 AM, Second day, when filed after 4 PM
Japan	4 PM, Next day, when filed before 5 PM 8 AM, Second day, when filed after 5 PM
Macau	2 PM, Next day
Malaya	2 PM, Next day
New Zealand	2 PM, Day of receipt, when received in New Zealand between 12 Midnight and 9 AM (New Zealand Time) 8 AM, Day after receipt, when received in New Zealand between 9 AM and 9 PM (New Zealand Time) 2 PM, Day after receipt, when received in New Zealand between 9 PM and 12 Midnight (New Zealand Time)
Okinawa	4 PM, Next day
Pakistan	2 PM, Next day
Philippine Rep.	8 AM, Second day
Thailand	2 PM, Next day

Shore-to-ship and ship-to-shore messages. This service permits communication by radio with individuals aboard ships at sea. The rates vary according to the place from which they are sent and according to whether they are sent via Atlantic Coast stations, Pacific Coast stations, or Gulf Coast stations.

Radio photo service. This service covers the transmission of photographs by radio. Its principal use is to supply American press associations and newspapers with up-to-the-minute pictures of persons or events abroad. Among the types of material suitable for transmission are financial statements, machine drawings, production curves, fashion designs, architectural designs, typewritten matter, printed matter, affidavits, contracts, signatures, and business and legal papers of all kinds. Photo service is available to the public through Mackay Radio and R.C.A. Communications, Inc.

Direct international services. Recent technical advances in overseas communications are making it possible to obtain direct and private connections for one- or two-way keyboard operation across the oceans. Western Union Cables inaugurated a service of this

type in 1947 known as International Metered Communications providing a direct teleprinter connection between the New York and London offices of the subscriber, over which keyboard conversations are carried on as desired. This service is paid for on a per character basis. Other services of this type are offered on a time basis.

How to save money by using time-difference table. The table on page 469 should always be consulted before a cable or radio message is sent because it enables the sender to determine whether slower transmission at the lower rates will be as effective as faster transmission at the higher rates.

For example, assume that at 2 o'clock you are sending a plain-language message from New York City to a business house in Stockholm, Sweden. By referring to the time chart, you see that at 2 o'clock in New York, it is 8 o'clock in Sweden. The probability is that there will be no one at the office to receive the message. Therefore the low-rate service should be used. Compare the costs of each of the services available. A full-rate message would cost 23 cents per word with a minimum of five words, and a cable letter 11½ cents per word with a minimum charge of twenty-two words. If the message is a long one, it should be sent as a cable letter, and, if possible, advantage taken of the extra words. If the message is less than eleven words, the full-rate would be cheaper.

Daylight Saving Time in the United States and abroad must be taken into consideration in calculating the time differences.

The "Blue Book." The American Cable & Radio Corporation issues a handbook which serves as a quick, accurate reference for sending international telegraph messages to virtually all parts of the world. The AC&R "Blue Book" is designed to help the U. S. foreign trader to avoid costly errors in routing his international messages. The book is called a "Factual Analysis of Principal International Telegraph Routes." It factually compares the direct and indirect overseas telegraph routes operated by the three major American international telegraph carriers (American Cable & Radio System, R.C.A. Communications, Inc., and Western Union Cables) to various points overseas. It explains in clear, impartial, and concise language how a message should be routed to avoid circuitous transmission abroad. Information on rates, time zones, bank holidays, local currency, and other pertinent data is also included.

The "Blue Book" is arranged alphabetically by countries for easy reference. All international businessmen may obtain it, free, from the American Cable & Radio System, 67 Broad St., N. Y. 4, N. Y.

International time charts. The American Cable & Radio System Time Chart is shown on page 469. *When passing the line to the right, add one day. When passing the line to the left, subtract one day.*

The chart below, compiled by American Cable & Radio System, shows how to calculate time abroad from Eastern Standard Time.

To determine STANDARD TIME overseas add (+) to or subtract (—) from EASTERN STANDARD TIME as indicated:

Arabia (Saudi)	+7	Germany	+6	Norway	+6
Argentina	+2	Great Britain		Panama	0
Australia	+15	& N. Ireland	+5	Paraguay	+1
Austria	+6	Greece	+7	Peru	0
Belgium	+6	Guatemala	—1	Phil. Rep.	+13
Bolivia	+1	Haiti	0	Portugal	+5
Brazil	+2	Hawanan Is.	—5	Puerto Rico	+1
Chile	+1	Holland	+6	Salvador	—1
China	+13	Hongkong	+13	Singapore	+12½
Colombia	0	India	+10½	So Africa	+7
Costa Rica	—1	Irish Rep.	+5	Spain	+6
Cuba	0	Israel	+7	Sweden	+6
Denmark	+6	Italy	+6	Switzerland	+6
Dominican Rep.	0	Japan	+14	Turkey	+7
Ecuador	0	N.W.I.	+½	Uruguay	+2
Egypt	+7	New Zealand	+17	USSR	+8
France	+6	Nicaragua	—1	Venezuela	+½

Rules for counting words in international messages.

1. Each plain-language word containing fifteen letters or less is counted as one word; each word containing more than fifteen letters is counted at the rate of fifteen letters to the word.

2. Secret language words (code or cipher) are counted at the rate of five characters or fraction thereof to the word.

3. Commercial marks and abbreviations, such as FOB, CIF, CAF, SVP, are permitted and are counted at the rate of one word for each five figures or letters or fraction thereof.

4. In addition to the Roman letter alphabet and the Arabic numerals, the following signs may be transmitted in international

INTERNATIONAL TIME CHART

Location	1	2	3	4	5	6	7	8	9	10	11	12	1	2	3	4	5	6	7	8	9	10	11	12
London, England	12:00	1:00	2:00	3:00	4:00	5:00	6:00	7:00	8:00	9:00	10:00	11:00	12:00	1:00	2:00	3:00	4:00	5:00	6:00	7:00	8:00	9:00	10:00	11:00
New York, New York	11:00	12:00	1:00	2:00	3:00	4:00	5:00	6:00	7:00	8:00	9:00	10:00	11:00	12:00	1:00	2:00	3:00	4:00	5:00	6:00	7:00	8:00	9:00	10:00
San Francisco, California	10:00	11:00	12:00	1:00	2:00	3:00	4:00	5:00	6:00	7:00	8:00	9:00	10:00	11:00	12:00	1:00	2:00	3:00	4:00	5:00	6:00	7:00	8:00	9:00
Hong Kong	12:00	1:00	2:00	3:00	4:00	5:00	6:00	7:00	8:00	9:00	10:00	11:00	12:00	1:00	2:00	3:00	4:00	5:00	6:00	7:00	8:00	9:00	10:00	11:00
Manila, Philippines	12:00	1:00	2:00	3:00	4:00	5:00	6:00	7:00	8:00	9:00	10:00	11:00	12:00	1:00	2:00	3:00	4:00	5:00	6:00	7:00	8:00	9:00	10:00	11:00
Shanghai, China	12:00	1:00	2:00	3:00	4:00	5:00	6:00	7:00	8:00	9:00	10:00	11:00	12:00	1:00	2:00	3:00	4:00	5:00	6:00	7:00	8:00	9:00	10:00	11:00
Beijing, China	12:00	1:00	2:00	3:00	4:00	5:00	6:00	7:00	8:00	9:00	10:00	11:00	12:00	1:00	2:00	3:00	4:00	5:00	6:00	7:00	8:00	9:00	10:00	11:00
Tokyo, Japan	12:00	1:00	2:00	3:00	4:00	5:00	6:00	7:00	8:00	9:00	10:00	11:00	12:00	1:00	2:00	3:00	4:00	5:00	6:00	7:00	8:00	9:00	10:00	11:00
Osaka, Japan	12:00	1:00	2:00	3:00	4:00	5:00	6:00	7:00	8:00	9:00	10:00	11:00	12:00	1:00	2:00	3:00	4:00	5:00	6:00	7:00	8:00	9:00	10:00	11:00
London, England	12:00	1:00	2:00	3:00	4:00	5:00	6:00	7:00	8:00	9:00	10:00	11:00	12:00	1:00	2:00	3:00	4:00	5:00	6:00	7:00	8:00	9:00	10:00	11:00
New York, New York	11:00	12:00	1:00	2:00	3:00	4:00	5:00	6:00	7:00	8:00	9:00	10:00	11:00	12:00	1:00	2:00	3:00	4:00	5:00	6:00	7:00	8:00	9:00	10:00
San Francisco, California	10:00	11:00	12:00	1:00	2:00	3:00	4:00	5:00	6:00	7:00	8:00	9:00	10:00	11:00	12:00	1:00	2:00	3:00	4:00	5:00	6:00	7:00	8:00	9:00
Hong Kong	12:00	1:00	2:00	3:00	4:00	5:00	6:00	7:00	8:00	9:00	10:00	11:00	12:00	1:00	2:00	3:00	4:00	5:00	6:00	7:00	8:00	9:00	10:00	11:00
Manila, Philippines	12:00	1:00	2:00	3:00	4:00	5:00	6:00	7:00	8:00	9:00	10:00	11:00	12:00	1:00	2:00	3:00	4:00	5:00	6:00	7:00	8:00	9:00	10:00	11:00
Shanghai, China	12:00	1:00	2:00	3:00	4:00	5:00	6:00	7:00	8:00	9:00	10:00	11:00	12:00	1:00	2:00	3:00	4:00	5:00	6:00	7:00	8:00	9:00	10:00	11:00
Beijing, China	12:00	1:00	2:00	3:00	4:00	5:00	6:00	7:00	8:00	9:00	10:00	11:00	12:00	1:00	2:00	3:00	4:00	5:00	6:00	7:00	8:00	9:00	10:00	11:00
Tokyo, Japan	12:00	1:00	2:00	3:00	4:00	5:00	6:00	7:00	8:00	9:00	10:00	11:00	12:00	1:00	2:00	3:00	4:00	5:00	6:00	7:00	8:00	9:00	10:00	11:00
Osaka, Japan	12:00	1:00	2:00	3:00	4:00	5:00	6:00	7:00	8:00	9:00	10:00	11:00	12:00	1:00	2:00	3:00	4:00	5:00	6:00	7:00	8:00	9:00	10:00	11:00

Courtesy, American Cable and Radio Corporation

messages: Full stop or period (.), comma (,), colon (:), question mark (?), apostrophe ('), hyphen or dash (-), parenthesis (), fraction bar (/), and quotation marks (" "). A stroke in a group of figures counts as a figure and not as a separate word. Figures are classified as cipher and are counted at the rate of five characters or fraction thereof to the word. Punctuation marks, hyphens, and apostrophes are not transmitted except when expressly requested, and then they are charged for as one word each. A dollar or cent sign or a pound sterling mark counts as a separate word.

5. In the address, the name of the place of destination, including the name of the country when it is necessary, is counted as one word regardless of the number of letters it contains, but the names of streets and persons in addresses are counted at fifteen letters or fraction thereof to a word.

6. Each word in the signature is counted.

Registered code addresses. Registered code addresses obviate the expense incurred in using full addresses. The fee is \$3.50 for six months, or \$6 per annum. Code addresses may be registered with the Central Bureau of Registered Addresses, 25 Beaver Street, New York City; with international carriers maintaining offices at Washington, D. C. (American Cable & Radio and RCA Communications) and at San Francisco (American Cable & Radio, RCA Communications, and Globe Wireless); and with local Western Union offices throughout the country except those in New York City. The addresses need be registered with only one carrier, which will supply all other carriers with each new registration.

Reversible code addresses. Reversible code addresses represent a refinement of the code-address principle designed to save tolls that otherwise would be paid for signatures. They involve use of the same code address by the two parties to the correspondence and limitation of the use of that address to correspondence between the parties concerned.

Report of delivery. Advices of the date and time of delivery of messages, by cable or mail, may be arranged by writing the indication "PC" for telegraphic report, or "PCP" for postal card report, immediately before the address. The charge for a telegraph report of delivery is equal to the tolls on six words at full rates between the same points.

Messages repeated back. The repeating of a message back to the sender may be arranged at the time of filing by writing the chargeable service indication "TC" immediately before the address. A charge equal to one and one half the full-rate tolls is made for the service.

Prepaid replies. The sender of a message may prepay a reply. The indication "RP," followed by the amount prepaid, must be inserted immediately before and as part of the address, such indication being counted and charged for as one word. In addition to the charge for the "RP" indication, the fee for the prepaid reply is charged or collected at the time the message is accepted, since, regardless of whether or not a reply is made, the amount indicated by the "RP" instructions must be remitted by the telegraph company through the international accounts to the office of destination.

8. TELEPHONE SERVICE

Long Distance Calls

Station-to-station and person-to-person calls. A station-to-station call is made when the caller is willing to talk with anyone who answers the telephone at the called point. A person-to-person call is made when the caller wishes to talk to one person in particular or to a particular department or P.B.X. telephone. The initial period rates for these calls are somewhat higher than those for station-to-station calls.

Although a station-to-station call is cheaper, in some cases it is more economical to make a person-to-person call. If the person with whom you wish to speak at the called point is likely to be difficult to locate, use person-to-person since the time spent in locating the person may run up the cost of a station-to-station call higher than the cost of a person-to-person call.

Night and Sunday rates. Reduced rates apply daily between 6:00 P.M. and 4:30 A.M., and for all day on Sunday, on calls to most points in the United States, Alaska, Canada, and Cuba, and between 7:00 P.M. and 4:30 A.M., and all day Sunday, on calls to most points in Mexico. Reduced rates do not apply to calls between nearby

points. Lower rates are also in effect at night, and all day Sunday, on calls to many foreign countries. The time at the calling point governs the application of reduced rates.

Collect calls. Charges may be billed to the called telephone if accepted at the latter (except certain overseas or foreign points).

Special reversed charge service. A subscriber may offer his customers living in specified distant exchanges a special collect call service that enables them to call him without charge and without even requesting that the charges be reversed. A monthly charge, which includes provision of a special directory listing in connection with this service, is made for each exchange from which the subscriber wishes his customers to have this privilege. (The monthly charge, of course, is in addition to the charges for the calls themselves.)

Long distance credit card plan. This is a credit arrangement that enables any subscriber who uses long distance service frequently while traveling to have the charges for long distance calls included in his regular home or office bill for telephone service. The user advises the operator he wishes to make a credit card call, gives her his credit card serial number, and then places his call in the usual manner.

Appointment calls. At the subscriber's request the telephone company will make arrangements in advance for the establishment of a connection at a specified time. Such calls are charged for at the person-to-person rate.

Messenger calls. If it is necessary to reach someone who does not have a telephone, the operator at the called point may be authorized to send a messenger for the person desired. Whether or not the call is completed, the caller pays the cost of the messenger's service, which is in addition to the regular person-to-person charge for the call.

Conference calls. Conference service makes it possible for a caller to be connected simultaneously with a number of other telephones either in the same city or in several cities. No special equip-

ment at the users' telephones is required. (See also the conference services available with private branch exchanges, page 475.)

The uses of conference service are many. Suppose, for example, that a manufacturer in Chicago is about to start a new sales drive. Sales managers in five cities are all waiting for the word "Go." On the morning of the new drive, each sales manager's telephone rings, and each is informed by the conference operator that she has a conference call from Chicago. The voice of the president comes over the wires, giving the sales managers final directions for the new drive; or, the president and the five sales managers can discuss their plans, just as though they were grouped at a conference table.

If he so desired, the president of the company could speak to gatherings of salesmen in each of the five cities, instead of merely to the five sales managers. He could do this by having the telephone company install loud-speaker equipment, appropriate for the number of listeners. A control dial associated with the loud-speaker permits volume adjustment.

When a proposed conference call is to involve a large number of distant calls, it is advisable to discuss the proposed conference with the telephone company well in advance of the time the call is desired.

Overseas and ship-to-shore calls. From any telephone in or connected with the Bell System, it is possible to call practically all important cities in Europe and a great number of other points throughout the world. Information and rates for this service can be obtained from the long distance operator.

It is also possible for the businessman to transact business even when he is at sea—by means of ship-to-shore telephone service—provided that the ship is one of the more than 40 ocean liners equipped for this service and can make effective radio contact with the shore station. Complete information on this service may be obtained from the long distance operator.

Private-line telephone services. Where it is necessary to make numerous calls between two or more points—for instance, between a headquarters office and a factory or warehouse—many business firms contract for private-line service.

The advantages of this private-line service are:

1. The firm has the exclusive use of a direct line of communication to the distant point on a monthly contract basis.

2. Connections are very rapid, although this is not usually a controlling factor in view of the speed of the regular long-distance service. Moreover, delays will be encountered when two or more persons wish to use the private line at the same time.

3. A considerable saving in cost per call can be obtained where the volume of calls is heavy.

Service is available on the basis of 24 hours a day, seven days a week, and, where facilities are available, short period private-line service also may be obtained. For such service, rates vary with the time of day. Further details on service periods and rates can be obtained by calling the telephone company business office.

Private Branch Exchange (P.B.X.) Services

Need for a P.B.X. Many business firms need several lines and several stations and, consequently, have a call interconnection problem within their organizations. Numerous situations of this kind are cared for by Private Branch Exchange (P.B.X.) switchboards, although many, particularly where small numbers of lines and stations are involved, are cared for by keys or buttons associated with or built into the telephone instruments.

Essentially, a Private Branch Exchange is, as its name implies, a switchboard located on the subscriber's premises in which are terminated both central office trunks and station lines for the firm's telephone users. Other types of telephone lines—so-called tie lines and paging circuits, for example—are also often terminated therein.

Connections through a P.B.X. Through the medium of a P.B.X. switchboard it is possible to connect

1. Any central office trunk to any station line for the purpose of distributing incoming calls.

2. Any station line to any central office trunk for the purpose of making outgoing calls.

3. Any telephone within the organization to any other telephone therein without going through the central office at all.

4. In general, other types of circuits terminated within the organization to the foregoing and to each other.

In short, with this ability to complete all manner of interconnections—inside, outside, and internal—the P.B.X. might well be regarded as the backbone of a business firm's telephone service.

Manual and dial switchboards. In describing Private Branch Exchange systems it is useful to distinguish between manual and dial.

Manual switchboards are those in which all of the switching operations—e.g., trunk-to-station, station-to-trunk and station-to-station—are performed manually by one or more attendants.

In dial switchboards only the switching of trunks to stations, for the purpose of distributing incoming calls, need be done manually; the other switching operations are done mechanically.

For both the manual and dial varieties there are supplementary facilities which, when circumstances require them, go far to enhance the usefulness of Private Branch Exchange service. Among them are the following:

Loud-speaker paging service, associated with the switchboard, through which people away from their desks or offices can be paged or summoned to the telephone via loud-speakers throughout the premises.

Code calling service through which people can be summoned to the telephone by means of code signals produced automatically via bells, gongs, horns, and the like, throughout the premises.

Conference service through which P.B.X. station users may participate in telephone conferences. One form of P.B.X. conference service is manual, under the control of the P.B.X. attendant; another is dial (in dial P.B.X.'s, of course) under which the parties desiring the telephone conference can be interconnected by dialing a certain code.

Telephone Convenience Aids

Aids to efficient office operation. Many convenient telephone arrangements are available for meeting the particular requirements of the professional man or business executive, whether his business is large and has a P.B.X., or is small and has other types of telephone switching equipment. Through the use of various types of keys or buttons—some of them turn-buttons and some push-buttons, built into the telephone instrument itself, if desired—it is possible to per-

form a number of functions that result in more convenient and efficient business operation. Some of these functions are described below. Either alone or in conjunction with P.B.X. service, their flexibility makes possible a tailor-made service to fit the exact requirements at any location within the establishment. For advice and assistance in planning your internal telephone arrangements, consult the telephone company.

Pick-up. An executive, for example, needing two telephone lines, wants his secretary as well as himself to have access to both. A simple solution to this is to provide both the executive and his secretary with a telephone having a built-in turn button. Turning this button one way connects him (or the secretary) to one line, turning it the other way connects him to the other. This form of access to any one of several lines is called "pick-up" in telephone company parlance.

Holding. The hold feature enables the executive to hold a call on one line and use the same telephone instrument for a call on another line. When he has finished his second conversation he can switch back to the first caller, without the latter having overheard, in the meantime, the second call that was made. This feature is of particular value where executives have need for obtaining additional information by telephone during the course of a telephone conversation.

Audible signals. For signaling someone else to pick up a call on a telephone, buttons and buzzers are used. The buttons used for this purpose may also be built into the telephone instrument.

Visual signals. This feature indicates which line, among several, is to be answered, and also, by showing the lines already being used, which ones are available for making an outgoing call. The signals may take the form of illuminated buttons in the telephone itself, or a series of lamps mounted on the desk or wall.

Cutoff feature. This feature may be provided on either an automatic or a button-operated basis. It is of value where the same line may be picked up at more than one telephone, insuring privacy and freedom from interruption. Signals, such as telephone bells, may be cut off through key or button operation. An executive, for

example, may wish the bell on his telephone silenced during conferences and concurrently to have an extension bell ring at his secretary's desk, where his line can be answered.

Intercommunicating feature. This provides for direct communication between members of an organization. Thus, merely by operating buttons built into his telephone instrument, or through a special dialing arrangement, an executive can communicate directly with any other persons connected with the "intercom" without the call having to be relayed through the answering point. At the same time, the telephones having access to the intercommunicating path are often connected with a P.B.X. system, so that calls to persons who are not a part of the "intercom" system can be made through the switchboard operator in the usual way. This feature is very useful for persons who call one another frequently.

"Hands free" feature. A small microphone and loudspeaker that permits "hands free" operation on local, long distance, or intercommunicating calls is available with the regular telephone. With this speakerphone, one need not lift the receiver to answer or place calls.

Conference loud-speaker equipment. Loud-speaker equipment for conference purposes, which consists of a simply operated loud-speaker contained in a small cabinet, can be used with any type of telephone call—inside, local, or long distance. The loud-speaker is connected to the telephone line but can be cut on or off at will, and the volume desired can be regulated.

With a loud-speaker device associated with his telephone, an executive can have other persons in his office hear a telephone conversation. If a loud-speaker is installed at the other end of the line, the executive can speak to a group of persons, as, for example, a group of salesmen. If a conference call is made, and loud-speakers are attached to each of the telephones, the executive can "broadcast" simultaneously to meetings in distant cities.

Recording of telephone conversations. Equipment for recording telephone conversations may be purchased, for private ownership, from commercial suppliers. However, its connection to telephone lines must be made through the use of telephone company recorder-connector equipment. The recorder-connector produces a distinctive "beep" tone every 15 seconds to let the person at the other end of the line know that the conversation is being recorded.

Automatic telephone answering. By use of equipment available from the telephone company, incoming telephone calls are answered automatically during the subscriber's absence. Before leaving, the subscriber records an appropriate message into the equipment, by speaking into his telephone. Callers, upon hearing it, may record their own messages which may be played back by the subscriber.

In addition, there are privately operated firms—telephone answering services or secretarial bureaus—that make a business of furnishing such a service, using attendants rather than recording apparatus for taking and giving the messages.

Mobile telephone service. This service, now available in many cities, is a radio-telephone extension of wire telephony that interconnects mobile-units, such as automobiles, trucks, passenger trains, and switch engines, as well as ships in inland and coastal waters, with the general telephone system. Direct telephone communication with mobile units is used by many lines of business not only to save time and mileage, thus reducing operational costs, but also in order to give faster and better service to customers.

The telephone company will install and maintain the radio-telephone apparatus on the mobile unit on a monthly rental basis, or the subscriber may use equipment that can be purchased through merchandise channels.

Teletypewriter Services

Kinds of teletypewriter service. Teletypewriters will transmit typewritten messages to any part of the country over the facilities of the Bell System. The teletypewriters are specially designed electrical typewriters. Whatever is typed on one machine is simultaneously reproduced in typewritten form on one or more teletypewriters with which it is connected. Two kinds of teletypewriter service are available:

1. Private line.
2. Exchange (TWX).

Private-line teletypewriter service. This kind of service involves teletypewriter machines, at two or more locations within the same or different cities, directly connected with one another.

Private-line teletypewriter service may be used not only for intra-

organization communication but also for communication with other concerns. For example, two independently owned and operated companies in the same city or different cities may transact so much business with one another that constant communication facilities are necessary. The teletypewriter service, on either a full-time or part-time basis, is an excellent means of linking the two concerns closely together. Private line teletypewriter service is used extensively in Integrated Data Processing systems (automation).

Teletypewriter exchange service. This service, commonly called TWX, differs from private-line service in that a subscriber may communicate with any other subscriber to the service. The connections between machines are established through a teletypewriter central office in much the same way that telephone connections are made. If, for example, the John Doe Corporation of Pittsburgh wishes to teletype a message to the James Smith Company of Philadelphia, a John Doe employee types out the number of the Smith Company on her machine. The central-office operator immediately makes the desired connection, the teletypewriter at the Smith Company offices "answers," and the message is then typed. In flexibility, speed, and the advantage of direct connections for two-way communication, the whole teletypewriting process compares favorably with regular telephone service. The permanent character of the record facilitates filing and reference work.

Connections can be established for any length of time that a subscriber wishes. The method of charging is similar to that for long distance telephone service though rates are generally lower. The minimum period is three minutes on inter-city and five minutes on local connections.

Telephone Company Customer Servicing

Need for customer servicing. The business executive, particularly of a large establishment, should be familiar with and take advantage of the Bell companies' customer servicing activities.

There are literally hundreds of telephone facilities, kinds of equipment, and service usages. Their selection, engineering, and operation are often highly technical matters requiring a degree of "know-how" that subscribers themselves rarely possess. Subscribers need the assistance of specialists and the expert servicing that the telephone companies are equipped to give.

The Bell companies, through servicing and instructional forces aggregating several thousands of people, furnish such assistance without charge as a regular part of their service to their customers. Their representatives are specifically instructed to be as ready to recommend reductions in a subscriber's service where warranted as they are to recommend increases and changes where these are indicated.

Scope of customer servicing. The scope of the Bell companies' servicing activities may be outlined as follows:

1. Service engineering—advice concerning the type, quantity, layout and usage of facilities and equipment. People on this work are generally called Service Engineers or Sales Representatives. This work covers all telephone company services—long distance as well as local, key equipment as well as private branch exchange, radio-telephone as well as wire. Directory services are also included. Studies, surveys, interviews with telephone users in the subscriber's establishment, and so forth, are made if necessary, findings appraised, and recommendations formulated and presented to the executives.

2. Training of private branch exchange attendants (who are employees of the subscriber, not the telephone company). This training includes not only classes for initial instruction of beginners and refresher courses for experienced attendants, but also periodic visits to subscribers' premises to observe the switchboard's operation and give the attendants any needed on-the-job coaching. The latter is done by a group of instructresses called P.B.X. Service Advisers.

3. Training of business establishments' personnel (management as well as other employees) in courteous and technically correct telephone usage. Training films on P.B.X. operation and correct telephone usage are available without charge.

4. Training of teletypewriter attendants—the teletypewriter counterpart of the training activity for P.B.X. attendants just described.

5. Placement of private branch exchange attendants. This is an "employment agency" type of service through which the Bell companies recommend capable and well-trained attendants to private branch exchange subscribers, but without charge to either the subscriber or the attendant.

6. Engineering advice to architects, builders and home owners concerning conduits, outlets, and other facilities for telephone wires and cables in home and building construction.

9. PRIVATELY-OWNED INTERNAL COMMUNICATION SYSTEMS

Advantages of an internal communication system. Arrangements for intercommunication between offices in the same company are obtainable at small cost and with considerable saving of time and money in most organizations. This is true regardless of whether the system is a P.B.X., a button arrangement, or a combination of the two subscribed for through the telephone company (see page 477), or one purchased for private ownership. Here are a few of the advantages to be gained with the proper intercommunication system:

1. The executive can speak to an associate instantly.
2. Information can be obtained from any part of the organization while telephoning on outside lines.
3. Intermittent but important dictation can be given to secretaries over the system without waste of time.
4. Throughout the organization, better co-ordination is secured; delays are eliminated; errors are reduced; executive supervision is increased as internal communication is used to weld the organization together; to eliminate walking and visiting; and to encourage instant follow-through on all work.

Factors to be considered in arranging for interoffice communication. An executive interested in buying an intercommunicating system outright should carefully study all service and cost factors involved in each instance. Aside from initial cost considerations, the following should be weighed:

1. *Flexibility.* Can the service or equipment be changed to meet changing communication requirements?
2. *Quality.* Will the standard of communication service be equal to the requirements?
3. *Dependability.* Will the equipment or service fulfill the job continuously for as long a time as required?
4. *Obsolescence.* Will ordinary wear and tear or new developments in the communication field make the equipment depreciate prematurely?
5. *Maintenance.* Can the system be maintained easily, quickly and inexpensively?

6. *Convenience.* Will privately-owned equipment, in addition to the necessary telephone company equipment provide service as convenient to use as a system provided entirely by the telephone company?

7. *Continuing costs.* Considering interest, depreciation, maintenance, taxes and miscellaneous carrying charges, plus charges for the necessary service provided by the telephone company, will it be economical to buy a communicating system?

8. *Volume of equipment.* Will a privately owned system eliminate a sufficient number of telephone extensions and reduce a sufficient amount of rented facilities needed at the switchboard to make the purchase worthwhile?

9. *Busy lines.* Will release of telephone extensions reduce busy signals and the annoyance caused by delays in putting through calls? Or will a slow answer from the person talking on the privately-owned system be even more annoying than the busy signal?

Privately owned interoffice communication equipment. There are various makes of interoffice communication equipment on the market that can be purchased outright. Some of the better known are the Executone Intercommunicating System, Dictograph, Webster Teletalk, and P-A-X.

Executone Intercommunication. Executone Intercommunication Systems are available for businesses of various sizes. In its simplest form, it consists of a master station and one staff station, each able to call and converse with the other. With the addition of a station selector, this same master station can enjoy direct two-way conversation with any number of widely separated offices. Should the need arise, several or all of these stations can be called simultaneously. Also available are all-master, fully-intercommunicating systems as well as combined "intercom" and paging systems.

Several different models of Executone equipment have been developed to meet the specialized needs of business and industry. For example, there are models to eliminate background sounds in noisy areas as well as to step up volume for covering in large, noisy areas. There are systems specifically engineered for different fields: audio-visual nurse call systems for hospitals, centralized checking systems for the trucking industry, explosion-proof intercom equipment for hazardous areas, as well as systems for homes, schools, auto service

departments, banks, restaurants, and so on. Models are available with handsets or earphones for optional confidential use.

Dictograph intercommunication equipment. The Dictograph system of intercommunication equipment is purely an internal one. The instruments used are of two types: (1) executive station; (2) staff station.

Executive station. The little keys on the face of the instrument establish the connections. One end of the executive station contains a microphone, the other a loud-speaker. The executive's messages are transmitted through the microphone. It is not necessary that he be close to the instrument when he speaks, for the microphone is so sensitive that it will pick up a whisper in a large room. Messages from other persons come to the executive through the loud-speaker. The incoming calls are indicated by white signals.

Conference calls are easily made with the Dictograph system. Simply by pushing the keys indicating the names of the persons with whom he wishes to talk, and a conference key, the executive can establish connection with several persons and can talk to all of them at the same time. Executive calls have priority over all others.

Staff station. This station is smaller than the executive station. It has no loud-speaker or microphone but, instead, has a handset (like a French telephone). The keys are the same. Calls can be made by simply picking up the handset and ringing with the appropriate key; calls are answered when the handset is raised from its cradle.

Paging facilities can be provided to locate roving personnel.

Webster Teletalk. The Teletalk is manufactured by Webster Electric Company of Racine, Wisconsin. The Teletalk has two basic systems, designated as the "M" and "S" systems, separate from the regular telephone service. In the "M" system, a 12-line key cabinet station and a single-line station may be provided in various combinations. Two-way communication is possible between key cabinet stations and between key cabinet and single line stations. In the "S" system, the 12-line key cabinet stations provide two-way communication; single-line stations may be used as simple loud-speakers for receiving announcements from key cabinets. Although a key station may have access to only 11 other stations this does not limit any one entire system to 12 stations, because it is possible to have more than

one unit of 12 stations each. However, the separate units cannot communicate with each other.

Each 12-line key cabinet station contains a loud-speaker-microphone, amplifier, talk-listen switch, combined on-off switch and volume control, pilot lamp which indicates when the amplifier is turned on, line selector keys for line pick-up and signaling the called station, and buzzer and annunciator signals for indicating incoming calls and identifying the calling station. In addition, the key cabinet station used in the "S" system has the pilot lamp arranged to indicate when a busy line has been picked up, and has an earphone to be used for listening instead of the loud-speaker whenever desired.

Intercommunicating equipment for more than ten connections. Where more than ten stations are required and it is desirable to have a system that is economically adaptable to future growth and change, an automatic dial telephone system is often the solution. Even where less than ten stations are required initially, but standard telephone service and the convenience of modern "dial" operation are desired, user-owned automatic dial telephone systems find wide use as a supplement to the conventional rented switchboard.

These automatic interior systems need only two or three wires to each telephone instead of the multiple wiring required by push-button and loud-speaker systems. Each station is connected with a central automatic switchboard, involving no operator, through which connections are automatically made with other telephones. Greater flexibility is provided and lower costs result since additional telephones can be installed merely by connecting them to the switchboard rather than directly to every other phone. This feature also avoids service interruptions when stations have to be moved from one location to another.

Each P-A-X business telephone system consists basically of a central automatic switchboard, made up of the same fundamental units of apparatus as are employed in some public automatic exchanges. It is compact and can be placed in any small room. A variety of phones are offered that are identical in every respect with the ones supplied by Automatic Electric to public telephone companies.

The larger P-A-X systems can be arranged to provide various special communication services to meet the specialized needs of the user. Some of these are:

Code-call. Repeats assigned codes or signals throughout the premises under control of any telephone dial. Called party answers from any P-A-X telephone and obtains direct talking connection.

Conference service. Permits simultaneous connections of several telephones for conference purposes.

Direct line. This is a permanent line between two stations having frequent need to call each other. By merely lifting either handset, a person signals the other station automatically; dialing is not necessary.

Voice paging. Permits use of public address system by dialing designated number from any P-A-X- telephone.

Paging telephone. A special service providing two-way loud-speaker conversation over standard telephone lines by dialing designated number to reach the area so served.

Message announcer. Provides facilities for the playback of a recorded message available to any P-A-X telephone by dialing the designated number.

10. POSTAL GUIDE FOR EFFICIENT HANDLING OF MAIL

How to save postage. Every business organization uses mail in some form or another in transacting business. Money can be saved by knowing how and when to use the various types of mail service.

A few suggestions are offered here to reduce postage costs:

1. Use business-reply envelopes.
2. Take advantage of third-class bulk mail wherever possible.
3. Reduce labor costs by using metered mail and printed indicia.
4. Be sure that air-mail letters will arrive at the post office in time to meet plane schedules. Unless your mail clerks are familiar with the air-mail schedules, there is a chance that air mail will not arrive any earlier than if sent by ordinary first-class rates. The difference between air-mail postage and ordinary postage is a dead waste unless this precaution is taken.

5. Eliminate special delivery if letters will reach destination in time for the first mail delivery.

6. Economies are possible if you know how and when various classes of mail can be used.

7. Check a day's mail now and then to see whether letters to the same person are going in separate envelopes.

8. Establish a rule that all material addressed to one branch shall be enclosed in one envelope. Saving is obvious; postage is paid on so much per ounce or fraction. Combining fractions saves ounces. Saving is also made on envelopes.

9. Have communications to branch offices written on memo paper. This reduces weight of mail going to branch offices.

10. Use lightweight paper for air mail.

11. Give thought to weight of paper and envelopes used for normal correspondence. Reduced weight need not mean sacrifice of quality.

12. Do not permit clips to go through the mail. They add to the cost of mailing. To see how much, place a box of clips on the scale.

13. If you are engaged in mailing booklets, catalogues, and other advertising pieces, your postage cost is a sizable part of the operation. Be sure that you are using the most advantageous type of mailing. By all means take it to your post office before you have the material printed because you may save hundreds or thousands of dollars.

Official sources of postal information. For companies that send out large quantities of mail—direct-mail men in particular—the following sources of information are invaluable:

1. Chapters 1 and 2 of the Postal Manual, which explain the services available and prescribe rates, fees, and conditions under which postal services are available to the public. Chapter 1 relates to domestic postal service, Chapter 2 to international mail.

2. The Directory of Post Offices: used in identifying post offices and computing parcel post rates with binder and changes for indefinite period, \$8.00; without binder, \$5.00.

These publications are available from the Superintendent of Documents, Government Printing Office, Washington 25, D.C. Chapters 1 and 2 of the Manual are printed in pamphlet form, hole-punched for filing in a three-ring binder. In order that the purchaser may keep up to date with changes as they occur, a loose-leaf supplementary service is included. The Manual and supplementary service for an indefinite period are sold on a subscription basis only, at \$2.00 per subscription.

Classification of Mail

Classes of mail. There are four classes of mail: first, second, third, and fourth. Each class may have some special form of handling, air-mail, special delivery, and the like. First-class mail consists of sealed matter and also of certain items that the Post Office Department considers first-class matter whether sealed or not (see the following list). Second-class mail consists of newspapers and periodicals; third-class mail, of unsealed printed matter weighing not over eight ounces; fourth-class mail, or parcel post, of packages weighing more than eight ounces, but not more than 20 pounds if for delivery in zones 3 to 8 and 40 pounds if for delivery in the local, first, or second zone, when going from one first-class office to another first-class office. See page 488 *et seq.* for details about each class.

Mailable items and how to dispatch them. The following list shows the class of mail by which the items mentioned are ordinarily sent.

<i>Item</i>	<i>How to Send</i>
Birth announcements	First-class
Bonds	Registered first-class
Books	Third- or fourth-class
(Special rates apply to books. The book may be autographed. Mark the package Book or Books.)	
Catalogues	Third- or fourth-class
(Special rates apply to printed catalogues individually addressed, consisting of 24 pages or more and not weighing over 10 pounds. Each piece must be clearly marked "Catalog.")	
Checks, filled out	First-class
Cancelled	First-class
Certified	Registered first-class
Endorsed in blank	Registered first-class
Circulars	Third-class
Currency	Registered first-class
Documents with no intrinsic value	Certified mail
Documents with intrinsic value	
Signed originals	Registered first-class
Copies	First-class
Drawings	Third-class
Form letters	Third-class
Greeting cards	First-class
In unsealed envelopes	Third-class
(If the greeting cards bear written messages, they must be sent first-class, even though unsealed.)	

<i>Item</i>	<i>How to Send</i>
Jewelry	Registered first-class
(If the value is more than \$1,000, the package should be insured by a private insurance company.)	
Letters	
Carbon copies	First-class
Duplicate copies	First-class
For delivery to addressee only	Certified first-class
Form (see Form Letters)	
Handwritten or typed	First-class
Magazines	Second-class
Manuscript	Registered first-class
Accompanied by proof-sheets	Third- or fourth-class, depending on weight
(Corrections on proof sheets may include insertion of new matter, as well as marginal notes to the printer. The manuscript of one article may not be enclosed with the proof of another unless the matter is mailed at the first-class rate.)	
Merchandise (see Packages)	
Money orders	First-class
Newspapers	Second-class
Packages	
Not over 8 ounces	Third-class
Over 8 ounces	Parcel post
Containing personal messages	(See Fourth-class mail, page 491.)
Periodicals	Second-class
Photographs	Third-class
(Wrap with a cardboard protection and mark the envelope "Photograph—do not bend." Photographs may be autographed.)	
Postal cards	First-class
Post cards	First-class
Plants, seed, cutting, scions, bulbs	Third-class or parcel post depending on weight
Printed matter	
Not over 8 ounces	Third-class
Over 8 ounces	Fourth-class
Sealed matter	First-class
Stock certificates	Registered first-class
Typewritten material (see Manuscript)	First-class

First-class mail. *Rate basis.* The rate is based on the ounce or fraction thereof, without regard to zone.

Preparation for mailing. Seal the matter unless it is a card, and mark oversized or odd-shaped envelopes "First-Class." If the en-

velope flap is not gummed, seal with glue or mucilage. Do not seal with strips of gummed paper or scotch tape.

Weight limit. The weight limit for first-class matter is the same as for fourth-class.

Instructions and postal regulations. Any sealed matter must be sent first-class, except packages bearing an inscription authorizing inspection by the postmaster. When first-class matter is included with second-, third-, or fourth-class, the first-class rate is required for the letter. (See Fourth-class mail, page 491.)

Certified mail. First-class mail without intrinsic value may be *certified* for 15¢ plus postage. The mail is handled in transit like first-class mail, but there is no indemnity.

Second-class mail (publishers). *Rate basis.* The rate basis varies with the weight, percentage of advertising, and zone to which mailed.

Weight limit. There is no weight limit to second-class matter.

Instructions and postal regulations. Only newspapers and periodicals bearing a printed notice of second-class entry are admissible as second-class matter for mailing to established lists of paid subscribers.

Publications produced by stencil or hectograph methods are not admissible as second-class matter.

The entire newspaper or periodical must be mailed; otherwise, the higher third-class rate applies on material weighing up to 8 ounces.

Second-class mail (transient). *Rate basis.* The rate is based on each two ounces or fraction thereof, without regard to zone.

Preparation for mailing when sent unsealed by other than publishers or registered news agent. Address an envelope, slit the ends, and wrap the newspaper or periodical in it. Write "Second-Class Matter" above the address, "To" in front of the address, and "From" in front of the return address. To call attention to a special passage in the text, mark with symbols, *not words*, in colored pencil. Write "Marked Copy" on the wrapper.

Third-class mail. *Rate basis.* The rate is based on a minimum of two ounces with an increase for each ounce or fraction thereof, without regard to zone. The rate for bulk lots is based on the pound, with a minimum charge per piece.

Weight limit. The weight limit is eight ounces. The same material becomes fourth class or parcel post when mailed in packages

weighing over eight ounces. (See "Bulk Mail," page 500, and "Catalogues and books," page 503, for exceptions.)

Preparation for mailing. Do not seal. Envelopes having one small spot of gum to hold a loose flap are accepted as unsealed. But the words "Pull Out for Postal Inspection" must be printed on, or adjacent to, the loose flap, and must be entirely exposed when the envelope is ready for mailing. The closing outside flap that folds over the loose flap must not be gummed on the surface touching the loose flap.

Instructions and postal regulations. This classification includes merchandise, printed matter, and otherailable matter not in the first- or second-class category, and not exceeding eight ounces in weight. Included in the third-class group is a type of mail that is very important to the businessman—the form letter, or circular. (See "Form letters," pages 501-502.)

Writing, except something in the nature of an autograph or inscription, is not permitted on third-class matter.

"Do not open until Christmas," or a similar legend, may be written on the wrapper; other directions or requests may not.

Corrections of typographical errors may be made. Invoices can be enclosed.

Fourth-class mail (parcel post). *Rate basis.* The rate is by the pound, according to distance or zone. A fraction of a pound is computed as a full pound. To find the zone of the place of destination, telephone the post office, Parcel Post Information, or refer to the zone key for your city.

Weight limit. The minimum weight is more than eight ounces. The maximum weight is 20 pounds if for delivery in zones 3 to 8 and 40 pounds if for delivery in the local, first, or second zone when going from one first-class post office to another first-class post office. If the weight is less than eight ounces, third-class postal rates apply.

Size. The size limit is 72 inches in length and girth combined. The length is the distance from one end of the package to the other, not around it, and the girth is the distance around the package at its thickest part. For example, a parcel 35 inches in length, 10 inches in width, and 5 inches in thickness, is 65 inches in length and girth combined (35" plus 10" plus 10" plus 5" plus 5"). Exceptions to these limitations are (1) parcels containing baby fowl, live plants, trees, shrubs, agricultural commodities, or books; (2) parcels addressed for delivery on a rural route; (3) parcels mailed by air parcel

post; (4) parcels mailed to or from second-, third-, or fourth-class post offices, post offices at any military installation, or at any place outside continental United States where domestic mail service is in operation. Parcels covered by the exceptions may weigh as much as 70 pounds and may be 100 inches in length and girth combined.

Preparation for mailing. Pack contents solidly. If they are crushable, pack in an extra heavy cardboard box. Do not seal the package unless it bears an inscription that it may be opened for postal inspection.

Instructions and postal regulations. No communications may be enclosed except invoices and customer's orders that relate entirely to the articles enclosed. When articles are being returned for repair, exchange, or credit, no communication, such as "Please credit my account," may be included, but the sales slip may be enclosed.

Seasonal greetings may be enclosed.

A letter may be sent with a parcel by enclosing the letter in an addressed envelope and attaching it securely to the address side of the package, but not covering the address on the package. Postage must be paid on the letter at the letter rate and on the package at the parcel-post rate. They will be dispatched as fourth-class matter.

A letter may also be enclosed with a parcel if postage is paid for the letter at the first-class rate and for the package at the parcel-post rate. The postage for the letter may be placed on the parcel separately or included with the postage for the parcel. The mail will be dispatched as fourth-class matter. Beneath the postage and above the address, write "First-Class Mail Enclosed." If practical, the letter should be placed on top of the other items in the parcel.

Special handling postage entitles fourth-class mail to the most expeditious handling, transportation, and delivery possible, but not to Special Delivery by the office of destination. Nor does special handling insure the safe delivery of the mail.

Domestic Air Mail

Matter mailable by air mail. Any mailable matter except that liable to damage from freezing or from high altitudes may be sent by air mail.

Rate basis. The rate on air mail for matter not over 8 ounces parcel post is based on the ounce or fraction thereof, without regard to distance. The rate on matter over 8 ounces is based on the pound or fraction thereof, according to the distance or zone.

Weight and size limit. Air mail may not exceed 70 pounds or 100 inches in length and girth combined. Matter exceeding 8 ounces but not weighing more than 70 pounds, nor measuring more than 100 inches in length and girth combined, may be dispatched as air-mail at the zone rates.

Preparation for mailing. Air mail may be sealed or left unsealed without affecting the air rate.

Air mail should be conspicuously marked in the space immediately below the stamps, above the address, "Via Air Mail." Articles for dispatch overseas via Air Mail should bear the blue label "Par Avion—By Air Mail," which may be secured without expense at post offices. Letters or other air mail bearing special-delivery air-mail stamps should be conspicuously marked "Special Delivery—Air Mail." Parcels should be stamped "Air Mail" on the top, bottom, and sides.

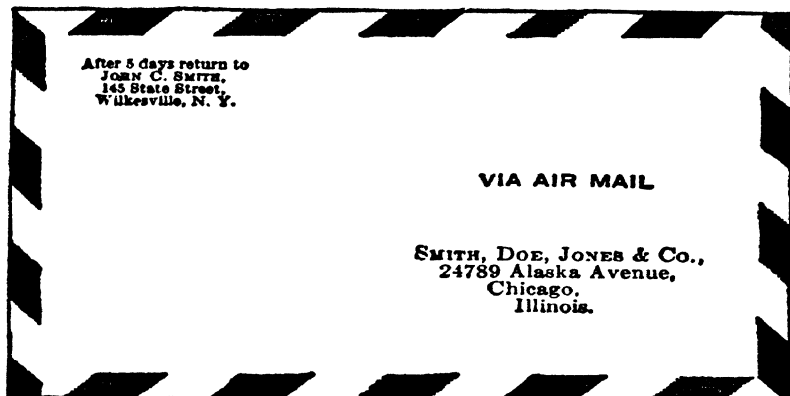
Instructions and postal regulations. Air mail may be registered, insured, or sent C.O.D. or special delivery if the charges for these services are paid in addition to the regular air-mail rate. The fees for these services are the same on air mail as on ordinary mail.

For forwarding of air mail, see pages 497, 498; for return of air mail, pages 499, 500.

Special-delivery air mail. In order to obtain the fullest measure of service for the postage paid at the air-mail rate, air mail should be sent Special Delivery. Matter sent by airplane reaches the office of address sooner than if sent by train, but when it gets there after the last regular carrier trip of the day of its arrival, delivery is not made until the following business day, unless it is sent special delivery and the fee therefor is paid in addition to the air-mail postage.

Air-mail envelopes. Air-mail envelopes of the distinctive designs illustrated, Figure 47, should be used. They should be white, though they may be light tints of manila or kraft paper. Such envelopes *cannot be used* for mail that is not carried by airplane. On all designs the words "Via Air Mail" must appear boldly between the postage stamp and the address. The markings on the envelope are blue and red.

The first two designs illustrated in Figure 47 apply particularly to printed envelopes. When ordinary envelopes are used for air mail, the mailer may identify the matter for transmission by airplane by placing horizontally across the envelopes two blue lines approximately $\frac{1}{4}$ inch apart, the upper line to be not less than $1\frac{1}{8}$ inches below



After 5 days return to John C. Smith, 145 State St., Wilkesville, N. Y.	
(BLUE)	VIA AIR MAIL
(WHITE)	
(RED)	
VIA AIR MAIL Envelopes of this design approved by P. O. D. for exclu- sive use in Air Mail	Smith, Doe, Jones & Co., 24789 Alaska Ave., Chicago, Illinois.

After 5 days return to John C. Smith, 145 State St. Wilkesville, N. Y.		
		VIA AIR MAIL
		Smith, Doe, Jones & Co., 24789 Alaska Ave., Chicago, Illinois.

Figure 47. Air Mail Envelopes.

the top of the envelope. Similar lines may also be placed vertically across the envelope not less than $3\frac{1}{2}$ inches from the right end. (See the third design in Figure 47.)

Registered Mail

Mail that may be registered. All mailable domestic first-, second-, and third-class matter, fourth-class matter if it is sealed and first-class postage is paid, and air mail may be registered. Mailable second- and third-class matter, valued at over \$100, on which a registry fee in excess of 95 cents is paid, must be sealed and first-class postage paid. Money, valuable papers and goods, letters to be delivered to the addressee in person ("Deliver to Addressee only"), valuable third- and fourth-class matter, and so on, should be registered or insured. The Postal Department furnishes the sender of registered, certified, and insured mail with a return receipt, if requested, and the fee therefor is paid.

Manifold mailing records. Manifold mailing records are furnished, without charge, to firms or individuals who frequently present three or more articles for registration at one time. Firm delivery records may be used where an addressee frequently receives an average of three or more registered articles at one time. These manifold mailing and delivery sheets furnish a convenient and compact office record of matter registered and registered mail received, and make possible the speedy acceptance of mail for registration and the receipting for registered mail received.

Limit of indemnity on registered mail. When registered mail is lost, rifled, or damaged in transit, the Post Office Department will pay an indemnity (in accordance with the fee at the time of registry), but this indemnity may not exceed \$1,000 on any one registered article, even though the lost matter was valued above \$1,000 by the sender. When the declared value exceeds the maximum liability provided by the registry fees, which cover \$1,000, a surcharge must be paid. If a sender wishes to register matter that is valued at more than \$1,000, private insurance companies will insure the matter. (See also First-class certified mail, on page 489.)

Declaration of value of registered articles. Senders of registered articles are uniformly required by law to declare the full value of the contents at the time of mailing, and neither postmasters nor the Post Office Department is authorized to waive this requirement or to permit or condone any violation or evasion of it. When the full value knowingly and willfully is not stated at the time of mailing, the

article is unmailable, and any claim for indemnity in any amount involving such mail is invalid. Valuable papers, checks, drafts and other written or printed matter having no intrinsic value may be declared as "no value." If registry or indemnity is desired, the known or estimated cost of duplication should be declared.

Insured Mail

Mail that may be insured. Domestic third- and fourth-class mail may be insured for an amount equal to its declared value. First- and second-class matter may not be insured; such matter should be registered.

Insured packages may be sent "Special Delivery" or "Special Handling" if fees applying to these services are paid in addition to postage and insurance charges. The air-mail system handles insured mail if it is sent at the air-mail rate of postage plus insurance fees.

It is suggested that all parcels to be sent as insured (or C.O.D.) mail bear a pledge guaranteeing forwarding and return postage in addition to the sender's name and address, inasmuch as all such parcels are accepted with that understanding.

Limit of indemnity on insured mail. A single parcel may not be insured for more than \$200. Packages containing articles valued at more than \$200 should be registered (indemnity limit, \$1,000), and prepaid at the first-class rate.

Fee basis. The insurance fee depends upon the declared value of the insured matter. Return receipt may be had for an extra fee, if insured for more than \$10.

C.O.D. Mail

Mail that may be sent C.O.D. Domestic third- and fourth-class mail and sealed domestic unregistered matter of any class bearing postage at the first-class rate may be sent C.O.D. The price of the article and the charges thereon (including, if the sender wishes, the postage and the C.O.D. fee prepaid) will be collected from the addressee. The maximum amount that may be collected on a single C.O.D. parcel is \$200. C.O.D. charges are returned to the sender in the form of a money order.

C.O.D. fees. The amount of the C.O.D. charges determines the amount of the C.O.D. fee. Every C.O.D. parcel is *automatically insured* for an amount not exceeding the amount prescribed by the fee paid against nonreceipt of the collectible charges, and against loss, damage, and rifling in an amount equivalent to the value of

the package, or the cost of repairs. A small fee is charged for notifying the sender of inability to deliver a C.O.D. article.

The sender of a C.O.D. parcel must guarantee return and forwarding postage. C.O.D. mail may be sent "Special Delivery" or "Special Handling" if fees applying to these services are paid in addition to postage and C.O.D. charges. The air-mail system handles C.O.D. mail if it is sent at the air-mail rate of postage, plus C.O.D. charges.

Special Delivery, Special Handling, and Miscellaneous

Use of special delivery and special handling. The volume of parcel post is so large that at many busy points packages and other bulky mail must be consolidated and sent out in carloads at certain times of the day—less frequently than first-class mail is sent out. Special-delivery postage on first-class mail provides immediate delivery at the office of destination. The payment of *special-delivery postage* on matter of the second, third, or fourth class entitles such matter to the most expeditious handling and transportation practicable—including special delivery at the office of destination. Payment of *special-handling postage* on matter of the fourth class entitles it to the most expeditious handling, transportation, and delivery practicable—but not special delivery at the office of destination. Special-delivery service necessarily includes special handling, but only fourth-class mail may be sent special handling without special delivery. Special delivery and special handling do not guarantee "safety" for the matter so sent; if the matter is valuable, it should be registered or insured. Neither is special-delivery or special-handling mail delivered directly to the addressee himself.

Delivery of special-delivery and special-handling mail. Special-delivery mail is delivered from 7 A.M. to 11 P.M. at city delivery offices, and from 7 A.M. to 7 P.M. at all other offices (or until after the last mail, if that is not later than 9 P.M.); at all offices on holidays; and on Sundays at all first- and second-class offices that receive mail on that day. Special-delivery mail is delivered by messenger during the above hours to points within one mile of any post office; points within the limits of the delivery service of cities or villages that extend their delivery services more than one mile; and points not more than one-half mile from rural routes.

Fees for special delivery and special handling. The fees charged for special-delivery service and for special-handling service without special delivery are in addition to the regular postage charges. The fee is based on the weight and class of the mail.

Special-delivery and special-handling matter may be sent by air mail if the fees applying to these services are paid in addition to the regular air-mail postage charges.

Fee for restricted delivery. There is an extra fee for effecting delivery of domestic registered, certified, insured, or C.O.D. mail, when delivery is restricted to the addressee only, or to the addressee or order.

Sender's receipt or certificate of mailing. Frequently it is desirable to have some proof that a letter, a package, and so forth, has been mailed. The postmaster will furnish the sender of any class of domestic ordinary mail a receipt or certificate of mailing for each article sent. The sender must pay a small fee for each certificate. Also, the sender of domestic ordinary, registered, insured, or C.O.D. mail will be given *additional* receipts or certificates of mailing for each article sent—that is, receipts in addition to the *original* receipts that are given when mail is registered, insured, and so on—for an additional fee for each receipt.

Forwarding of mail. If an addressee changes from one address to another within the same post-office district, the Post Office Department does not regard the delivering of mail to the new address as forwarding, and the delivery is performed without extra charge. However, if the new address is within another post-office district, the following rules apply:

First-class mail. All first-class matter (letters, postal cards, private mailing cards and the like) will be forwarded from one post office to another without additional charge. Air mail not over 8 ounces is continued by air.

Second-, third-, and fourth-class mail. Mail of these classes is subject to the payment of additional postage each time it is forwarded from one post office to another. An Order to Change Address provides a place for the addressee to indicate whether he will guarantee forwarding postage for second-, third-, and fourth-class matter. If forwarding postage is guaranteed, the mail is forwarded rated postage due; otherwise, unless it is of obvious value it is treated as dead mail matter, unless the sender has guaranteed return postage.

Pieces of third- and fourth-class mail matter of obvious value are forwarded without notice if a new address is available, whether or not the matter bears a pledge by the sender to pay forwarding postage, or the addressee has guaranteed forwarding postage. If a new address is not available, such matter is returned promptly to the sender, without regard to any instructions for holding the undeliverable matter a specified period of time.

Senders of third- and fourth-class matter who do not want the matter to be forwarded to the addressee rated postage due, should indicate that fact on the mailing piece, with instructions as to the disposition to be made of it.

Air parcel-post is forwarded by air unless the matter bears instructions of the sender to forward by surface mail. Postage is computed at the proper air parcel post zone rate. If the parcel is forwarded by surface means, the "Air Parcel Post" endorsements are crossed off and the piece is rated for collection of the proper postage according to the class involved.

Remailing of first-class mail. Postal regulations explicitly cover the remailing of first-class mail. Prepaid audience or fan mail sent to broadcasting stations may, if it has not been opened, be remailed to other points in bulk at the third- or fourth-class postage rate, according to the weight of the packages. This regulation applies whether such mail is remailed to the headquarters or other stations of the radio-broadcasting systems, or to advertising agencies, or the sponsors or advertisers, irrespective of whether the letters are to be opened finally by the persons or concerns to whom they are remailed in bulk. The same applies to letters prepaid at the first-class rate that were originally sent to feature writers in care of newspapers and remailed unopened in bulk by the latter to the addressees or their agents. This regulation also applies to the advertiser who prepares locally a campaign to be mailed by various dealers or branch offices throughout the country.

If the letters have been opened and are then prepared for remailing in bulk, they are subject to postage at the first-class rate.

Notice of change of address and reasons for nondelivery. The Post Office Department provides a service that is of real value to concerns doing a considerable amount of direct-mailing advertising. If such concerns wish to keep their mailing lists up to date, or to

make additional efforts to have mail delivered, the procedure is as follows. On the lower left-hand corner of envelope or wrapper used to send third- or fourth-class mail, sender must print "Form 3547 Requested." Each piece of mail bearing this inscription must also show the name and address of the sender in the upper left hand corner of the envelope or wrapper. Notice on form 3547 will be sent to the sender only when the addressee has moved and his new address is known. If the mail is undeliverable and the address of the addressee is not known, the mail will be returned to the mailer, legibly endorsed to show the reason for nondelivery, rated with postage due.

Printing the request for form 3547 on the matter mailed constitutes a guarantee on the part of the mailer that he will pay the charge for the notice, or the return postage in the event it is necessary to return the mail as undeliverable. Returned mail is rated for collection of return postage due at the regular third- or fourth-class rate, whichever is applicable.

Requests for notification on form 3547 apply only to third- and fourth-class matter sent out in the regular course of business for purposes other than obtaining the address of the person to whom the matter is sent. The facility may not be used on first-class matter.

In addition to this service, the postmaster will check the addresses on your mailing list if you send them to him on 3" by 5" cards. Consult the postmaster about this service and for charges.

Return of mail. *First-class mail.* Undeliverable letters and other first-class matter with postage of 3 cents or over will be returned to the sender free of charge if his address appears in the upper left corner of the envelope or wrapper.

Single or double postal cards that are undeliverable, as well as undeliverable single or double post cards, whether they are addressed for local delivery or otherwise, will be returned to the sender only when they bear a return address in the upper left corner of the address side, together with a guarantee to pay return postage ("Return Postage Guaranteed"). Such post and postal cards will be returned upon payment of postage, collected upon delivery.

Second-class mail. The rules governing the return of this class of

mail are detailed and exacting; therefore it is best to consult the postmaster.

Third- and fourth-class mail. Undeliverable mail of these classes will be returned to the sender only when his address appears on the upper left-hand corner of the envelope, card, or wrapper, and when the pledge "Return Postage Guaranteed" appears immediately under the return card. When these requirements are fulfilled, the postmaster will return undeliverable mail, and the return postage will be collected on delivery. If the matter is of obvious value, it is returned promptly to the sender without regard to instructions for holding it a specified time. This is done whether or not the matter bears a pledge by the sender to pay return postage. The postage due for returning the mail is computed at the same rate as would be chargeable if the matter were originally mailed at the post office returning it.

Air parcel post is returned to the sender by surface means unless the piece bears specific instructions that it be returned by air. This is done whether or not the matter bears a pledge of the sender to pay return postage. When air parcels are returned by surface means the "Air Parcel Post" endorsements are crossed off and the piece is rated for collection of the proper postage according to the class involved.

Bulk Mail

Advantages of third-class bulk mailing. Bulk mailing cuts down postal expense, for rates are lower than regular rates, and the work of stamping mail is eliminated; it speeds up mail service, at the business organization's mail department and at the post office.

Specifications for third-class bulk mail. An annual fee (per calendar year) must be paid to the postmaster for use of the bulk-mailing privilege.

Bulk lots of identical pieces of third-class matter may be mailed in quantities of not less than either 20 pounds or 200 pieces. Postage may be prepaid in money in the form of permit imprints, or by means of metered stamps, precancelled stamps, or Government precancelled envelopes. Uncancelled stamps must not be used.

If there are 10 or more bulk pieces for one post office, these must be tied together with all addresses but the last facing one way. Reverse the last piece so it also faces out.

If there are less than 10 pieces for one post office but 10 or more for one state, these should be tied in a bundle with all addresses facing one way. The top address should be covered with a label bearing the name of the state. If there are less than 10 pieces per state, face all the addresses one way, tie the pieces in a package, and cover the top address with a label bearing the words "Mixed States." Matter must be deposited at the proper receiving point at the post office. A "Statement of Mailing" must be submitted with each mailing.

Matter mailed at bulk rates cannot be registered, insured, or sent C.O.D.; neither can it be mailed to foreign countries.

For particular applications of the bulk-mailing privileges, see "Form letters (bulk third class)," "Printed matter (bulk third class)," and "Catalogues and books (bulk third class)."

Letters

Correspondence letters. Hand- or typewritten letters, or letters reproduced by automatic typewriter must be mailed first class. Postage may be supplied by affixing stamps, using a postage meter machine, or using permit imprints, for which a special permit is required. Envelopes should be sealed.

Form letters (regular third class). Printed, multigraphed, and mimeographed letters and letters produced by any other mechanical process should generally be sent third class (of course, they may be sent first class). If such letters are to be subject to third-class (or bulk third-class) rates, they must be identical, with certain exceptions; they may contain a written, typewritten, hand-stamped, or printed:

1. Date.
2. Name and address of sender (including hand signature).
3. Name and address of addressee.
4. Corrections of obvious typographical errors.

If changes have to be made in form letters, consult the postmaster before making them; insertions or changes other than those listed above subject the letters to the first-class rate.

Further, to be mailable at the third-class rate, form letters that

are reproductions or imitations of handwriting or typewriting, whether printed, multigraphed, mimeographed, or reproduced by some mechanical process other than electrical typewriter, must be mailed in quantities of 20 or more, and deposited at a post office window. If they are produced by a mechanical process but are not reproductions of handwriting or typewriting, single pieces may be mailed third class in any postal receptacle.

Although printed, multigraphed, and mimeographed letters sent at third-class rates must be identical, the copy can change on every 20 pieces, as long as the physical details are identical.

The rate for form letters that meet these requirements is the regular third-class rate.

Postage may be supplied by affixing stamps, affixing precancelled stamps, using a postage meter machine, or using a permit imprint. However, the last three methods may be used only with the permission and under the regulation of the Postal Department.

Envelopes for regular third-class form letters must not be sealed; the back flap may be tucked in, or postage-saver envelopes may be used. Printed return cards or envelopes, order blanks, or other printed matter may be enclosed in form letters if the weight limit of 8 ounces is not exceeded.

Form letters (bulk third class). If bulk lots of form letters (circulars) that conform to the requirements for regular third-class mail (identical in terms, no unauthorized changes or additions, and so forth) are mailed in quantities of not less than either 20 pounds or 200 identical pieces, they may be sent at the special bulk rate. However, a permit must be obtained from the postmaster for the use of the bulk mailing privilege. The postage must be prepaid and supplied in the form of a permit imprint, metered stamps, precancelled stamps, or Government precancelled envelopes. Uncancelled stamps must not be used on bulk third-class mail.

If meter machine, permit imprints, or precancelled stamps are used on bulk third-class mail by a business organization, the words "Bulk Rate" or "Blk. Rt." must be printed as part of the meter stamp or permit imprint, or adjacent to the stamp.

Envelopes must not be sealed; the flap may be tucked in, or postage-saver envelopes may be used.

Printed Matter

This classification includes folders, printed advertising cards, broadsides, circulars, books, catalogues, and so on.

Printed matter (regular third class). If printed matter is not of the nature of personal correspondence, it may be mailed third class. (There is a special rate for books and catalogues with over 24 pages, including the cover; see "Catalogues and books," below.) The pieces may be mailed singly, preferably at the post office. Mailings exceeding 8 ounces must be mailed fourth class.

Envelopes must not be sealed; the back flap may be tucked in, or postage-saver envelopes may be used. Also, packages of third-class printed matter must not be sealed.

Postage may be supplied by affixing stamps, affixing precancelled stamps, using a postage meter machine, or using a permit imprint. (See page 507 for specifications if latter method is used.) Precancelled stamps may be used to seal the edges of self-mailers if the matter is not sealed against inspection.

Printed matter (bulk third class). The requirements and regulations applying to "Form letters (bulk third class)" also apply to bulk third-class printed matter, but the following is an additional requirement: See page 502 for marking "Bulk Rate" or "Blk. Rt." if meter machine, permit imprints, or precancelled stamps are used.

Catalogues and books. *Fewer than 24 pages.* If catalogues and books have fewer than 24 pages, including the cover, conditions and rates set forth in connection with printed matter apply.

Twenty-four or more pages, under 8 ounces. If printed catalogues and books have 24 or more pages (at least 22 must be printed), including the cover, and do not weigh more than 8 ounces, they may be mailed at a special rate.

Twenty-four or more pages, over 8 ounces, not over 10 pounds. If printed catalogues and similar printed advertising matter in bound form have 24 or more pages (22 of which are printed), weigh over 8 ounces but not exceeding 10 pounds, and are individually addressed, they may be mailed at special rates, and must be clearly marked "Catalog," in order to distinguish them from other fourth-

class mail. Directories, buyers' guides, calendars, and agents' order books, and publications that are sold or show a sales price are also acceptable at catalogue rates.

Publications issued at regular intervals of four or more times a year, circulated free or mainly free. If such publications contain 24 pages or more, 25 per cent or more of which are text or reading matter and not more than 75 per cent of which are advertising matter, they may be mailed at a special rate as "Controlled Circulation Publications." When presented for mailing, the pieces must be made up according to states, cities, and routes. Publications commonly known as "house-organs" are not accepted in this classification.

Library books. When these consist wholly of reading matter and contain no advertising other than incidental announcements of books, they may be sent by or returned to authorized public libraries, organizations, or associations not organized for profit, at a special rate based on the first pound or fraction thereof with a small increase for each additional pound or fraction up to and including 70 pounds, when addressed to points within the first, second, or third zone or the state in which mailed.

Books over 8 ounces. Textbooks with incidental blank spaces for students' notations; books permanently bound by stitching, stapling, or spiral or plastic binding, when covered with paper, cloth, leather, or other substantial material, and having 24 or more pages, of which at least 22 are printed; books incidentally containing a few pages of announcements of other books, either in display or textual form; books in paper jackets; music books in regular bound form; books consisting largely of pictures, maps, illustrations; Bibles, with space for family records may be mailed at a special rate based on the first pound or fraction thereof, with an increase for each additional pound regardless of zone.

The following are permissible enclosures with books mailed at the special rates: (a) A single reply envelope or post card, or both. (b) A single order form. (c) A single loose printed sheet not larger than a page of the book it accompanies, and relating exclusively to it. (d) An invoice.

Incidental announcements of books, whether appearing in the books themselves or in the form of loose circular enclosures, are permitted without affecting the rates. Postage is computed on the full weight of each parcel.

Books may be sent as C.O.D. or Insured Mail. They may also be sent as Special Delivery or Special Handling.

Catalogues or books with 24 pages or more (at least 22 printed pages) may be enclosed in sealed packages if the following words, together with the name and address of the sender, appear in the upper left corner on the face of the envelope or wrapper: "BOOK (or CATALOGUE)—May be opened for postal inspection."

Postage may be supplied by affixing stamps, using a postage meter machine, permit imprint, or precancelled stamps—under certain conditions.

Catalogues and books (bulk third class). If catalogues or books that fulfill the above requirements are mailed in quantities of 200 or more, or if the total weight is 20 pounds or more, they may be mailed at the bulk rate, if these requirements are fulfilled:

1. An annual fee per calendar year must be paid for a permit.
2. If there are 10 or more bulk pieces for one post office, the mailings for each must be faced and tied together. If there are fewer than 10 pieces for one post office, the mailing for each state must be tied together and labelled correctly.
3. Matter sent under the bulk-mailing privilege must be deposited at that department of the post office reserved for such mail.
4. A "Statement of Mailing" (supplied by the Postal Department) must be filled out and submitted with each mailing.

The bulk third-class rate for printed catalogues and books having 24 pages or more (of which at least 22 are printed) is based on the pound or fraction thereof. Matter mailed at the special bulk rates, however, cannot be registered, insured, or sent C.O.D.

Envelopes or wrappers for bulk third-class printed books or catalogues of 24 pages or more may be sealed if the following statement, in addition to sender's name and address, is *printed* in the upper left corner on the face of the package: "BOOK (or CATALOGUE)—May be opened for postal inspection."

Postage may be supplied by affixing precancelled stamps, with a postage meter machine, or with a permit imprint. Uncancelled stamps must not be used on bulk third-class mail.

See page 502 for marking "Bulk Rate" or "Blk. Rt." as part of metered mail or permit imprint, or adjacent to precancelled stamps.

Metered Mail

Permit required for use of meter. If application is made to the postmaster at the mailing office, permits may be issued to persons or concerns for mailing first-, second-, third-, and fourth-class matter with meter stamps affixed, provided the mailings are presented in accordance with the regulations. No fee is required for a meter permit.

The person or concern that has obtained the permit takes the meter to the post office and buys a certain amount of postage. The postmaster then sets the meter in accordance with the amount of postage paid for and seals it. When the amount of postage paid for is used up, the meter locks and must be reset by the postmaster after additional money has been paid. It is possible, however, to buy additional postage before the meter locks.

Metered indicia. The meters can be adjusted to imprint the denomination of postage desired. The amount of postage paid must appear on each meter stamp (1 cent, 1½ cents, and so forth). The indicia may be imprinted directly on the envelope, or, with the use of a meter-stamp tape attachment, the indicia may also be imprinted on a gummed strip of paper that can be affixed to bulky envelopes or packages. When used for first-class mail, special delivery, special handling, or air mail; and on all mail sent registered, insured, or C.O.D., metered indicia must show correct date of mailing. The month and year must be shown on tapes on second-, third-, and fourth-class mail, but the day may be omitted. When tapes are not used, the date may not be shown in meter stamps on second-, third-, or fourth-class mail.

Type and quantity of matter that may be metered. Metered first-, third-, and fourth-class matter, with the exception of third-class bulk matter, may be presented in any quantity and need not be identical as to contents or weight.

Metered bulk third-class matter must be mailed in quantities of

not less than 20 pounds in weight or 200 identical pieces in number. See page 502 for marking "Bulk Rate" or "Blk. Rt." as part of meter stamp. Metered mail, except packages and irregular overweight matter, must be faced and secured in bundles, each class and denomination being kept together insofar as practical.

Permit Imprints

Permit required for use of imprints. It is necessary to obtain a permit from the postmaster for the right to use a permit imprint instead of stamps. A fee is charged for the permit.

Permit imprint mail must be deposited at the post office from which the permit was obtained. The postage charges for each mailing must be paid in cash, by certified check, or as a charge against an advance deposit with the post office to cover various mailings. A Statement of Mailing (Form 3602) that supplies required information to the post office must be filled out for each mailing.

Form of permit imprint. The permit imprint may be printed by a printing press or any other machine that has no locking device. The use of a hand stamp for placing indicia on matter is not permitted. The form for the permit imprint is regulated by the Postal Department and must be complied with in every case. (Consult the postmaster before printing the permit imprint. Different forms apply to various types of mailings. Figure 48 shows the type for use on bulk third-class mail.) The permit imprint must be printed in color that contrasts with the paper, and must appear in the upper right-hand corner of envelopes, cards, or wrappers. The amount of postage paid on each piece need not appear on the permit imprint used for bulk third-class mail.

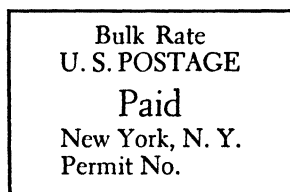


Figure 48. Permit Imprint.

Type and quantity of matter on which permit imprint may be used. First-class matter with permit imprint must be presented in quantities of not less than 300 pieces, identical as to weight (first-class matter is rarely sent with a permit imprint). Second- and

third-class matter, except some bulk mail, must be presented in quantities of not less than 300 identical pieces, if it bears a permit imprint. Fourth-class matter bearing a permit imprint must comprise not less than 250 identical pieces. Bulk third-class mail may bear a permit imprint if the matter is presented in quantities of not less than 20 pounds or 200 identical pieces.

See page 502 for marking "Bulk Rate" or "Blk. Rt." as part of permit imprint.

Precancelled Stamps, Cards, and Envelopes

Precancelled stamps. A permit for the use of such stamps must be obtained from the postmaster; no charge applies. Precancelled stamps are usable on second-class matter (subject to transient second-class rates), third-class matter (including bulk third-class), and fourth-class matter. They may not be used on containers that will be used again, or on first-class mail except post cards.

If precancelled postage on a single piece is over 8 cents, the precancelled stamps must bear the printed initials of the permit holder and numerical abbreviations of the month and year in indelible black ink, as for example:

ABCo.—9-54

NEW YORK

N. Y.

A rubber stamp may be used if printing is not practical, but the stamping must be clear and bold. Indelible black ink must be used.

Precancelled cards. Cards may be precancelled by the mailer if a permit is obtained.

Precancelled envelopes. Envelopes may be precancelled by the mailer who has a permit to do so, and used to mail first-, second-, third-, and fourth-class matter, in accordance, of course, with the regulations pertaining to such matter. Bulk third-class matter may

be mailed in precancelled envelopes. Precancelled stamped envelopes are sold by the post office.

Limitation. Precancelled stamps, cards, and envelopes may be mailed only at the post office indicated in the precancellation.

Stamps

Coils of stamps. The following quantities and denominations are available:

- 1, 1½, 2, and 3 cents: Coils of 500 and 1,000 sidewise, gummed in.
- 6 cents: Coils of 500, gummed in.
- 1, 2, and 3 cents: Coils of 3,000 sidewise, gummed in, for vending machines.
- 1, 1½, 2, and 3 cents: Coils of 3,000, sidewise, gummed out, for affixing machines.

Orders for coils of 3,000 must specify gummed in or gummed out.

Exchange of stamps. Avoid buying stamps in excess; they are not redeemable. If a purchaser buys the wrong denomination by mistake, he must return the stamps for exchange to the point of purchase within two days of the date on which they were bought. Cash refunds are not made.

Envelopes

Stamped envelopes. The Postal Department sells stamped envelopes just as it does postal cards. These envelopes are available in various sizes. The postmaster will supply current prices upon request.

Printed ("special-request") stamped envelopes. The Post Office Department will print a purchaser's return card on stamped envelopes if the latter places at a post office a request for lots of 500 or a multiple of 500 of a given size, quality, and denomination. Ad-

vertisements will not be printed on the envelopes. The following is a sample of return card that the Post Office will furnish on all special request envelopes:

After 5 days, return to

CITY ELECTRIC DISTRIBUTORS, INC.,
510 West 34 Street,
NEW YORK 1, N. Y.

Privately printed stamped envelopes. Purchasers of stamped envelopes may print their own return cards in particular styles. In using mailing envelopes approximately 6 x 10 inches or larger, it is permissible to use the entire face of the envelope for any decorative design as long as a clear (unprinted) space approximately 6 x 4 inches appears somewhere on the face of the envelope, preferably to the right or center. Smaller envelopes must have at least 3½ inches of space at the right-hand end of the envelope for address and postage stamps.

Window envelopes. The Post Office Department enforces special requirements for window envelopes. The transparent window for the address must run parallel with the length of the envelope. A window envelope should bear a return address. If it does not, it will be treated as dead mail if undeliverable.

The Post Office Department will print your return address on the envelope for a nominal amount. Consult your local Postmaster for up-to-the-minute information as to the charges for such printing and as to the correct specifications for window envelopes.

Window envelopes cost about 50 cents per 1,000 more than other envelopes, but more than seven times that amount is saved by eliminating the typing of the address. For example, a typist can address about three non-window envelopes a minutes. If she earns \$40 a week for a 35 hour week, the cost of addressing 1,000 envelopes is about \$6.35. The saving by using window envelopes is about \$5.85 per 1,000. Furthermore, the danger of misaddressing is eliminated with window envelopes.

The claim that window envelopes create an unfavorable impression is true to a certain extent, but consideration must be given to

the fact that many business letters are delivered to the addressee's desk without the envelope.

A letter can be folded to fit a window envelope by making the first crease on a line with the first line of the body of the letter, and then folding from the top one-third the length of the sheet. If this folding is not desirable, two small marks can be printed 1 inch apart on the left edge of the sheet, as a guide for placing the address. An address typed between the marks will permit the sheet to be folded only twice to fit the window envelope.

Stamped window envelopes. These may be purchased from the Post Office Department.

Postage-saver envelopes. This type of envelope is one of the most useful devices of modern business. One end of each envelope is left ungummed, the end flap being merely tucked in. The back flap is sealed. Consequently, postage-saver envelopes have the appearance of first-class mail but are subject to third-class rates. Postage-saver envelopes are very widely used in direct-mail selling.

Government Postal Cards

Sizes of Government postal cards. Government postal cards (not private mailing cards) in single and double form are sold at post offices for the price of the stamp on the face of the cards. The various sizes follow:

- No. 5—Domestic single—3 x 5 inches
- No. 8—Domestic single—3¼ x 5½ inches.
- No. 6—Domestic reply (double)—3¼ x 5½ inches
(each half)
- No. 4—Domestic air mail single—3¼ x 5½ inches.
- No. 7—Foreign single—3¼ x 5½ inches.
- No. "F"—Foreign reply—3¼ x 5½ inches (each half)
- No. 11—Foreign single—3¼ x 5½ inches.
- No. 12—Foreign reply—3½ x 5½ inches (each half).

Sheets of Government postal cards. The Government also furnishes postal cards in sheets. Consequently, a business house can readily have matter printed on the cards. Sheets come in the following sizes:

No. 5—Single—4 cards wide—5 cards long (in cases of 5,000).

No. 6—Double—4 cards wide—5 cards long (in cases of 5,000).

No. 8—Single—4 cards wide—10 cards long (in cases of 10,000).

Cards in sheet form cost the same as individual cards. When the sheets are cut up, the cards must conform to the Government specifications.

Messages on Government postal cards. The back and the left-hand half of the front of a Government postal card may contain writing, printing, illustrations, or advertising matter. The right-hand half of the front must be left blank for the address. Government postal cards may not be used for dunning creditors, if the language used is offensive, defamatory, or threatening. However, cards may be used to collect payment, and so forth, if the request is a straightforward and dignified one and contains no reference to balances carried forward, previously billed, or overdue. Consult the postmaster for approval.

Redemption of Government postal cards. If postal cards have been spoiled in the printing and addressing, but have not been cancelled, they may be exchanged for other stamped paper or stamps at the post office for 75 per cent of their face value.

Private Mailing Cards

Specifications for private mailing cards. Post cards manufactured by business concerns must be made of an unfolded piece of cardboard similar in quality and weight to the cardboard used in Government postal cards. The required minimum size is $2\frac{3}{4}$ by 4 inches; the maximum size, $3\frac{3}{16}$ by $5\frac{9}{16}$ inches. Stock should be between .0085 and .0095 of an inch thickness.

The right-hand half of the face of such cards must be left blank for the address and stamps. The cards should have in the upper right corner an oblong diagram containing the words, "Place postage stamp here," and at the bottom of the space to the right of the vertical dividing line the words, "This space for the address."

Double (reply) post cards. Double post cards, each half of which meets the above requirements, may also be mailed for the same postage as the single cards. Postage need not be affixed to the reply half at the time the card is originally mailed, but when the reply half is detached and mailed, postage must be affixed. Of course, an arrangement may be made with the post office whereby the company sending the card will pay the postage as the reply portions are returned. If this is done, the reply halves of the cards must bear an approved printed format.

The address of the reply portion must be on the inside when the card is originally mailed. A sticker or single wire stitch may be used to close cards. When the reply portion is used primarily to cover a message on the back of the original portion, postage at the letter rate is required. Dunning cards must be sealed or fastened at the edges.

Folded advertising cards and other matter entirely in print, arranged with a detachable part for use as a post card, are mailable as third-class matter provided (1) the initial portion is not designated as a post card or private mailing card; (2) the matter is so folded that the address of the reply portion is on the inside when originally mailed. No inclosures may be made in double cards.

Messages on post cards. The entire back, and the left-hand half of the face of post cards may contain written or printed messages or advertisements and illustrations. The right-hand half of the face must be reserved for the address and stamps.

Postage on post cards. Postage for post cards that meet the requirements set forth above may be supplied by affixing stamps, or by using a postage meter machine or permit imprint.

Cards larger than $3\frac{9}{16} \times 5\frac{9}{16}$ inches. If such cards are entirely in print and do not bear the words "Post Card" or "Private Mailing Card," they may be mailed at the third-class rate for printed matter. If mailed in quantities of 200 or more, they may be sent as bulk third-class printed matter. If they are not entirely in print and contain either the words "Post Card" or "Private Mailing Card," they must be mailed at the first-class rate whether sealed or unsealed.

Postage for these large cards, if they do not bear the words "Post Card" or "Private Mailing Card," may be supplied by affixing stamps,

affixing precancelled stamps, using a postage meter machine, or using a permit imprint.

Business-Reply Cards and Envelopes

Specifications for business-reply cards and envelopes.

A permit must be obtained from the postmaster for the use of business-reply cards or envelopes. There is no charge for the permit. The face of the card or envelope must agree with forms suggested by the Post Office Department (consult postmaster before printing cards or envelopes). Dimensions for business-reply cards are as follows:

Minimum dimensions	.....	2¾ x 4 inches.
Maximum dimensions	.....	3½ ¹⁶ x 5½ ¹⁶ inches.
Thickness	.....	between .0085 and .0095 inch.

Cards and envelopes may be printed in one color, or two or more colors may be used, provided that the matter does not resemble air mail.

Postage on business-reply cards and envelopes. Business-reply cards and envelopes that meet all of the above specifications, and that bear the printed name and address of the distributor and also the prescribed indicia (including the permit number) may be returned through the mails without the prepayment of postage. The regular postage plus one cent on each card or envelope is collected when the cards or envelopes are delivered to the original distributor.

Money Orders

Maximum amount of money orders. The maximum amount for which a money order, domestic or international, may be issued is \$100. However, a person who wishes to transmit by money order a sum in excess of \$100 may purchase more than one money order.

Payment of money orders. A money order may be paid at its face value if presented by the payee, remitter, or endorsee at any post office within one year from the last day of the month in which it is issued. A money order may be deposited in any bank within this period of validity.

Identification. The applicant for payment must be personally

known by the postmaster or the paying employee to be the owner of the order and must prove his identity. Personal identification by a financially responsible person may be required. Letters, receipted bills, driver's permits, social security cards, and similar articles cannot be accepted as conclusive proof of identity, because they are frequently stolen with money orders. An identification card to be held on file at the post office is provided for persons who frequently cash money orders.

SECTION 5

How To Write Effective Business Letters

1. A BETTER-LETTERS PROGRAM

Do your letters lose or win business for you?	521
A plan to improve letters . . .	522
Choosing a correspondence adviser	522
Telling the staff about the correspondence supervisor	523
Preparing better-letters bulletins	524
Topics to be discussed in bulletins	524
Tone and spirit of the letter .	524
Every letter is a sales letter	524
Sales opportunities in letter-writing	525
Cutting correspondence costs	525
Opening and closing the letter	525
Mechanics of the letter .	525
Correctness in grammar and usage	525
Special types of letters	525
Compiling a correspondence manual	526
Supervising current correspondence	526
Getting the staff to participate in the program	527
Letter-writing class results in better letters	527
Letter-appraisal chart improves correspondence	528
A "better letters" booklet	528

2. GETTING THE RIGHT TONE AND SPIRIT FOR A BUSINESS LETTER

A "routine" letter rewritten . . .	532
Avoid stilted phraseology	533
Use short sentences and paragraphs	535
Avoid unnecessary words and phrases	535

Do not use two words with the same meaning for emphasis	536
Avoid overworking favorite words or expressions	536
Do not use big words	537
Avoid words that antagonize . . .	537
Use the positive approach	538
How to open the letter	538
How to close the letter	540
Methodical habits of dictation .	541
Adapt the letter to the reader .	543
Illustration of how to adapt the letter to the reader	544

HOW TO WRITE SALES LETTERS

(See Section 1, page 58)

HOW TO WRITE CREDIT LETTERS

(See Section 10, page 1037)

HOW TO WRITE COLLECTION LETTERS

(See Section 10, page 1041)

3. MAKING ANSWERS TO INQUIRIES PRODUCE SALES

How to answer an inquiry	546
The letter that accompanies booklets	547
An answer to a request for more information	548
Giving further information	548
Letters accompanying catalogues	549
Answering a letter from a retailer	551
Sending a representative with samples	551
Letters refusing requests	551

4. REVIVING INACTIVE ACCOUNTS THROUGH LETTERS

Bringing inactive customers back to life	553
Series to persons who opened accounts and made no purchases	553
Letters to old customers who have not been using their accounts	554
Letters to find out why good customers have not purchased	555
Old customers return after receiving checkup letter	558
Stunt letters to revive inactive accounts	558

5. LETTERS THAT BUILD GOODWILL

Points that help make goodwill letters effective	561
--	-----

Holding and Increasing Goodwill of Established Customers

Old customers need attention	562
Appreciation for patronage	562
Appreciation for meeting obligations promptly	562
A "thank you" for prompt payment	563
A "thank you" letter for a large order	563
Thanking an old customer for a recommendation	563
Seasonal greetings build goodwill	564
Friendly service letters	564
Invitation to special events	565
Congratulations to old customers	566
Letters of sympathy to customers	566
Letters requesting suggestions and criticisms	567
Acknowledging criticism or suggestion	569
Letters of apology	569
Welcoming back the old patron	570
Goodwill letters in times of emergency	570

Building Goodwill among New Patrons	
Letters to new customers	572

Appreciation to new charge customers	572
Letters of appreciation for initial purchase	573
Offering the credit privilege	573
Checking up on customer satisfaction	574
Inviting the use of other departments	576

Goodwill Through Acknowledgments

Acknowledging the order	576
How to acknowledge a large order	577
Getting the goodwill of a new customer	578
How to perfect incomplete orders	579
Acknowledgment when shipment is delayed	579
Acknowledgment when goods are out of stock	579
How to handle an order that cannot be filled because of policy	580
How to acknowledge remittances	580
Building goodwill through acknowledgment of inquiries	581
Retaining goodwill while refusing requests	581
Getting the maximum goodwill from complying with requests	582
How to acknowledge letters that praise	582
Letters received in absence of addressee	583

General Goodwill Letters

A letter to disappointed applicants	584
Goodwill through letters of introduction	584
The business-pleasure introduction	585
Introduction on cards	586
Goodwill through thank-you letters	586
Goodwill through sympathy	586
Goodwill through congratulations	587

6. KEEPING GOODWILL IN ANSWERING COMPLAINTS

How to reply to complaint letters	588
Workable outline for an adjustment letter	589
Example of poor adjustment letter	590
Letters granting adjustments and acknowledging error	591
How to handle complaints about service	592
Handling complaints where carrier is at fault	593
Handling the customer who is at fault	595
Letters refusing adjustments	596
Handling the customer where nothing is really wrong	600
Handling the satisfied customer who asks too much	600

7. LEGAL ASPECTS OF BUSINESS LETTERS

Business letters and the law	601
Contracts by Correspondence	
What a contract is	602
A letter may constitute a contract	602
May oral statements contradict the terms of a contract evidenced by letters?	603
Letters as memoranda satisfying the statute of frauds	603
Libelous Letters	
What libel is	604
A libelous letter must be communicated to a third party in order to be actionable	605
Must pecuniary loss be shown in a suit for libel?	605
Examples of communications that are libelous	606
Libelous letters may be privileged	606
When is the privilege lost?	607
Examples of libelous letters that are privileged	607
Letters as Evidence of Admission Against the Writer	
What is an admission that can be used as evidence against the firm?	608

When a letter containing an offer of compromise may be admissible as evidence of liability	608
May letters be used as evidence against the recipient?	609
A letter may extend or revive an outlawed debt	610

8. GETTING SALES VALUE OUT OF LETTER LAYOUT

Stationery and letterhead	611
Examples of effective letterheads	611
Setup of the letter	614
Punctuation	614
Continuation sheets	614
Envelopes	622

9. MAKING THE STRUCTURAL PARTS OF A LETTER PERFECT

Where to type the date line	622
How to type the date line	623
Inside Address	
What the inside address contains	623
Where to type the inside address	624
How to type the inside address	624
Forms of address	626
Forms for addressing women	627
Salutations	
Where to type the salutation	629
How to type the salutation	629
Forms of salutation	629
Forms of salutation in letters addressed to women	630
Body of the Letter	
How to type the body	630
How to set up enumerated material in the body of the letter	631
How to write dates	631
Complimentary Close	
Where to type the complimentary close	631
How to type the complimentary close	631
Forms of complimentary close	631
Signature	
What the signature contains	632
Where to type the signature	633
How to type the signature	633

520 HOW TO WRITE EFFECTIVE BUSINESS LETTERS

Forms of signature for women	633	Postscript	637
Secretary's signature	634	Heading on second page	638
Miscellaneous Structural Parts of Letters		Envelopes	
Attention line	635	Envelopes	638
Subject line	635	10. HOW TO ADDRESS PERSONS HOLDING HONORARY OR OFFICIAL POSITIONS	
Reference line	635	How to address persons holding honorary or official positions	639
Identification line	636	11. DICTIONARY OF CORRECT USAGE	
Enclosure mark	636	Dictionary of correct usage	661
"Personal" notation	637		
Mailing notation	637		
Carbon copy distribution notation	637		

SECTION 5

How To Write Effective Business Letters

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1. A BETTER-LETTERS PROGRAM*

Do your letters lose or win business for you? Under the usual procedure in many business houses, only occasionally do the files give up their dead. The so-called routine correspondence of the sales, credit, adjustment, and other departments is handled by minor employees. The department head is as a rule too busy with his own work to read every letter that is mailed. Through ignorance or carelessness on the part of his subordinates, curt, vague, and poorly worded letters may be sent out, and the carbon copies may simply disappear into the files. The resultant loss of company prestige and customer goodwill (not to mention actual sales) goes unnoticed, since for every customer who will go to the trouble of criticizing the way in which his correspondence is handled, ten will remain silent and place their business elsewhere. Yet one tactless or sarcastic letter, written by a "clever" clerk in reply to a customer's complaint, may destroy the goodwill that has been built up through intensive effort by the sales department. Likewise, the superficial handling of an inquiry may drive away a prospective customer whose business would be worth thousands of dollars a year.

It is not sufficient that letters shall not lose your business; they should actually improve customer relations, build goodwill, and increase sales. How to make letters perform these positive functions is treated in other parts of this section.

A plan to improve letters. To make letters perform the positive functions mentioned above, and to avoid their doing harm, a definite plan or program with regard to the company correspondence is desirable. Such a program may provide for two things:

1. Training of employees in the best methods of writing various types of business letters.
2. Supervision of the company correspondence, so that fewer letters will be mailed that are not up to the standard set.

In recent years many progressive companies have attacked the problem of improving their correspondence with a seriousness equal to that with which they train their salesmen. Some of these companies have established training schools for their employees; others have engaged expert correspondence supervisors whose duty it is to examine the company correspondence and act continuously in an advisory capacity. Programs such as these may entail considerable expense, and for this reason possibly only the larger companies could afford to support them. Some of the methods used by larger companies to "make every letter better" are described below. However, a very simple better-letters program, which involves neither expenses nor a formal course of study nor the employment of an expert, can readily be put into effect by any business house. One such program will be briefly described.

Choosing a correspondence adviser. The first step in a better-letters program is to choose a member of the company to act as correspondence adviser. This individual may be the advertising manager, the sales manager, a vice president, the secretary, or even the president. Whoever he is, he should have the following minimum qualifications for the work.

1. He should be one of the best letterwriters in the organization and have had considerable experience in writing various types of business letters—sales, credit, collection, adjustment, and others. Obviously, to nominate a person who cannot practice what he preaches, and whose letters are inferior to those of some of the people whom he is undertaking to advise, is to reduce the whole program to the level of an office joke.

2. The correspondence adviser must be a person of natural tact. Some members of the organization may resent the criticism implied

in the program, and the adviser must therefore be an individual who can overcome this resentment and place the program on a basis of cordiality and mutual helpfulness.

3. The correspondence adviser should have a flair for teaching and must be the type of person who can distinguish between essential and nonessential points. For example, the proper tone in letters is a question for the adviser to discuss at length; however, he need not debate controversial points of grammar.

After the correspondence adviser has been chosen, it is important that it be made clear to the members of the staff that he has the full support of the executives of the company, and that all employees will be expected to co-operate and to participate actively.

Telling the staff about the correspondence supervisor. A memorandum signed by the president may be the most effective method of informing the staff of the appointment of a correspondence adviser and of securing its co-operation. The memorandum may take some such form as the following:

TO ALL MEMBERS OF THE STAFF

There are only two ways in which prospects and customers have any contact with us. The first is through a salesman; the second is by letter. For every call that a salesman makes, possibly three to ten letters are written.* It is only natural, then, for us to consider how we can make our letters most effective.

I am going to ask everyone to co-operate in an effort to improve the content, tone, and appearance of the letters written for the company.

We are judged largely by our letters. If they are abrupt, discourteous, badly organized, poorly typed, hard to understand, they will detract from the company prestige rather than add to goodwill. In recent weeks I have seen carbon copies of a number of letters which did not convey the very best impression of our business.

Every letter on the company letterhead should be:

- | | |
|-------------|----------------|
| (1) Correct | (3) Friendly. |
| (2) Clear. | (4) Courteous. |

Every letter should build goodwill, especially in those cases in which we find it necessary to refuse a request, ask for payment of a bill, or adjust a complaint.

It will not be necessary for us to engage in an involved technical study of business correspondence in order to improve our letters. All that we need do is pay particular attention to a few fundamental principles of good letterwriting and make a sincere effort to apply these principles in

every letter we write. To help you do this, I have appointed Mr. Clark as Correspondence Adviser. Mr. Clark will prepare, every two weeks, a bulletin called "Better-Letters Bulletin," copies of which will be sent to all members of the organization. These bulletins are intended as a medium of co-operation; I know that you will accept them in a spirit of friendliness and good feeling.

Please participate actively in this program to improve our correspondence. If you have any comments regarding these bulletins, if you have any ideas or suggestions for topics to be discussed, if you have any letter problem on which you would like assistance, be sure to communicate with Mr. Clark.

Preparing better-letters bulletins. Before the correspondence adviser begins to issue bulletins, it is advisable for him to draw up a list of the topics that he intends to discuss. He should then confine himself, in each bulletin, to one particular topic. Moreover, a mere outline of general principles is of little value; the application of each principle must be illustrated by specific examples. Thus, if the topic treated in Bulletin No. 3 is "Opening and Closing the Letter," examples of how to open and close (and how not to) should be cited. Similarly, if Bulletin No. 5 deals with "Replying to Complaint and Claim Letters," it may be well for the adviser to take an actual complaint letter, prepare a reply to it, and then reproduce both letters in the bulletin, together with explanatory comments. Other means of increasing the practical value of the bulletins will readily suggest themselves.

Topics to be discussed in bulletins. These topics will vary somewhat according to the nature of the company's business. However, the following list may be useful:

1. *Tone and spirit of the letter.* It will probably be found that some members of the staff whose work involves frequent letter writing have a formal, dull, routine style; others may be curt; still others too garrulous. Getting a cordial feeling into the business letter, without becoming undignified, is something of an art, but one that can be acquired through training and practice. This, the tone and spirit of the letter, is perhaps the most important of all the topics that should be dealt with in the bulletins. (For further discussion of the tone and spirit of a letter see page 532, *et seq.*)

2. *Every letter is a sales letter.* This statement is true in the sense

that any letter, regardless of the subject, can "sell" goodwill and a favorable impression of the company.

3. *Sales opportunities in letter writing.* As an illustration of this point, suppose that a clerk in the collection department is writing a routine collection letter on a small past-due account. He knows that his company has recently added a new item to its line. In writing his collection letter there is an opportunity for the clerk to mention this new item and possibly to enclose a catalogue or other mailing piece. Similarly, a reply to a complaint might properly end with a brief reference to a special offer that the company is making to its customers for a limited period.

4. *Cutting correspondence costs.* Under this heading suggestions may be made for greater efficiency in the handling of correspondence. For example, some of the company correspondents may be in the habit of dictating names, addresses, and salutations when replying to letters received. A more efficient method is to number each letter to which a reply is being dictated, and to begin the reply by dictating only the number; as, "Letter No. 6." The transcriber can then obtain the name and address by referring to the letter received.

5. *Opening and closing the letter.* The opening and the closing sentences or paragraphs of the letter are pitfalls for many correspondents. (For further discussion, see "How to open the letter," page 538, and "How to close the letter," page 540.)

6. *Mechanics of the letter.* A section on this subject will be of interest chiefly to the company secretaries and stenographers. To adopt a standard style for all letters has many advantages. (For illustrations of various types of letter styles, and also rules governing the form of the inside address, salutation, complimentary close, and so on, see page 615, *et seq.*)

7. *Correctness in grammar and usage.* A periodic review of grammar, sentence structure, and punctuation, with particular attention to common errors, is useful and necessary even in the case of experienced correspondents. (For rules governing correct usage, see "Dictionary of Correct Usage," page 661, *et seq.*)

8. *Special types of letters.* Collection letters, sales letters, answers to inquiries, adjustment letters—each type of business letter gives rise to its own particular problems. After having covered letter writing in general, the correspondence adviser may take up each type separately.

Compiling a correspondence manual. The bulletins may be mimeographed at very slight cost. It is convenient to have them run off on punched paper and to supply members of the staff with ring binders into which the bulletins may be inserted as they are received. Each correspondent will then have at all times on his desk an invaluable reference manual on all matters pertaining to letter writing. Furthermore, when a new employee is engaged, he should be given an up-to-date copy of the manual; this will acquaint him with the company's policy with regard to its correspondence and will also largely dispense with the need for continuous verbal training by the department head.

In addition to issuing bulletins of advice on topics such as those suggested above, the correspondence adviser may also distribute from time to time, for inclusion in the manual, mimeographed copies of actual letters, with comments. Suitable for use are particularly effective letters of all kinds, whether received by the company or written by members of the staff. To include copies of letters prepared by the staff will serve to dispel any idea that the better-letters program is a form of destructive, and not constructive, criticism. The program must permit praise to be given where praise is due.

Supervising current correspondence. The mere issuance of bulletins, however, is likely to prove only partially effective. Provision should also be made for supervision of current correspondence, with the object of bringing to light those aspects of the company letters that could be improved, and also of showing the extent to which the bulletins are being utilized in everyday practice.

One method of supervision is to have a carbon copy of each letter sent through the house mail to the correspondence adviser. The latter can then rapidly glance through the correspondence, select those letters that are deficient in some respect, and return them to the writers with friendly comments and suggestions; letters that are particularly good may be chosen for inclusion in the manual, as previously suggested; letters that are satisfactory, and that call for neither criticism nor praise, may simply be destroyed.

If the volume of correspondence is heavy and the above procedure would consume too much of the adviser's time, a rotation system may be used. Thus, for a period of one month or longer, the sales department may be asked to send carbon copies to the adviser; the

following month, the collection department; then the adjustment department; and so on.

Whatever means is used, it is important that the supervision be continuous. If the better-letters program is to produce enduring results, it must be permanent. The company correspondents need to be kept continually "on 'their toes," just as do the company salesmen.

Getting the staff to participate in the program. If a better-letters program is put into effect, everything possible should be done to stimulate the active participation and co-operation of all members of the staff. Toward this end the tone of the bulletins should be friendly and informal; the attitude of the adviser one of encouragement rather than of criticism or blame. The adviser may inquire frankly whether or not the bulletins are proving helpful, what topics that he has failed to mention should be discussed, and what other members of the staff think of his ideas. Contributions and comments should be solicited, since the more people who participate, the greater the benefits are likely to be. In the final analysis, the object of a better-letters program is to lift the writing of letters out of the rut of routine into which it is apt to fall. Once interest and enthusiasm have been aroused, improvement in the company correspondence will follow. This improvement will result in increased prestige for the company, increased goodwill among customers, and, very probably, as a consequence of these, an advance of a step or two in sales.

Letter-writing class results in better letters. A letter-writing class, under the direction of the advertising manager, was formed by Jantzen Knitting Mills. As a result of the instruction given, better public relations and better personnel relations were created, and, in addition, the company derived direct profits from increased sales through better selling letters. Here are two examples of the results of efforts to improve letters through the letter-writing class.

A factory executive decided to return a textile machine that he had purchased on trial. Keeping in mind some of the pointers made in a letter-writing class, the executive wrote the manufacturer explaining the firm's efforts to utilize the machine and its reasons for not being able to do so, and offering to prepay the transportation. The maker of the machine was warm in his appreciation of the consid-

eration shown him. If the machine had been returned with a terse explanation such as "cannot use," which situation the manufacturer indicated was not an unusual one, the goodwill of the manufacturer would have been lost. The machine manufacturer and his family are potential users of the company's product.

One of the company's salesmen criticized a letter written to a retailer in his territory by one of the firm's new correspondents. As a result of the better-letters program, the subsequent correspondence of this man showed such marked improvement that the same salesman later could not give adequate praise.

Letter-appraisal chart improves correspondence. The letter-appraisal chart reproduced in Figure 49 helped develop a high standard of correspondence in the Department of Agriculture under James F. Grady. Not only is the chart useful for self-criticism, but, if used in group conferences, it saves time by confining any discussion of the letter to specific reasons for its inadequacy.

A "better letters" booklet. Some companies supply their stenographers and typists with a booklet designed to achieve a uniform style, character, and appearance of all letters that are sent out on the letterhead and over the signature of the company.

The 31-page spiral bound booklet of the Caterpillar Tractor Co., entitled "Better Letters" is an example of this type of booklet. It measures 8½" x 11" and is made up as follows:

Page 1. Arrangement of letters—an explanation of the importance of first impressions created by letters, and a list of pointers for better letters.

Pages 2-3. Reproduction of the recommended style to be followed, with instructions as to spacing between the various structural parts of the letter. These pages are reproduced in Figures 50a and 50b.

Page 4. A sample letter to illustrate the style to be used in writing to individuals with whom the writer is well-acquainted.

Page 5. A letter written on the paper to be used for carbon copies of letters.

Page 6. A letter written on the paper to be used when copies are required of a letter received from another firm.

Page 7. A letter written on paper to be used for file copies. In the upper right-hand corner is a box spaced off for routing and for indicating when the letter can be destroyed by the Files and Record Section. Instructions for filling in the box are given in the letter.

Pages 8-9. A letter written on paper to be used for air-mail letters. Instructions for writing air-mail letters to export representatives are given in the letter.

LETTER APPRAISAL

This appraisal form is intended to assist you in revising your own letters or in indicating to others the specific weaknesses of the letters that are submitted to you for review.

Before appraising a letter, be sure to determine its exact purpose. What message is it expected to convey? What response is desired from the addressee?

Place a check mark in the column "Yes" or "No" opposite each question which applies to the letter you are appraising.

IS THE LETTER:

[illegible]

1. COMPLETE

- a. Does it give, in the most effective order, all information necessary to accomplish its purpose? _____
- b. Does it answer fully all the questions, asked or implied, in the incoming letter? _____

2. CONCISE

- a. Does the letter include only the essential facts? _____
- b. Are the ideas expressed in the fewest words consistent with clarity, completeness, and courtesy; have irrelevant details and unnecessary repetition been eliminated? _____

3. CLEAR

- a. Is the language adapted to the vocabulary of the addressee? _____
b. Do the words exactly express the thought? _____
c. Is the sentence structure clear? _____
d. Are the paragraphs logical thought units, arranged to promote easy reading? _____

4. CORRECT

- a. Is the accuracy of all factual information beyond question? _____
b. Are all statements in strict conformity with policies? _____
c. Is the letter free from: (1) grammatical errors, (2) spelling errors, (3) misleading punctuation? _____

5. APPROPRIATE IN TONE

- Is the tone calculated to bring about the desired response?_____
- Is the tone calculated to build or protect good will?_____
- Does the entire letter evidence a desire to cooperate fully?_____
- Is it free from antagonistic words or phrases?_____

6. NEAT AND WELL SET UP

Will a favorable first impression be created by: (1) freedom from strike-overs and obvious erasures; (2) even typing; (3) position of letter on the page?

HOW EFFECTIVE IS THE LETTER AS A WHOLE?

To what extent is the letter likely to accomplish its purpose, obtain the desired response, and build good will? In other words, how do you rate its general effectiveness? Underline the word which best expresses your rating:

- A. OUTSTANDING B. GOOD C. PASSABLE D. UNSATISFACTORY

IN RATING ANOTHER'S LETTER

If the letter is "unsatisfactory," be sure to indicate the specific weaknesses which necessitate revision. Similarly, if the letter is only "passable," indicate clearly the weaknesses to which attention should be given in future letters.

Figure 49. Letter Appraisal Chart.

Page 10. A letter written on paper to be used for copies of air-mail letters. The word "Air Mail" is printed on the sheet. The letter gives instructions for indicating who is to receive copies. Routing box is in the upper right-hand corner.

Page 11. Reproduction of an inter-office letter on special paper used for the purpose. Instructions are given for use of white tissue copies. Routing box is in the upper right-hand corner.

Page 12. File copy of an inter-office letter. Instructions are given for use of white tissue copies. Routing box is in the upper right-hand corner.

CATERPILLAR TRACTOR CO.


PEORIA 8, ILLINOIS
 April 1, 19--

Center under
"Peoria 8, Illinois"

Single space and block form

Peoria Tractor & Equipment Co.
Peoria, Illinois

2 Spaces

Attention: Mr. F. E. Rusher

Gentlemen:

Used when addressed to a firm.

Your order dated November 24, 19--

"Reference" or its abbreviation "REF" is unnecessary.

This letterhead is to be used in writing people outside the organization, including distributors and agricultural dealers

2 Spaces between paragraphs

When writing letters to domestic distributors or agricultural dealers, it is not necessary to show their street address, nor is it necessary to address envelopes for them, unless the letter is confidential. The Mail Room accumulates all letters to these parties because of their large volume of correspondence and mails all of them in one large envelope at the end of each day. Export letters should show complete address.

If the letter requires more than one page, tumble the yellow file and tissue copies and use the reverse side for typing the second page. Avoid if possible paragraphs of ten lines or more and large number of two or three-line paragraphs.

Staple first and second pages of the original letter.

Never staple yellow file to correspondence until after the original is signed.

3 Spaces. Start near center of letter.

Very truly yours,

CATERPILLAR TRACTOR CO

In caps. Never spell out company.

4 Spaces

Title

Sales Manager

No punctuation. Stenographer's initials in lower case.

WSZeigler
mjl
enc.

If enclosures, small "enc"; if attached is used, "attach" in lower case.

DIESEL ENGINES • TRACTORS • MOTOR GRADERS • EARTHMOVING EQUIPMENT

Figure 50a. Letter with Instructions About Spacing.

Page 13. Instructions for correspondence between offices and employees of the company, written on the paper to be used for the purpose. Routing box is in the upper right-hand corner.

Page 14. Illustration of proper addressing of a short envelope ($3\frac{5}{8}$ " x $6\frac{1}{2}$ "), with instructions for the use of this envelope.

Page 15. Illustration of proper addressing of a long envelope ($4\frac{1}{4}$ " x $9\frac{1}{2}$ "), with instructions for the use of this envelope.

Page 16. Illustration of airmail envelopes to be used where time is an important factor.

CATERPILLAR TRACTOR CO

-2-

Same as side margins but not less than one inch.

Peoria Tractor & Equipment Co. April 1, 19--

6 Spaces

Side margins same as first page.

3 Spaces

For postscript P.S. need not be used.

This is to be used as the second sheet for all regular mail letters. Material should be centered between margins as it would be for the first page.

There should never be less than five lines (not counting address) on the second, or last page if more than two pages are required.

Very truly yours,
CATERPILLAR TRACTOR CO.

Sales Manager

WSZeigler
mjl

Postscripts are used to include subsequent thoughts in a letter that has already been dictated and possibly transcribed. The trend of thought in a postscript should follow that of the body of the letter.

First paragraph at least two lines long.

Figure 50b. Letter with Instructions About Spacing (page 2).

Page 17. Illustrations of brown Manila inter-office short and long envelopes, with instructions for their use.

Page 18. Illustration of inter-office brown routing envelope, with instructions for its use. The envelope can be used eighteen times.

Pages 19-20. An explanation of how to use the words Caterpillar and Cat.

Page 21. Use of capital letters.

Page 22. Similar sounding words frequently misused; punctuation marks.

Page 23. Spelling; people's names; use of good English.

Pages 24-25. Telephone courtesies.

Pages 26-30. An appendix for secretaries, giving secretarial hints and personal attributes.

Page 31. A bibliography of secretarial and other books in the company's central library, for the use of stenographers and typists.

2. GETTING THE RIGHT TONE AND SPIRIT FOR A BUSINESS LETTER

A "routine" letter rewritten. A large shoe manufacturing company located in Boston, Massachusetts, received from a retailer in Johnstown, New York, a small initial order. The retailer's credit was checked, and the following letter written to the customer by a clerk in the credit department:

Dear Sir:

In response to your kind favor of March 12 beg to advise that we have opened a credit account in your name and are handling your order under our number 3467, which please note for future reference.

Hoping to receive your future orders, we remain,

Yours truly,

Before this letter was mailed, it came accidentally to the notice of an executive, who rewrote it as follows:

Dear Mr. Ferguson:

We appreciate very much your order of March 12, which will be shipped on the 17th by motor express. We are shipping this order to you on our most favorable credit terms, 2/10 net 30.

You can depend on us to co-operate with you at all times and to help you gain larger profits through the quick sale of our goods.

We are packing with your order our latest window display cards, and

also a booklet of suggestions for using the cards. Within the next few days you will hear from our business promotion department, which is conducted exclusively for our customers. Please feel free to make use of this service at any time, without charge or obligation.

We welcome you as a customer, and hope that this order is only the first of many which will prove profitable to you.

Very truly yours,

The difference between the two letters is apparent. The first is written in stilted language—*your kind favor of March 12; beg to advise; hoping to receive your future orders, we remain*. In addition, the writer fails to show any real appreciation of the customer's order and likewise fails to attempt to win reorders by mentioning the window display cards and the services of the business promotion department. In contrast, the second letter is cordial. It is a "sales" letter. It cultivates the customer's goodwill by showing appreciation of his order and expressing an interest in his business. Furthermore, it is specific: the credit terms are stated so that there can be no subsequent misunderstanding, and the date and method of shipment are also given.

Avoid stilted phraseology. The primary requisite of good business writing is the avoidance of stilted or formal phraseology. An examination of the morning mail will supply ample evidence of the fact that many correspondents appear to feel that there is a special language or style for business intercourse. The use of this special style involves the elimination of all friendly feeling from the letter and frequent repetition of such expressions as *same, kind favor, even date, the writer wishes to state, thanking you in advance*, and the like. In reality there is no special language of business correspondence. So-called "Business English" is merely everyday English adapted to the needs of business. It is adapted in the sense that it is improved in organization and clarity. There are, however, no rigid conventions with regard to it. If two businessmen were lunching together, one would not say to the other, "I am in receipt of your esteemed favor of March 5, and in reply beg to state . . ." Neither is it necessary or desirable that such language be used through the mails.

Among the expressions that are regarded as stilted, and hence are not good usage in business writing, are the following:

advise
 and oblige
 as per your instructions
 at hand
 attached please find
 awaiting your further instructions
 beg to state; advise; inform; ac-
 knowledge; etc.
 contents duly noted
 enclosed please find
 esteemed favor
 even date; recent date
 for your information wish to state
 hand you herewith
 has come to hand
 hoping to hear from you
 in re
 inst.; prox.; ult.

kind favor; order, etc.
 oblige
 our Mr. Clark
 permit me to say
 please be advised that
 pursuant to
 regarding your communication
 same
 thanking you in advance
 the writer wishes to say
 this letter is for the purpose of
 inquiring
 trusting you will
 up to this writing
 we are; beg; remain; etc.
 wish to say; advise; inform; ac-
 knowledge; etc.
 would ask; state; advise; etc.

To illustrate the improvement that results when stilted phrasology is eliminated, take the following example of a business letter as originally written and then as rewritten:

(STILTED AND VERBOSE)

Dear Sir:

Replying to your kind favor of the 15th inst. in which you inform us that the enameling sheets ordered by you have not come to hand, beg to advise we have checked up on this shipment and find same left our factory March 10 and should have reached you March 13. For your information wish to state that we are now tracing through the express company. If the shipment does not arrive by March 19, kindly wire us collect, and we will duplicate same.

Regretting the inconvenience caused you, we are,

Yours truly,

(CLEAR AND STRAIGHTFORWARD)

Dear Mr. Bradley:

Your letter of March 15 reached us this morning.

The shipment of enameling sheets left our factory on March 10, and should have been delivered to you not later than March 13. We have asked the express company to trace the shipment immediately.

If you do not receive the sheets by March 19, please wire us collect, and we will start another shipment at once.

We are sorry this delay occurred and assure you that we will do everything possible to expedite delivery.

Very truly yours,

It will be noted that the second letter contains exactly the same information as the first. The improvement in tone is brought about not by the addition of any new material but merely by the elimination of stilted phraseology.

Use short sentences and paragraphs. Lack of clarity, the cardinal sin of business writing, results chiefly from the use of involved language and long sentences. The contents of a business letter should be apparent at a glance. To make the letter easy to read and to preclude misunderstanding, use simple words and short sentences, and paragraph wherever a new subject is introduced.

(CONFUSED AND WORDY)

Gentlemen:

Replying to your letter of October 15, with reference to our carload shipment of September 11, in which you received a five-gallon can of Collodion with a nail driven into the can through the wooden case, which resulted in contents leaking out and running down onto a couple of cases of 11 by 14 Duplitzed X-Ray Film Super Speed in six-dozen packages, staining fifteen of the boxes; wish to advise that the cartons for the film were shipped to you by parcel post on October 27, which we hope you will receive without delay. We regret very much the accident of the nail being driven through the case, and have called it to the attention of the shippers of this material and asked them to be very careful on future shipments.

Very truly yours,

(CLEAR AND STRAIGHTFORWARD)

Gentlemen:

We regret very much the damage caused by the punctured can of Collodion, to which you referred in your letter of October 15. On October 27 we sent you by express another can of Collodion and new cartons to replace those which were damaged.

We have taken up the matter of the punctured can with our shipping department, and also with the carrier, and assure you that every effort will be made to insure the safe arrival of future shipments.

Very truly yours,

Avoid unnecessary words and phrases. A common fault in letter writing is to add unnecessary words and phrases to give emphasis or round out a sentence. For example, letter writers frequently speak of "*final* completion," "*month* of January," or "*close* proximity."

The completion must be final or it is not complete; January must be a month; incidents in proximity must be close. Here is a list of some padded phrases frequently used in business letters. The *italicized* words are *totally* unnecessary.

It came *at a time* when we were busy.
 Leather depreciates *in value* slowly.
 During *the year of* 1947.
 It will cost *the sum of* one hundred dollars.
 At a meeting *held* in Philadelphia.
 We will ship these shoes *at a later date*.
 In about two weeks' *time*.
 The mistake *first began* because of a misunderstanding.
 A *certain* person by the name of Bill Jones.
 It happened *at the hour of noon*.
 We see some good in both *of them*.
 In *the city of* Columbus.
 The body is made *out of* steel.
 During the *course of the* campaign.
Perhaps it may be that you are reluctant.
 Our uniform *and invariable* rule is.
 Somebody *or other* must be responsible.
 We are now *engaged in* building a new plant.
 By *means of* this device we are able.
 The radio sells at a *price of* \$200.

Do not use two words with the same meaning for emphasis. Some letter writers think that if one word does a job, two words add emphasis. Actually, the second word makes the thought less effective. Here are a few examples of "doubling."

sincere and good wishes
 the first and foremost
 appraise and determine the worth-while things
 deeds and actions
 feeling of optimism and encouragement
 we refuse and decline
 unjust and unfair manner
 advised and informed
 at once and by return mail
 we demand and insist
 right and proper consideration
 assume obligation or responsibility

Avoid overworking favorite words or expressions. Letter writers frequently overwork their favorite words or expressions. For exam-

ple, a correspondent who habitually uses "records" will say in one letter, "According to our records, the grace period will expire Monday," and in another, "The enclosed is for your records." The way to overcome this fault is for the letter writer first to detect his favorite expressions by examining several of his letters, and second, to notice in how many cases the expression can be eliminated entirely or replaced by a simple word. In the first illustration, the expression serves no purpose. In the second, it would be better to say, "The enclosed copy is for you."

Do not use big words. Some people think that a large vocabulary of big words makes them seem learned; but simple, short words do the best job. This statement does not mean that a larger vocabulary is not an asset. The more words a writer has, the more clearly and forcibly he can express himself, but he never uses words of many syllables unless there is a reason for it. Why, in a business letter, say "propertied interests" when you mean "rich people," or "annihilate" when you mean "wipe out," or "transcend" when you mean "go beyond?"

A large vocabulary helps one to use different words to express various shades of meaning. The writer with an adequate vocabulary writes about the *aroma* of a cigar, the *fragrance* of a flower, the *scent* of perfume, the *odor* of gas, instead of the "smell" of all these things. There is a reason for using words of more than one syllable here.

Avoid words that antagonize. Words that carry uncomplimentary insinuations are not only tactless but they often defeat the purpose of the letter. Never use a word that might humiliate or belittle the reader. Here are some expressions from business letters to *avoid*:

"We do not understand your *failure* to pay this bill." (The insinuation is that the customer cannot be trusted to meet his obligations. Moreover, "failure" is a negative word. We all want our name and actions associated with success.)

"It seems strange that no other customer has mentioned this fault in our product." (You are implying that this one customer is unreasonable.)

"Certainly, you must *know* that we did not offer you any such concession." (He told you that he did not know. He must be a bold-faced liar.")

Use the positive approach. A positive approach is more forceful and effective than a negative one. Usually it is a simple matter to change a negative thought to a positive one. The following examples show how simply this can be done.

Negative: We cannot quote you a price until we have seen the specifications.

Positive: We shall be glad to quote you a price just as soon as we have seen the specifications.

Negative: We cannot ship these goods before August 8.

Positive: We will ship the goods on or shortly after August 8.

How to open the letter. The opening sentence or paragraph of the letter should generally go straight to the point, without any beating about the bush. The object is to gain the reader's attention immediately.

In writing a letter of reply it is unnecessary to give a restatement of the contents of the letter received. To state that the letter is in reply to one of such-and-such a date is sufficient. Participial openings, such as *Referring to your communication of*, *Answering your letter of*, *Replying to your letter of*, *In reply to yours of*, should be avoided. Some examples of poor and good openings follow; for further examples, see the specimen letters given in each of the later parts of this section.

(POOR OPENING)

Dear Sir:

Replying to your letter of June 9 in which you request that we send you samples of our new WEAREVER fabrics, we are asking our agents in Cleveland, John Brown & Company, to supply you with the samples requested, and they will be pleased to assist you in carrying out any tests that you may wish to make.

(BETTER OPENING)

Dear Sir:

Thank you very much for your request of June 9 for samples of our new WEAREVER fabrics.

We have asked our agents in Cleveland, John Brown & Company, to supply you with a full line of samples. They will be glad to assist you in carrying out any tests you may wish to make.

(POOR OPENING)

Dear Sir:

In reply to yours of the 15th in which you state that you would be interested in receiving more complete information as to our STEADY-HEAT OIL BURNER, as you are considering installing a burner in your home, we are enclosing a booklet describing the advantages of the STEADY-HEAT which we think you will find of value and are also requesting our local representative in your community, Wallace & Company, to call upon you.

(BETTER OPENING)

Dear Sir:

We are glad to respond to your letter of April 15, in which you request more complete information concerning the STEADY-HEAT OIL BURNER.

The enclosed booklet, "Better Heat with STEADY-HEAT," discusses the many advantages of the STEADY-HEAT BURNER. We have also asked our representative in your community, Wallace & Company, to call upon you at your convenience. Wallace & Company will be pleased to give you full information, without any obligation.

(POOR OPENING)

Dear Sir:

Answering your letter of April 5 in which you suggest that we take your 60-day note for our March invoice, we note what you say as to poor business conditions in Harrisburg at the present time due to the closing of several local plants, but regret that it is not a practice with us to take notes.

(BETTER OPENING)

Dear Sir:

We were very sorry to learn from your letter of April 5 that business conditions in Harrisburg have been poor in recent months. We can readily appreciate that under the circumstances you will be having difficulty in making collections.

Since it is not a practice with us to take notes, we are sorry that we cannot agree to your suggestion. However, we are always glad to co-operate with our customers in every possible way and

A comparison of the "poor" and the "better" openings in the above examples shows the greater effectiveness of a short, clear-cut opening paragraph. The purpose of this opening paragraph is merely to state the subject of the letter, and perhaps to express a word or

two of thanks, appreciation, or regret; the subject is then developed in the succeeding paragraphs. The chief fault of the "poor" examples is that they attempt to state the subject and to develop it at one and the same time; openings such as these leave the reader mentally breathless.

How to close the letter. The closing paragraph or sentence should add something to the letter; it need not be a meaningless formality. The better correspondents do not use participial closings such as the following:

Hoping to be favored with an early reply, we are,
 Trusting that this will be satisfactory to you, we remain,
 Trusting that you will let us hear from you if we can be of further service,
 Thanking you for your order, we remain,
 Assuring you of our desire to please you, we are,
 Hoping to receive your future orders, we remain,

A more forceful and sincere way of closing the business letter is to use a complete sentence or a direct statement. Examples of this type of closing follow; for further examples of effective closings, see the specimen letters given in each of the later parts of this section.

We appreciate your interest and thank you for writing us.

We hope that this initial order is only the beginning of a long business relationship, which we shall try to make both pleasant and profitable to you.

We are looking forward to pleasant business relations.

We sincerely hope that we may find your name on our active list within the next thirty days.

Please do not hesitate to write us again if we can be of further service to you.

We are always eager to make every transaction satisfactory. Please do not hesitate to write us at any time.

We very much regret the delay, and assure you that your future orders will be handled promptly.

It is important to suggest only one action in closing a letter. The "divided urge" is one of the most serious faults the closing of a letter can have when the reader is expected to take some action. If he is given a choice of several things to do, he will probably do nothing. Tell the reader the *specific* action that he is to take. Concentrate upon *one* action and do not mention others.

In the following closings, the alternative suggestions tend to confuse the reader; the specific suggestions are impelling and produce action.

Alternative Suggestions

Write us a letter, telegraph, or send the enclosed card right now.

If it is convenient for you to see me, please drop me a note or call me at AL 4-9200.

Please mail this payment to arrive at our office within five days. Or if you don't feel able to do that now, send us a post-dated check for the same amount.

Specific Suggestions

Send the enclosed card right now.

When it is convenient for you to see me, please call me at AL 4-9200.

Please mail this payment to arrive at our office within five days, which would be by Saturday.

If you expect the reader to take a certain action in the future, use *dated action*. That is, tell the reader that you expect the action by a given date, or within a certain number of days, not "in the near future." Here are two examples of dated action closings:

In order for us to handle this claim promptly for your patient, it will be necessary to have your preliminary report by the *end of this week*.

An *immediate reply by airmail* will enable us to complete the draft of the contract by Friday.

Use positive words in closing a letter. "Hope," "may," "if," and "trust" tend to defeat the purpose of any business letter. Compare the following negative closings with the positive revisions.

Negative

If you will O.K. the card, we will gladly send you a copy of the bulletin. *Trusting* you will do this,

Now is the time when our customers are stocking for summer business. We *trust* you will join them, by placing your requirements on the order blank enclosed.

Positive

Your copy of this interesting bulletin is waiting for you. Just O.K. and mail the card.

Now is the time when our customers are stocking for summer business. You can join them by placing your requirements on the order blank enclosed.

Methodical habits of dictation. It is not uncommon to see a correspondent pick up a letter, glance at it, and immediately begin to dictate a reply before having formed, either in his own mind or

on paper, an outline of what he intends to say. A letter written in this way can hardly be other than muddled. The writer probably starts with one thought, passes to a second, and then jumps back to the first before going on to the third. The person who receives the letter is confused, perhaps irritated. And it goes without saying that loss of business results, for a person who has written an inquiry and receives a muddled letter in reply will doubtless turn elsewhere for any purchase that he wishes to make.

Methodical habits of dictation consist of gathering all the necessary information and visualizing the letter as a whole before beginning to dictate the first paragraph. A simple procedure followed by many of the best correspondents in handling complaints, inquiries, and so forth, is to underscore the main points in the letter received and then to jot down rapidly at the foot of the page an outline of what the reply should contain. For example, suppose that a manufacturer of electric irons has received an order for a single iron from an individual; he is compelled to refuse the order because he sells only through retail dealers. The outline of the reply in this case might be as follows:

1. Thanks.
2. Sell only through dealers.
3. Returning check; visit or telephone dealer.
4. Name, address, and telephone number of dealer.
5. Guarantee.
6. Sales talk.

With this outline as a working basis, the correspondent would proceed to dictate the letter.

Dear Mrs. Robertson:

Thank you very much for your order of November 5 for one of our new **ELECTRA** electric irons.

We sincerely appreciate this evidence of interest in the new **ELECTRA** and wish that we could fill your order. However, as manufacturers, we sell through retail dealers, and our arrangement with the dealers throughout the country does not permit our selling direct from the factory.

We regret, therefore, that we must return your check. May we suggest that you either visit or telephone the **ELECTRA** dealer in your city, who will be glad to deliver the iron at the price advertised. In buying from the dealer you will have the advantage of choosing from a large stock and will avoid the annoyance of possible delay in shipment.

The name, address, and telephone number of the ELECTRA dealer in York is:

Polk Electrical Supply Company, 424 Main Street
Telephone: YORK 3200

Every ELECTRA is guaranteed by us, and also by the dealer, to be in perfect condition.

We hope that you will soon be numbered among the many thousands of women who have found that with the new ELECTRA ironing is no longer a drudgery. The ELECTRA is easy to handle. It saves 30 per cent of the time needed when you use any other electric iron now on the market.

To bring an ELECTRA to your home, simply pick up the telephone and call:

YORK 3200

Sincerely yours,

The above letter is a logical, clear reply to the request received. Visualizing the letter as a whole and, if necessary, making an outline of it, is the work of a moment. It may be the means of saving the writer the embarrassment of realizing, when he is reading over the finished letter, that he has omitted an important point, or the further embarrassment of receiving from the customer a second letter saying that the reply is not clear.

Adapt the letter to the reader. Writing good business letters requires imagination. This is obviously true of sales letters but is also equally true of any other type. The most successful correspondents are those who are able to visualize the person to whom they are writing, to reconstruct his or her mode of living and habits of thought, and to adapt their letters to the reader. A letter suitable for a small retailer in a town in the Middle West would not make a favorable impression on a large retailer in New York; a letter that one would send to a New England farmer would not do for an attorney in Chicago; a straight-from-the-shoulder, man-to-man letter would be absolutely wrong for a middle-aged spinster.

The question of adapting the letter to the reader can, of course, be ignored. More often than not it is ignored. By taking a safe middle stand a correspondent can write in exactly the same tone and spirit to anyone with whom his company does business, without giving offense. There is, however, the reverse side of the medal.

Letters written in such a way that they might be intended for anyone often have interest and appeal for no one in particular.

Every letter is a business opportunity. Even though the letter may not be a sales letter in the sense that it is an attempt actually to sell goods, it should be a sales letter in the sense that it "sells" goodwill and cements a cordial relationship. The question must, then, arise in the mind of the correspondent: "Considering the station in life, education, and other circumstances of this particular individual to whom I am about to write, what tone in my letter will be most likely to make for friendship between us—friendship that may, at a later date, result in sales?" If the letter is to a small retailer, the correspondent may decide that a human, friendly letter showing interest in the retailer's business and perhaps offering him advice would be most suitable. If the letter is to a large manufacturer, a concise, businesslike style might be most appropriate. If the letter is to a farmer, a neighborly, gossipy tone may meet with the best reception.

For most correspondents, of course, adaptation to the reader is greatly simplified by the fact that the majority of the people to whom the company writes letters are of one class or type. The problem then resolves itself into experimenting with letters of different tone until the most appropriate one is found. The selection is determinable largely from the nature of the replies received to the letters mailed. When experiments of this kind are being made, personal preference and prejudice must be set aside. The correspondent for a farm machinery company may be, personally, a man of culture with an interest in the arts. He himself may prefer the formal, well-written business letter. On the other hand, the farmers who buy the company's machinery may respond more readily to letters beginning, "I was mighty glad, Mr. Hansen, to see from your letter of August 15 that the drought situation in Kansas is now clearing up a bit," rather than, "We are pleased to note from your letter of August 15 that the drought situation in Kansas is now somewhat alleviated." The reader's psychology, and not the writer's, is the primary consideration.

Illustration of how to adapt the letter to the reader. To illustrate how the business letter may be adapted to the reader, the following two letters are given. In both cases the situation is the

same: the letters are replies to complaints, written by a correspondent in a large radio manufacturing company. In the first case, however, the complaint was received from a woman whose letter indicated that she was well educated and had perhaps had business experience, the second was written—in pencil, on ruled paper, and with frequent misspellings—by, obviously, an uneducated customer. The correspondent's replies follow:

TO THE WOMAN

Dear Mrs. Ashton:

We were very sorry to learn from your letter of January 6 that the reception on your TRUETONE RADIO has not been entirely satisfactory.

As manufacturers of this radio we take pride in its reputation for reliable, quality performance. We therefore guarantee every TRUETONE against mechanical defect for a period of one year from the date of purchase.

If you will return the radio to us by parcel post insured or by express insured, we shall be glad to give it a thorough examination and to remedy whatever defect is causing the "fading" mentioned in your letter. The charge for this service will be only \$1. This fee covers merely the handling and shipping costs; we make no charge for labor or for any new parts that may be necessary.

To protect the radio against possible damage in transit, please pack it in the original carton, if you still have this, and merely enclose \$1. The radio will be returned to you within three days after we receive it.

We appreciate very much your writing us direct and assure you of our desire that you derive full satisfaction from ownership of your TRUETONE.

Very truly yours,

TO THE UNEDUCATED CUSTOMER

Dear Mr. Peterscn:

I was mighty sorry to see from your letter of January 6 that your TRUETONE RADIO has been acting up. As you say, it shouldn't do this, being only three months old.

What I wish you would do is pack it up and send it right back to me. Whatever is the matter with it, we'll fix it here in the factory. Every TRUETONE is guaranteed by us for one year from the day you buy it.

When you send the radio, pack it in the box that it was in when you bought it, and put a \$1 bill in the box. This \$1 is all that you will have to pay, no matter what is wrong with the radio. It covers just the cost of packing the radio and sending it back to you. We pay for the workman's time and for any new parts that have to be put in. That's fair enough, isn't it?

Mail the box by parcel post insured, and we'll send you back the radio three days after we get it.

We want you to know that we're glad you wrote us, and we'll see that your TRUETONE is fixed right.

Yours truly,

Possibly the foregoing letters are an extreme example of contrast in tone. They may, however, be taken as an illustration of the possibilities in adapting the letter to the reader. The woman would probably be favorably impressed by the courteous tone of the letter written to her; the uneducated customer would doubtless be glad to receive, in reply to his complaint, a letter that he could understand. If the correspondent had written to both parties merely in a standardized tone, two opportunities for creating goodwill would have been lost.

In conclusion, a word of warning may not be out of place. There is danger in generalizing as to which tone to adopt in addressing a particular class. The correspondent must therefore be guided by the character of the letter received from the person to whom he is writing.

3. MAKING ANSWERS TO INQUIRIES PRODUCE SALES

(See "How to Write Sales Letters" beginning at page 58.)

How to answer an inquiry. The following are the chief points to keep in mind in replying to letters of inquiry:

1. Answer inquiries promptly—if possible, within twenty-four hours. To secure the inquirer's business or to make a sale, you must strike while the iron is hot. Should it be necessary to refuse the request, a prompt reply will create goodwill and may result in your name being favorably remembered by the inquirer for future reference. Your business reputation is built upon the small, day-to-day experiences of the people who have contact with you.

2. Every inquiry is a sales opportunity. Your reply should therefore be courteous, helpful, and should show a desire to serve. Because the inquirer's interest is likely to have waned rapidly in the interval before your reply reaches him, it is necessary for you to revive

his interest by reselling him on your product or service. For this purpose, include sales talk in your reply.

3. Although the reply to an inquiry should be a selling letter, it should first answer specifically and clearly the question that was asked. Nothing is more irritating to an inquirer than to receive a reply which does not answer his question.

4. Most inquiries are incomplete and sketchy. At the time that he is writing, the inquirer probably knows very little about your product or service. You should therefore not restrict yourself to answering the one or two questions that it occurred to him to ask. Try to anticipate other points that may not be clear.

5. Open by thanking the inquirer for his letter and for his interest in your goods. Close by assuring him that you will be glad to be of service to him and to supply him with any additional information that he may need.

The letter that accompanies booklets. You have already secured the prospect's attention when you have succeeded in getting him to send in a request for booklets. The letter accompanying the booklet is an out-and-out sales letter. Notice how the following letter moves from the direct inquiry to sales material.

Dear Mr. Benson:

Thank you for your request for our new booklets, **VARIADEX** and **TRIPLE CHECK AUTOMATIC**. Your copies are being mailed today.

You will find these booklets unusually interesting in their description of Remington Rand's two new filing systems. **VARIADEX** and **TRIPLE CHECK AUTOMATIC** are scientifically designed to handle efficiently and economically the complex filing procedure in the modern business office.

You may be concerned with the problem of how to increase speed in file operation, how to eliminate wasteful errors in filing and finding, or how to handle peculiar lists or an unusual volume of correspondence. Whatever your problem, one of these two new filing systems will give you a practical solution.

After you have read these two booklets, you will be interested in seeing an actual demonstration in your office of the system you believe most suited to your purpose. If you wish, a Remington Rand representative will also make an analysis of your filing situation and will recommend the system that can give you the best possible service from your files.

A demonstration of either **VARIADEX** or **TRIPLE CHECK AUTOMATIC** will be given you, or an analysis of your files will be made for

you, entirely without obligation. Please write or phone the Remington Rand office at 205 East 42 Street, Murrayhill 4-5000.

Very truly yours,

An answer to a request for more information. Here is an example of an answer to a request for more information about a product. The inquirer asked no specific question; hence the letter is a general sales letter. If specific information were called for, this particular letter would not be satisfactory.

Dear Doctor Brown:

Your desire to know more about Anabolic Products is good news to us, and we look forward to welcoming you to our ever-growing family of doctors.

You will find no mystery about Anabolic Products—we have no “secret” ingredients—and you will find our literature entirely free from sensationalism. The rationale of Anabolic Supplemental Nutrition is far from difficult.

As a means of acquainting you with our products most in demand, I am enclosing a bulletin entitled, “Simplicity Itself.” In every case, you will note that the complete ingredients are given—with Anabolic you know what you are using. May I suggest that you slip this bulletin under the blotter on your desk where it will be convenient for quick reference.

We feel justified in stressing the quality of Anabolic Products since our vegetables are grown in tested soil, fertilized by our own chemical fertilizers, and dehydrated by a method on which we hold exclusive rights and patents. Our glandular ingredients are the finest obtainable—never cold storage—and our vitamin concentrates are standardized by biological assay.

Your questions are invited, and your orders will be given every attention.

Cordially yours,

ANABOLIC FOODS, Inc.

Giving further information. Some inquiries reveal doubt in the prospect’s mind as to some feature of the product. The reply in such cases must convince the reader that the product meets his needs or desires. The following letter stresses quality to convince the reader that the particular product is superior to others:

Dear Mr. Benson:

It is quite true, just as you say, that sheet steel and ARMCO INGOT IRON look alike on the surface. Careful examination under the microscope, however, reveals a vast difference.

In general, when you select articles, you rely upon sight and touch to

determine the quality. Take clothing, for instance: the "feel" of the cloth will tell whether the material is all wool as well as a yard wide. When you buy shoes, the "feel" again comes into play and discloses whether the leather is of coarse or fine texture..

With metals, however, sight and touch cannot reveal the true quality. The quality of metal is determined by the degree of scientific skill used in the elimination of impurities.

Here is a simple illustration that brings out the point: you have one defective apple in a barrel of prize winners, and what happens? You either throw out the decaying apple or lose all.

And so it is with sheet metal. The elements that produce decay, or rust, in ferrous metals are carbon, sulphur, phosphorus, manganese, silicon, and the gases—oxygen, hydrogen, and nitrogen. These detrimental elements must be entirely eliminated if possible. If not completely eliminated, they must be reduced to the smallest possible degree.

Here is where ARMCO INGOT IRON excels all other sheet metals. The impurities named are guaranteed not to exceed 16/100 of one per cent. No other sheet manufacturer can give you this guarantee.

It is the pure metal in ARMCO INGOT IRON that will make your roof last longer, because pure iron will resist rust.

Very truly yours,

Letters accompanying catalogues. A request for a catalogue is a step toward a future sale. The tie-up between the enclosure and the letter should be made vital and stimulating. The following letters have a conversational tone that brings the reader close to the vendor:

Dear Mr. Donald:

We were glad to receive your inquiry. The enclosed catalogue of the SUPER ELTO for 19— will give you the information you want on our motor.

But catalogues are funny things—each year we labor intensely to compress between the two covers everything we think you might want to know about the ELTO—and everything we want you to know, as well. But a catalogue seems never to be more—than a catalogue. It seems always to leave untold a lot of things you'd appreciate knowing.

As you read through it, you'll notice that we strongly emphasize a certain few points about the SUPER ELTO. Quarter-turn starting, as a particular example:

The plain fact is, we know of nothing more important than this matter of easy starting—easy starting in the genuine, honest sense of the word. Before everything else—before every trip you make, through every year of its use, you must *start* your motor. And on

starting, more than anything else, will depend your satisfaction and pleasure.

But even easy starting should not overshadow other ELTO qualities. For the ELTO has feature after feature far too sound and valuable to be subordinated.

Rudder steering, for instance. One of our users wrote us that "rudder steering *gives brains to the motor!*"

It does seem that way! It's twice as pleasant for the user when he can sit where he pleases, changing his course with a gentle tug on a vibrationless tiller line, letting that rudder do about nine tenths of his steering for him.

Then there is the Propello-Pump—the huge bearings—the Safety Cushion Drive and . . .

But it's time to let the catalogue tell its own story. Only, as we pointed out before, a catalogue is just a catalogue. If you find a single question left unanswered, or want fuller information on any point, please write us. We'll answer as fully as we possibly can.

Cordially yours,

* * *

Dear Mr. Muirhead:

You made us feel mighty good when we received your request for our proposition, and we know that you are going to be glad that you wrote, for the rugs that we have for this year's selling are the finest in the field, and the best that we have ever produced.

The catalogue which we are sending you tells our story of weaves, patterns, and profit opportunities in an interesting way, while our prices, as shown on the attached list, are as good as you will find our rugs to be.

But don't forget, in considering the prices, that they are list prices. From these you secure a trade discount of 10-5% off. After deducting this percentage from the lists, you get net prices that are as low as can be secured anywhere. There are none better.

Then, too, we allow the full cost of your freight on all orders that weigh 100 pounds or more (except for Deltone and Tufted Rugs, which are f.o.b. the mill). This policy eliminates the bother of adding freight costs to your merchandise costs after arrival of the goods, which we know you will say is a big help.

Our representative, Mr. Peters, will visit with you within the next thirty days, but if you desire to order before he calls, just drop your specification in the mail box with the assurance that we will give it speedy attention.

With best good wishes,

Answering a letter from a retailer. Where a company distributes its product through a wholesale distributor, it must gently inform the retailer of this fact and at the same time keep in mind the possibility of the retailer becoming a dealer. The following letter covers this situation:

Dear Mr. Stephens:

Immediately upon receipt of your letter of November 8 asking about the CROSLEY LINE, we wrote our wholesale distributor, The Homer King Company, 711 Broadway, Tacoma, Washington, and asked them either to call on you or write you to explain our terms and discounts.

Inasmuch as we have placed wholesale distributors in most of the large centers so that your needs can be more promptly served, we do not sell direct to retailers.

Will you please fill in on the enclosed application blank your name, address, primary business, and the number of sets that you believe will sell in your community? If the wholesale distributor named above does not write you or call upon you within the next five days, please return the application blank direct to us.

We want you to know that we appreciate your interest in the CROSLEY LINE and that we hope your name can be included among the many dealers in your state who are finding CROSLEY their most profitable line.

Very truly yours,

Sending a representative with samples. Sometimes a request is best answered by sending a representative. The following letter shows one large company's method of utilizing a sales possibility in its answer to a request for samples:

Dear Mr. Thompson:

Thank you for your request for samples of our REMCRAFT folder.

We have asked a representative of our branch office, which is listed below, to supply you with samples of REMCRAFT so that you may test them in your own office.

When he delivers these samples, our representative will welcome an opportunity to offer suggestions on any of your filing problems.

Very truly yours,

Letters refusing requests. A letter of this type should be courteous, should explain clearly the reasons for the refusal, and should express regret. It may close with a sales talk about the product.

Dear Sir:

As requested in your letter of January 9, I am glad to send you a copy of the issue of January 2. Please accept it with our compliments.

I also wish to thank you for your kind words for our magazine, but since our publications are made especially for national advertisers and advertising agencies, we are prevented from accepting subscriptions outside this field.

In selecting our prospects for subscriptions, we are careful to pick out only those who are actually advertising in some form. Our experience has been that readers outside of our field find little of interest in the magazine, and discontinue as soon as their subscriptions are up.

We therefore seek only what we call "logical" subscribers.

I feel quite certain that you will understand our position, but I want you to know that your interest is very much appreciated.

Very sincerely yours,

* * *

Dear Miss Robson:

Because each woman's search for youth and beauty is an individual problem, it necessarily requires individual attention.

We therefore do not find the use of set formulas suitable for the requirements of our customers. We are sorry that we do not have any of the booklets you requested us to send you.

Why not see your nearest DOROTHY DALE representative for a personal analysis of your beauty problems, and be sure that you are using the course of treatment exactly suited to your type of beauty?

Very truly yours,

* * *

Dear Mr. Ward:

We appreciate very much your order of July 16, but regret that we are unable to accept it because of our established merchandising policy.

Our policy is to grant an exclusive agency for the sale of our products in towns that have a population of 25,000 or less.

This arrangement assures the retailer a very profitable trade. We already have an established agency in your city.

Although no change is contemplated at present, we take pleasure in keeping your name in our files, and assure you that we appreciate your interest in our products.

Very truly yours,

4. REVIVING INACTIVE ACCOUNTS THROUGH LETTERS

Bringing inactive customers back to life. A study * of why customers stop buying at a particular store shows that of every 100 whose accounts are inactive:

- 68 have drifted away because of store indifference toward them;
- 14 have stopped buying because of unadjusted grievances;
- 9 have transferred their patronage to a competitor who offers lower prices or better service;
- 5 have been influenced by friends to trade elsewhere;
- 3 have moved, taking their business to more convenient shopping centers, or have made other arrangements more convenient or economical;
- 1 is dead or unaccounted for.

This record shows that not every inactive account is a lost account. Remove indifference to customers by letters containing words of encouragement and showing individual attention, and many of the inactive accounts will show signs of life. A warm, personal tone is essential in letters to revive inactive accounts. The customer must be made to feel that he has been missed. If his absence is due to dissatisfaction, he must be won over by the expression of a sincere desire on the part of the store to remove the dissatisfaction.

In letters calling attention to the inactive status of the account, it is sometimes effective to mention some special event to stimulate interest. For example, the arrival of new merchandise, price reductions, and the like, may add pulling power to the letter.

A single letter may be effective to regain a substantial part of the inactive accounts. Frequently, however, a series of letters is used. Examples of both kinds are given below.

Series to persons who opened accounts and made no purchases. The following three letters, used by Ovington's, New York, consti-

* The findings of this survey, as tabulated above, are listed as authentic by Jules J. Paglin in "The Direct Mail Approach in the Retail Market," *The Reporter Study Course in Direct Mail Advertising* (Henry Hoke, Editor), and by Freida E. Burger, of Namm Store, Brooklyn, New York, in "Reviving Inactive Accounts," *The Credit World*, February, 1937.

tute an effective series to individuals who opened accounts and made no purchases on credit:

Dear Mr. Johnston:

We had the pleasure of opening an account for you some time ago. But you have not made use of it, and so we're sending along this note with the hope that you will do so soon—and often.

We'll be very grateful if you do.

Sincerely,

* * *

Dear Mr. Johnston:

We do not wish to appear persistent with reference to the charge account you opened with us, but we are concerned that you have not made use of it. May I inquire whether, by any chance, this has come about by some error on our part? I should be very glad to hear from you.

Sincerely,

* * *

Dear Mr. Johnston:

As indicated in a previous letter, it pleased us greatly when you opened a charge account with us. However, you have not used it, and we're wondering whether it is through any fault of ours. If so, we wish that you would frankly tell us.

And, of course, if you simply overlooked it, won't you accept this as a little reminder that we're anxious to serve you?

Sincerely,

Letters to old customers who have not been using their accounts. When a desirable account has been inactive for several months, it may often be brought to life by one or more letters similar to the following:

Dear Mrs. Arnsman:

Your account has not been used for several months, and we are anxious to know the reason. Of course, you may have been away or not had an opportunity to visit the store. However, if your absence is due to any fault of ours, we wish you would give us this opportunity to make it right.

Every one of our Six Sales Floors is teeming with the newest and smartest apparel, things for the home and newest Spring merchandise, at prices which make this indeed a store of moderate price.

We want you to know that your charge account is at your disposal, and we hope you will soon take advantage of its convenience.

We appreciate your past patronage, and want to do all we can to help you enjoy your visits here.

Very truly yours,

* * *

Dear Mrs. Schmuck:

For over 65 years we have enjoyed the patronage of the people of Quincy and many other places in this vicinity. As we grow older, we appreciate more and more the importance of keeping old friends.

We have found that you have not made any purchases through your charge account for some time, and, if it is due to any failure of ours, we wish that you would write us or tell us about it so that we may improve our service to you.

Foremost of all our assets, we place the goodwill and the friendship of our customers, and we sincerely hope that we may have the opportunity to serve you in the very near future.

Very sincerely,

* * *

Dear Mrs. Brown:

Your account has just been placed on my desk, showing that it has not been used for some time. Naturally I am concerned and wonder why you have not used it recently.

Sometimes something happens in our service that displeases a customer. We rarely hear of this in the credit department. Will you take just a minute of your time and tell us if we have failed somewhere along the line? We sincerely miss you as a valuable charge customer, and, now that Easter is so near, I hope to receive a report that you have used your account again.

Speaking of Easter. Have you seen the new Spring things ready for you in our Fashion Centers? This is a special invitation to call. You may use either your monthly charge or our convenient Budget Plan for your purchases. Our merchandise is moderately priced and styled in the usual Brock manner—of course.

I want to take this opportunity to thank you for the privilege of having served you in the past. I hope the Bookkeeping Department will advise me soon that your account is again active. This would please me very much.

Cordially yours,

Letters to find out why good customers have not purchased. Where there is reason to believe that the customer has ceased purchasing because of some dissatisfaction, a letter such as the following may be used:

Dear Mr. Kirk:

If, one of these days, you should discover that a mighty good friend of yours had suddenly stopped visiting you without apparent cause, you would want to know why, wouldn't you? You can readily understand, then, our concern at not having heard from you for several months.

Although we have always done the very best we could to meet your requirements, being human, we may have fallen down in some particular. If this is so, won't you please let us know?

You can rest assured that, whatever the trouble was, we will make things right. We shall not feel that we are a success until your account bears evidence that you are again one of our regular customers.

Very truly yours,

* * *

Dear Mr. Beebe:

In checking through our sales records today, I noticed that you haven't given our salesman an order for merchandise for a considerable time.

Every day our stocks are being augmented with new items that will be of much interest to your customers and profitable for you to handle. I hope that it will be convenient for you to give our salesman an order the next time he calls.

We value your business highly, and it occurs to me that we, in some manner, have not served you properly. I would appreciate your using the enclosed envelope to tell me why our salesman has not been getting your business.

Sincerely yours,

* * *

Dear Mr. Jones:

Each year we have a sort of "housecleaning" of our office files, and I was surprised when I found that your name was not among our customers for the winter just past.

I wonder, Mr. Jones, if we have fallen down somewhere in our service to you in the past?

Naturally, we like to keep our customers. So if something has happened to cause you to buy elsewhere, we would like to know about it, and to do what we can to make things right.

Give us a ring, Mr. Jones, and let's talk it over.

Sincerely yours,

* * *

Dear Mrs. Allaway:

Just a friendly note to tell you that we have missed you. . . . Your charge account has not been used for several months, and we are wondering why.

This is the time of year when a Forman charge account should serve its best purposes . . . a season of special opportunities!

You can tell by the calendar that winter is here . . . social festivities have begun . . . Thanksgiving and Christmas are coming apace! Your charge account fits this program like the proverbial glove!

It is yours to use . . . and it applies to this store and this season with special emphasis because Forman's devotes all its thought and energy to the things that make a woman's world!

We want you to have all the advantages that Forman's can offer in the way of fashion and value . . . we want to make your charge account serve you in the most practical and personal way!

So we cordially invite you!

And we invite you also, if our service in the past has been anything less than completely satisfactory, to tell us frankly. We like to know our shortcomings . . . so that we can correct them. No postage will be required when you use the enclosed envelope, and we'll appreciate hearing from you.

Sincerely yours,

* * *

Dear Mr. Smith:

Our records show that it has been some time since you last visited our service department. We are wondering whether the service you received was entirely satisfactory? Whether the work was well done; your car ready when promised? Did you receive courteous attention?

Our service manager is anxious to demonstrate to you what an efficient department he is operating; how he can save you money on your regular specials. He will tell you how we give fifteen dollars worth of oiling and greasing for ten dollars.

We will be pleased to call for and deliver your car at no additional charge.

We await an opportunity to be of service to you, and add your name to our growing list of satisfied customers.

Yours very truly,

* * *

Dear Mrs. Spellman:

The faint heart that ne'er won the fair lady of old wouldn't do a very thriving grocery business in this day and age.

For we realize it's not enough to supply clean, fresh, dependable foods at the right price. Besides that, a grocer must be willing to render the extra measure of service to make and keep friends. He must possess the courage to ask *why* when one whose friendship and business he values stops trading with him.

So we wish you would tell us with the same frankness: What has happened to break our past relationship? If it has been due to any fault of ours, we'd like to know about it and correct it immediately.

Just a few lines on the back of this letter will be enough. The enclosed postage-paid envelope is for your convenience.

With every assurance of our appreciation of this courtesy, let us leave the reminder that your account here is always good—that you will receive the best telephone-delivery service we can possibly render—and that we will be glad indeed to serve you again.

Hopefully yours,

Old customers return after receiving checkup letter. Businesses selling a product or a service that has a limited life will increase sales by writing to customers about the time that renewal should be made. Such a follow-up shows desire to serve, efficiency, and progressiveness. Here is a letter that brings repeat business to the Haskin Optical Company, optometrists and manufacturing opticians of Miami, Florida.

As a vital service to my patients, careful records are kept of all examinations, the condition of the eyes, and the date when a checkup should be made.

This is to remind you that an examination of your eyes should be made at this time, as it has been over two years since they were examined.

To safeguard previous work and to insure future good vision and appearance, an appointment is desirable now.

Please telephone 2-5526.

Sincerely yours,

Stunt letters to revive inactive accounts. The stunt letter has been used with considerable success in reviving inactive accounts. A couple of these letters are illustrated in Figures 51 and 52.

Cottrell's Clothing Store of Denver used a "doghouse" letter effectively. The first page of the letter, which is of greeting-card size, and is mailed in a plain white envelope, hand-addressed, shows the front of a doghouse. The door of the house is cut out and through it peers a homely but likeable bulldog. Beneath the house is the caption, "Are We in the Doghouse?" The third page shows the same bulldog in between two messages, which read:

"It's Been a Long Time

. . . since you have used your account with us and we're wondering

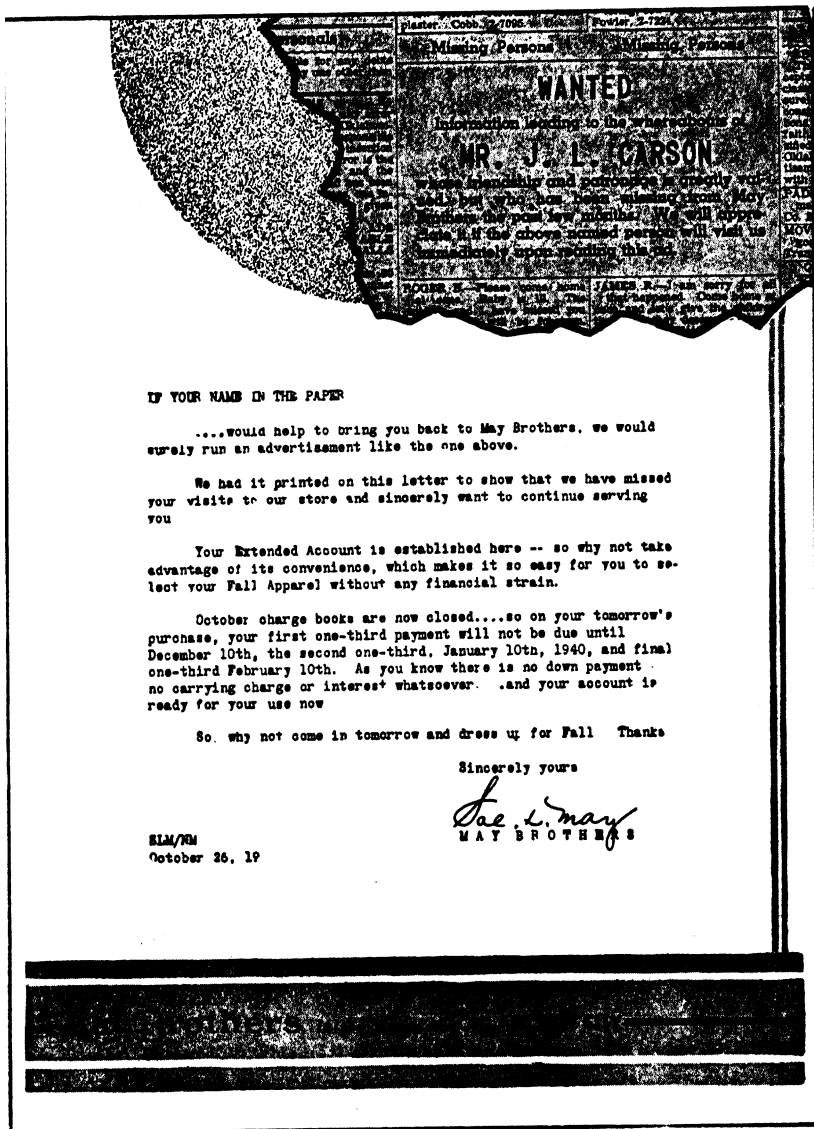


Figure 51. A Cleverly Personalized Stunt Letter to Inactive Patrons.

Mr. Sam Jackson
2419 Elaine Avenue
Oklahoma City, Okla.

Dear Mr. Jackson:

As I turned the page

of my memo pad

this morning ...

I was forcefully reminded that you have not given us the opportunity to serve you lately. When a good customer stops buying, it makes us feel that we have fallen down — that somewhere our service or carefully selected clothing has not measured up to expectations.

We have tried to make our store a little different from most stores. Our business has been built on the confidence our customers have in us and our merchandise. We have tried to make our relationship with customers a little more personal and friendly.

Since you have not been in lately, you will be more delighted than ever before ... for right now all stocks are at the peak of completeness! You will enjoy seeing the new styles in straw hats, not weather suitings, and seasonable furnishings.

Just to see you in the store again will make us feel good.

Expectantly yours,

Tom Baugh

TOM BAUGH - Men's Wear

TOM BAUGH • MEN'S WEAR •

117 NORTH ROBINSON, PERRINE BUILDING
OKLAHOMA CITY, OKLAHOMA

Figure 52. A Cleverly Personalized Stunt Letter to Inactive Patrons.

if we are 'in the Doghouse' with you. We would appreciate hearing from you."

and:

"Won't You Stop In

... and see our new styles in clothing, hats, and furnishings. We have some exceptional values at this time, too."

followed by the store's name and address.

5. LETTERS THAT BUILD GOODWILL

Points that help make goodwill letters effective. In the section on "Tone and Spirit of the Letter" some fundamental principles of good letter writing were given. In addition to applying these principles to the letter that aims specifically at creating goodwill, the letter writer should give attention to the following points:

1. Give the envelope an individual personality by individually typewriting the address.
2. Send the letter first class so that it arrives sealed.
3. Avoid printed indicia, since these smack of mass mailings and lithographed form letters.
4. Use a good-quality paper to give the letter importance.
5. Have the letter paper and envelope match.
6. Give the letter eye appeal. See the section on "Making the Structural Parts of a Letter Perfect."
7. Be certain that the details of the inside address are absolutely correct. Calling a person by an incorrect name, addressing him as "Mr." when he is a "Dr.," and errors in his address will annoy the reader and hurt the letter as an ambassador of goodwill.
8. Make the letter personal in the salutation by using the expression *Dear Mr. Jones*, instead of the impersonal *Dear Sir*, *Dear Madam*, and the like.
9. Make the letter radiate warmth, friendship, and sincerity.
10. In closing the letter, use terms that harmonize with a warm personal tone, such as *Very sincerely yours*, *Yours sincerely*, *Cordially yours*, and the like.
11. Wherever possible, have the goodwill letter signed by someone in authority. A letter signed by the President, Vice-President,

General Manager, or other ranking officer will create more goodwill than one that is signed by a person holding a modest title or no title at all.

Holding and Increasing Goodwill of Established Customers

Old customers need attention. More and more companies are coming to realize that they have been taking their regular patrons for granted and by so doing have been overlooking opportunities to retain the goodwill of steady customers. They go after the accounts that they have lost with letters to recapture goodwill, but, while the account is alive, neglect to write letters that will keep it from becoming inactive. Business affords many opportunities for writing to old customers with the purpose of building goodwill. Some of these opportunities and the letters that have been written for the purpose are given in this section.

Appreciation for patronage. A few words thanking an old customer for his patronage can be written at any time. Such letters should be completely friendly and should express in simple, direct language that "rings" true the sincere appreciation of the sender. They should by no means include any sales talk. Here are some examples:

Dear Mr. Belden:

This is the kind of letter that I am most happy to write, because I am taking this means of thanking you for your constant choice of the Palmer House as your home in Chicago.

Your name ranks high among those of our loyal and distinguished "repeat" clientele who, year after year, give us definite proof that we are setting the pace of hotel leadership in Chicago. It is to friends like you that we owe the success of the Palmer House.

And so I wish to express my sincere appreciation of your patronage and to assure you that we shall continue to do everything within our power to maintain our present standards of service, cuisine, and furnishings.

Thank you again.

Very sincerely yours,

Appreciation for meeting obligations promptly. When a customer has met all his obligations under an installment purchase, a letter thanking him and inviting him to continue to use the credit facilities of the company will help build goodwill.

Dear Mr. Gould:

Your fully paid Accommodation Coupon Book account has just been placed upon my desk, and I am writing to thank you personally for the satisfactory manner in which you cared for this responsibility.

We hope to enjoy the privilege of serving you again within the very near future. Our facilities of credit are always at your disposal.

Very truly yours,

A "thank you" for prompt payment. An occasional word of gratitude for prompt payment will be appreciated and long remembered. A "thank-you" letter is one way of building goodwill. The following letter is an example:

Dear Mrs. Walters:

Time does have a way of passing, doesn't it? And we are apt to forget the part you and many others have contributed to our pleasant relations during the past year. It seems most of us are inclined to remember the less pleasant contacts we have experienced, and often overlook the happy ones.

As we close another year, we again recall that the dependable customer, who pays promptly, many times seems to go unnoticed. You have definitely placed yourself in this class, and if we did not send at least one letter expressing our sincere appreciation, we should doubtless appear ungrateful.

It has been a pleasure and privilege to have your account on our books, and your record sets a high standard for others to attain. We look forward to a mutually pleasant and profitable year during 19—.

Very sincerely yours,

A "thank-you" letter for a large order. This type of goodwill letter falls in the class of acknowledgment of orders and is treated along with other acknowledgments on page 576, *et seq.*

Thanking an old customer for a recommendation. A customer who has recommended your company and brought you a new customer deserves a letter of appreciation. Since such letters are not common in business, they are appreciated and remembered. The following letter shows how simply such a message of gratitude can be expressed:

Dear Mr. Fleming:

This afternoon, when Mr. Walter Pearson purchased a new Standard portable typewriter, he told me that your recommendation had been an important factor in his decision.

I am very glad, Mr. Fleming, that your experience with your Standard portable has been like that of thousands of other Standard owners. The highest compliment you could pay our product was your recommendation of it to a friend.

Mr. Pearson will get a great deal of service and satisfaction from his new Standard, and I am confident he will thank you again and again for recommending this splendid machine. And I want to thank you, too, for your faith in our product and in our organization. We appreciate your friendship and shall always try our best to merit your confidence.

Cordially yours,

Seasonal greetings build goodwill. The holiday season at the end of the year is an ideal opportunity to strengthen friendship through a letter of seasonal greeting. Like the letter of "thank you" for patronage, it should omit any sales message. The letter which best reflects a genuine spirit of friendship is a natural, informal note written with some living person in mind. The following message is an example of a goodwill builder. Such a letter can be written either on plain letterhead or on paper decorated in holiday style.

Dear Mr. Pollack:

Thirty years ago, when this business was founded, I used to enjoy a friendly chat with each of our patrons at this season of the year.

But the rapid growth which has made this a larger, better organization has necessarily deprived me of the opportunity to shake hands with all our friends—to thank them personally for their confidence and goodwill, and to wish them the best of everything at this holiday season.

I am well aware of the substantial part you have played in making 19 such a successful year for us, and I wish to express my deep gratitude for your friendship and patronage.

And since I have not had a chance to greet you personally and wish you a Merry Christmas, I take this occasion to do so by letter. I sincerely hope that Christmas at your house will prove a fitting climax for 19. , and that the coming year will bring you more of success and happiness than any which has gone before.

Cordially yours,

Friendly service letters. Goodwill is promoted by offering special, unexpected service to customers. Opportunities present themselves during the year for showing evidence of a desire to serve customers well, and a letter to them will be appreciated. For example, you may want to offer old cash customers a charge account; you may be ready to give the car a customer bought from you a

free inspection; you may want to send customers a free useful gift. A friendly service letter is shown below.

Dear Mrs. Buchanan:

Shopping trips downtown, these hot summer days, are nothing less than hard work. The heat, the crowds, the trip down and home again—all these consume energy and tire one out.

We can't control either the weather or the crowds, but we *can* offer you a cool, comfortable place to rest and get your "second wind" in the heat of the day.

Next Monday, June 22, our new air-conditioned lounge will be ready for use. The lounge will occupy the entire north half of the fourth floor. It has been completely equipped with easy chairs, tables, reading lamps, ash stands, and all the other accessories that make for perfect comfort. The latest issues of all the leading magazines will be at your disposal. And most important of all at this time of year, the temperature will always be 72 degrees.

We invite you to make our new lounge your headquarters when you are spending the day downtown. It is an ideal place to meet friends, while away idle moments before an appointment, or "just plain rest." Simply take the elevator to the fourth floor and follow the green neon arrows.

Cordially yours,

Invitation to special events. If you are planning a special event of some kind, invite your customers to attend. They will feel that you appreciate their patronage, and many will welcome the opportunity to attend your special functions. Thus, if your department store is having a special style show, invite old customers to it; if a series of lectures are to be given in the store, ask your customers to come; if it is a special demonstration that is to be given, let your customers know about it. Here is a personal invitation to attend a series of book reviews.

Dear Mrs. Chalmers:

We have good news for you! Beginning next Thursday afternoon, July 18, McIntire's will conduct a series of ten weekly book reviews of the latest outstanding contributions to fiction. You are cordially invited to attend, and an easy chair is being reserved for you.

The book to be reviewed next Thursday is John Jennings' new novel, *Next to Valour*, published by the same house that gave us *Gone With the Wind*. The reviewer will be a well-known Kansas Citian, Miss Elizabeth Larrimore, herself a novelist of established reputation.

This review, and all others in the series, will be given in our air-condi-

tioned lounge on the third floor. All will begin at 2:30 P.M. On Thursday we shall announce the name of next week's reviewer and the title of the novel to be discussed.

We are sure you will enjoy this Thursday feature during the next ten weeks, for we have engaged only persons whose background and experience distinguish them as experts in the art of book reviewing.

Please plan to be with us next Thursday afternoon at 2:30.

Cordially yours,

Congratulations to old customers. Especially in small communities is there opportunity to build goodwill by congratulating customers upon their accomplishments, or upon the success of those closely related to them. If you watch the local newspapers, you can easily find many opportunities for congratulations. Such events as advancement to a better position, election as the officer of a club or lodge, publication of an article or book, graduation of children from school, the purchase of a home—all are worth a friendly note of congratulation. Here is one such letter sent to a customer who had been appointed assistant manager of a hotel:

Dear Mr. Sanford:

Davison's wishes to congratulate you on your appointment as Assistant Manager of Hotel Georgian, which we find mentioned in today's press.

When we hear of the advancement of one of our young citizens, we are especially interested, because the young people of today are the leaders of tomorrow. The future of Atlanta depends upon the young people of today—and what Atlanta becomes in the future interests Davison's immensely, because we are a substantial part of it and are eager to see it progress.

In your new position we wish for you every success. Our relationship with you in the past has been a pleasure, and we hope it will continue through the years.

Cordially yours,

Letters of sympathy to customers. Friendly notes that sincerely offer sympathy to a customer who has suffered bereavement, accident, or other misfortune can be a welcome surprise. They can, however, be an intrusion if they are not simple and straightforward. The letter of condolence to a customer upon death of a near one should be very brief; it should not philosophize on the meaning of death or quote scripture or poetry. Here are a few examples:

Dear Mrs. Griffith:

I learned with deep regret of the recent passing of Mr. Griffith and wish to extend my sincere sympathy in your bereavement.

Very sincerely yours,

* * *

Dear Mr. Jurgens:

Upon my return to Topeka this morning, I was grieved to learn of the sudden passing of Mrs. Jurgens. You have my deepest sympathy. I only wish there were some small way in which I could lighten your burden of sorrow.

Sincerely,

* * *

Dear Mrs. DeWitt:

I have just read in this morning's paper that your home was damaged by fire last night. I know only too well how discouraging this experience is, for I have been through it myself.

If there is anything I can do to help you, such as providing packing boxes or storing household articles in our storeroom, please let me know. Any service I may be able to render will be a pleasure.

Sincerely yours,

Letters requesting suggestions and criticisms. When you go to old customers for suggestions and criticisms, you usually expect to profit by the replies. This type of letter can at the same time be a goodwill builder because: first, it shows the customer that you value his opinion; and, second, it shows that you are trying to offer a better product or service. Letters that ask such a favor will bring better response if the following points are covered, although not necessarily in the order mentioned:

1. Present a concise statement of what is wanted.
2. Justify the request. If possible, demonstrate the advantage that will accrue to the individual or firm which is asked to supply the information.
3. Express appreciation.
4. Make it easy for the person to answer the inquiry. A self-addressed card or envelope, or a suitable blank on which the information may be given, can be included, if appropriate.

The following letter was made easy to answer by phrasing the questions so that only a check was required:

Dear Mr. Stone:

We want to give you a better product. Will you help us?

We are now planning the revision of the Insurance Tax Service. As an old friend, we think that you can give us some mighty fine ideas on how it can be improved. We want this Service to give you in a practical, clear, and authoritative way all of the material that will help you plan estates and take advantage of the tax laws to sell more insurance. To achieve this purpose, we are asking you to become an assistant editor, so to speak. All you need do is to answer the few simple questions on the enclosed sheet and return it to us as soon as possible.

The new Insurance Tax Service will be off the press next April—rewritten and revised from cover to cover, with hundreds of new ideas to help you sell more insurance. Among the things we would like you to pass on are (1) whether the size of the Service should be increased; (2) whether or not we should enlarge the section on Business Insurance; and (3) whether or not you would like a new section on How to Use the Social Security Act to Sell More Insurance.

We want to help you make 19 and 19 banner years. But at the same time we do not want you to pay for material that is of no value to you. With your co-operation we can accomplish both of these aims. Will you, therefore, kindly check the enclosed questionnaire, and return it to us, now, before it slips your mind. It will take only a minute.

No postage is required. Just check the statements that you agree with and drop it in the mail.

Sincerely yours,

Here are other letters that merely ask for suggestions:

Dear Mr. DeLong:

As you know, we are doing everything possible to assure you of the very best of service at The Star. But something may have occurred to you—either a new service or an improvement in one which we already offer—that would make The Star more helpful to you.

If you have such a suggestion, we'd certainly appreciate your giving it to us. Won't you write it on the enclosed business reply card, which requires no postage, and drop it into the mail?

Thank you.

Sincerely yours,

* * *

Dear Mrs. Howell:

Our organization is greatly interested in serving you satisfactorily.

May we have the pleasure of hearing how we can best meet your requirements, to enable us to be of service to you more frequently?

For your convenience a stamped, addressed envelope and a correspondence card are enclosed.

Very truly yours,

Acknowledging criticism or suggestion. Every letter of criticism or suggestion should be promptly acknowledged with a friendly "thank you" for the writer's interest and help. The acknowledgment builds goodwill by showing appreciation and eagerness to improve the product and service. Here is one example of a letter acknowledging praise and one replying to a criticism:

Dear Mrs. Ridgway:

Thank you for your very welcome note of October 2, included with the check in payment of your account.

We certainly appreciate your kind words of approval and encouragement. Naturally, we are very glad that you have found our delivery service so dependable, and we assure you that every effort will be made to maintain this standard.

If ever you think of any additional way in which we can serve you, please let us know.

Sincerely yours,

* * *

Dear Mrs. Sturgis:

Thank you for your helpful letter of June 10. We certainly appreciate a customer who stops to do us a good turn, and that is exactly what you have done.

You are quite right in your suggestion regarding our elevator service, and we are making every effort to remedy the situation as soon as possible. You may have noticed that four of the elevators have not been in operation during the past two weeks. These are being equipped with the newest and most efficient automatic floor regulators, which will practically double their speed. As soon as they are ready for operation, the remaining four elevators will be similarly equipped.

Within the next month these improvements will be completed, and we feel sure they will enable us to give our customers prompt and efficient elevator service.

Meanwhile, we know you will bear with us. We sincerely appreciate your interest and helpful co-operation, and we shall strive always to deserve it.

Cordially yours,

Letters of apology. Goodwill can be retained through prompt and courteous handling of a customer's complaints. Patronage is most easily lost through failure to express regret and offer a reasonable adjustment to a customer who has reported a flaw in merchandise or service. This subject is so important that an entire section is devoted to it. See page 588, *et seq.*

Welcoming back the old patron. When a customer has returned to the fold, a letter showing that you have missed him and are glad to see him back will please and flatter him. The opportunity to build goodwill in this way should not be missed. Such letters are usually short and to the point, as is the following one:

Dear Mr. Fuller:

It was good to see you drive in again yesterday, for we haven't had the pleasure of serving you lately.

I hope that you will stop often in the future and give us a chance to prove by our actions that we're sincerely glad to have you back.

Cordially yours,

Goodwill letters in times of emergency. When emergencies such as war, reconversion to civilian production, and the like, cause companies to refuse orders, to delay deliveries, to raise prices, or in other ways to make drastic changes in regular customer relations, letters may be used to preserve customer goodwill while the critical adjustments are being made. Two such letters follow.

When a direct-mail firm was unable to publish a supplementary catalogue because of constantly advancing prices on its products, it met the situation with the letter reproduced on page 571 (Figure 53).

In the following letter the company is telling its distributors of new policies governing prices, shipping, billing, deliveries, and so forth.

To Sylvania Distributors:

The unusual conditions under which the radio industry is operating and the uncertainties of the future call for a redefining of a number of our policies governing prices, shipping, billing, etc.

We do not think it necessary to review these conditions in any detail, since they are so well known to you. By the same token, it is idle to even attempt to prognosticate what may be ahead of us.

We will continue to aggressively promote your business and our own in the renewal field. We sincerely trust that you will have the resolve and foresight to strengthen your position in the field of distribution at a time which bids fair to provide unusual opportunities in both present profits and long range growth and stability.

The following outline of policy has been set up to insure fair and equitable treatment of all of our customers:

1. All orders on hand, placed prior to June 1, for immediate shipment, will be billed at current prices (Distributors' Net Cost Prices, effective February 1, 19—).

2. All orders placed on and after June 1 will be accepted subject to the following conditions:

(a) Prices in effect on the date orders are received will apply on such portion as shipped within 30 days from date of receipt.

(b) In the event all or any portion of such orders are not shipped within 30 days from date of receipt, prices in effect as of date of shipment will apply.

(c) Any orders or parts thereof which remain unshipped by us after 30 days from date of receipt, may be cancelled by the customer. (Such cancellation would destroy any seniority which would otherwise be accorded.)

(d) Should a revision in prices become necessary, such revision will take effect upon announcement.

May we with all sincerity thank you for the satisfactory relations we have had in the past and solicit both your goodwill and your business in a future period where mutual understanding and cooperation will be well near a necessity.

Very truly yours,

Building Goodwill Among New Patrons

Letters to new customers. The new patron is forming an opinion of your firm the moment he enters your place of business and makes his first purchase. If he is satisfied with his purchase and with your service, he may return; but if you give him something beyond this minimum, which he has a right to expect, he will be more likely to remember your firm favorably and keep coming back.

Appreciation to new charge customers. The opening of a charge account creates an opportunity for writing a goodwill letter. Such letters usually thank the customer, welcome him as a user of account facilities, express desire to serve, and may explain the credit policy of the firm. The following letter is an example:

Dear Mrs. Ormsby:

It was a genuine pleasure to open a charge account for you. Thank you most cordially for this expression of confidence and goodwill.

This is the beginning of what we feel sure will be a lasting friendship, and we want you to be perfectly satisfied in every respect with our merchandise and service.

You can do us no greater favor than to speak frankly if any detail does not "measure up" at any time, so we may make amends immediately.

For our part, we will exert every effort toward making your dealings

here so thoroughly pleasant and satisfactory that you'll always look back upon the opening of this account as the beginning of a most worthwhile association.

Sincerely yours,

Letters of appreciation for initial purchase. Letters of thanks to new customers, written after initial purchases, add a personal touch that often results in bringing the customer back more quickly. The examples below build goodwill by a friendly expression of appreciation.

Thank you, Mr. Hollingsworth . . .

. . . for selecting Freeman's for your purchase yesterday.

We hope you will come back often and give us the chance to prove by our service how much we appreciate your patronage. We'll certainly do our best to give you satisfaction plus.

Cordially yours,

* * *

Dear Mrs. Nicholson:

It is a pleasure to welcome you as a customer of the Home Laundry and to thank you sincerely for the opportunity to serve you.

As I take a very real and personal interest in your satisfaction, I should greatly appreciate your letting me know—by mail or telephone—how you liked our handling of your first laundry.

More than that, I want you to know that my interest does not stop with the first bundle. If at any time our workmanship or service should not merit your enthusiastic approval, I should consider it a favor if you would call me at once.

We are ready and eager to serve you in every way possible.

Cordially yours,

Another example of acknowledging the order of a new customer with a view to building goodwill is given on page 578.

Offering the credit privilege. An offer to reliable cash customers to use the charge-account privilege not only builds goodwill but, when accepted, frequently results in greater sales to the patron. Such letters should show the advantages of the charge privilege, explain the credit-payment policy, and emphasize the desire to serve. The following letters have a strong service keynote, and are cordial and convincing. Other examples will be found in "How to Write Credit Letters," page 1037, *et seq.*

Dear Mr. Chandler:

When we cashed a check for you the other day, it occurred to us that you might enjoy a convenient service which makes cash payment unnecessary—a charge account.

The charge privilege eliminates the need of paying individually for each purchase and makes it convenient for you to order by telephone. It also provides you with an itemized statement of each month's purchases and brings to you all our announcements of special events arranged for charge customers.

It will be a pleasure to extend our credit service to you, and we're sure you will find an account a real convenience and time saver. Won't you fill out the enclosed credit card and return it to us in the postage-free envelope?

Your account will be ready twenty-four hours after we hear from you. It will place all our service facilities at your convenience.

Cordially yours,

* * *

Dear Miss McClellan:

The Auerbach Company has selected your name from a very limited and preferred credit list and is happy to extend to you an invitation to open a charge account.

All that is necessary is simply to sign and return the enclosed card or call at the Department of Accounts whenever convenient and leave your signature so that we may make up a Charge-plate, the most modern convenience in shopping. This affords you protection, quicker service, and eliminates any possibility of error.

You simply ask to have the merchandise charged—there is no waiting for change or other delay; it is easy to purchase at any time, whether you are prepared with the cash or not. A charge account also makes it easier to order by telephone or mail.

An itemized statement is mailed each month, and, by charging, you eliminate the nuisance of sales tax tokens by having the tax included in the bill at the end of the month.

We offer you service and values which will merit your frequent visits to the store, and we sincerely hope that you will enjoy the convenience of a charge account here.

Very cordially yours,

Checking up on customer satisfaction. A message to a customer some time after he has made a purchase, inquiring as to whether or not he is satisfied with the product or service, will show that you have the customer's interest at heart, that you are dependable, and that you wish to fulfil your service guaranty. Such letters are bound to result in increased respect, confidence, and goodwill on

the part of your patrons. Here is how some companies have written to their customers along these lines:

Just checking up, Mr. Kimball,

. . . because we want to be absolutely sure that you are receiving complete satisfaction from the new tuxedo you bought here recently. We shall not be content to mark the transaction "closed" until you are satisfied one hundred per cent.

So, if the alteration of any detail would give you more pleasure in wearing your new "tux," please let us attend to it for you.

This store is founded upon quality merchandise and efficient service. Our complete lines of leading brands are your guaranty of top-quality goods when you come here to buy wearing apparel. And we want our service to measure up to the same high standard.

So please help us see to it that you are always completely satisfied.

Sincerely yours,

* * *

Dear Mr. Turner:

It is a pleasure to welcome you to the family of owners of the new Chevrolet, and it is a double pleasure because we at Hammond Jones Company had the privilege of delivering it to you.

Your new Chevrolet is built to give you thousands of miles of dependable, economical, and trouble-free motoring, but just as you have insurance on your property, so the insurance of that service will be found in regular visits to our Service Department.

We are quite proud of our reputation as an outstanding Chevrolet Service Department—a reputation that has been built on skilled workmanship and confidence.

Be sure to take advantage of the free inspection and adjustments service which you receive at 500 miles. The purpose of this free service is not only to protect your car, but also to enable our Service Manager to meet you and advise you about the attention your car should receive. I am sure you will find everyone in his department efficient and eager to give you the best of attention.

And if I can ever be of service to you, I hope you will call on me.

Cordially yours,

* * *

Dear Mr. Jones:

We wish to thank you for your recent coal order. And we hope you found the coal satisfactory—and that our men took good care of you in the delivery.

We select our coal with care and try to train our men so that our deliveries are made promptly and with courtesy.

If your order was not handled perfectly, we want to know about it—for we are here for just one purpose—to please you.

And we hope you will like us well enough to remember our phone number the next time you get chilly!

Warmly yours,

Inviting the use of other departments. A letter to patrons who have confined their purchases to one or two departments, inviting them to visit others, will make better friends and better customers. Such a letter should appear as a friendly suggestion rather than as a sales solicitation letter. The following examples graciously offer to be of service to such customers:

Dear Mr. Sheldon:

I want to send you a personal word of appreciation for opening your account with this bank. All our facilities are at your disposal, and I hope you will utilize the services of any department which can help to make your banking a pleasure.

Our trust, title, bond, investment, and safe deposit department are all equipped to render efficient service. Moreover, any of our officers will welcome a visit from you at any time his counsel may be of assistance.

When you opened an account here, this became your bank. Please let us serve you in any way which will add to your convenience.

Cordially yours,

* * *

Dear Mrs. Reynolds:

Because it is a pleasure to serve you—and we are eager to do it completely and well—we'd like to make a suggestion.

All next week, March 12-17, our Kitchen Carnival will be in full swing. This is an annual feature of our Household Department in the Basement. There will be special displays and demonstrations of the newest time- and effort-saving devices in kitchenware. In addition, our entire stock of up-to-the-minute kitchen utensils will be on sale at a 10 per cent price reduction.

We are sure you will find a visit to our Household Department next week both interesting and profitable, so we cordially invite you to come in.

Sincerely yours,

Goodwill Through Acknowledgments

Acknowledging the order. Orders can be acknowledged through personal letters or through routine form letters. The latter, if used, should be confined to the usual order. In the following situations

acknowledgment by personal letter is essential for the maintenance of goodwill:

1. Large orders from old customers.
2. First orders from new customers.
3. Orders that are not clear.
4. Delays in shipment.
5. Goods out of stock.

Promptness in acknowledging orders is absolutely necessary, for delay will break down goodwill.

How to acknowledge a large order. Goodwill may be retained by writing a special letter to an old customer who has placed a large order. Such a letter will accomplish its purpose if it is definite, cheerful, and persuasive. Divide the letter as follows to get a good structure:

1. Thank the customer.
2. Restate the order.
3. Tell how the order is being handled and shipped.
4. Include a paragraph or two of sales talk, concentrating upon the sales points of the goods and the possibilities for profit.

The following letter carries out the usual plan of a good letter acknowledging a large order from an old customer:

Dear Mr. Calton:

Thank you for your generous order of March 12, which we take as an indication of your increased business in our goods.

3 doz. Frocks of Fashion,		
No. 208, Size 36	\$39.00	.. \$117.00
2 doz. Ultra Smart,		
No. 214, Size 34	35.00	... 70.00
4 doz. Utility,		
No. 126, Size 38	19.00	 76.00
6 doz. French Inspiration,		
No. 38, Size 34	49.50	 297.00
Total		<u>\$560.00</u>

These gowns are being shipped today by American Railway Express and should reach you on Thursday in time for your week-end trade.

Your customers will find in these smart models just the quality and

design most in vogue among women who pride themselves on their dress. As in the past, we are supplying the unusual, the different, the uncommon modes, at lowest prices. To sell our gowns is to convince your fashionable trade that you have initiative, and that you are the one who first features new styles for those who look for inspiration and individuality in dress.

The styles that we are sending you are authentic, original, and appropriate.

The most critical buyers will immediately recognize the quality and style of these gowns.

We assure you of our personal attention and of our steadfast desire to please you.

Sincerely yours,

Getting the goodwill of a new customer. Here is a workable outline for constructing the letter to a new customer with a view to building goodwill:

1. Show appreciation of the order and welcome the customer.
2. Restate the order.
3. State how the order is being handled and shipped.
4. Include one or two paragraphs of sales material creating confidence in the house, its goods, and its service.
5. Stress interest in the customer's needs and convince him that the firm means to serve him.

The following opening and closing paragraphs make the preceding letter suitable for a new customer:

Dear Sir:

Thank you for your order of March 17. I wish to welcome you into our large family of satisfied customers and to assure you that we shall do everything in our power to make the sale of our gowns profitable to you. We take a genuine interest in the increased profits of our dealers.

* * *

Your interests are our interests. Quality, style, and price make our gowns easy to sell to a discriminating trade. You are situated so that we can supply you unfailingly and immediately. Gowns shipped you today reach you tomorrow morning. This service means that you can carry a representative stock in your store, depending upon us to replenish your stock within twenty-four hours after you have made sales. The result, for you, is a small investment with large profits, made possible by our highly organized and always dependable service.

Sincerely yours,

How to perfect incomplete orders. Occasionally an order is received that lacks essential information. The letter sent to the customer for additional information should be developed as follows:

1. Acknowledge the order with thanks.
2. Ask for the additional information without letting the customer feel that he is at fault.
3. Present the request as a desire to give prompt and efficient service.

A letter such as the following will bring the necessary information that was missing in the order.

Dear Sir:

Thank you for your order of October 10.

The size that you desire was omitted from your order for M-289, suede gloves.

Please send us this necessary information, which will enable us to fill the order exactly as you want it. As soon as we hear from you, we will release the order for immediate shipment.

Very truly yours,

Acknowledgment when shipment is delayed. If the order has been delayed, a letter must be written that will keep the customer satisfied. Here are suggestions for the contents of such a letter:

1. Explain what has been done with the order.
2. Express regret.
3. Offer an adjustment.

Gentlemen:

Your order No. 245 was billed out this morning over the Southern Pacific Railroad. I am very sorry that there was a delay, but this was unavoidable because of a shortage of the quality of coal we know your trade requires.

Ever since the recent labor troubles, we have had a little difficulty in keeping supplied with this grade. We could, however, have made prompt shipment of an inferior grade, but as I know that your customers demand the best, I waited until we had coal of the quality you usually buy.

I hope this supply reaches you before your present stock is exhausted.

Very truly yours,

Acknowledgment when goods are out of stock. The letter explaining that goods are out of stock will retain goodwill if it includes:

1. An acknowledgment with thanks and an expression of regret that the order cannot be filled.
2. An explanation that the predicament is unusual and will not recur.
3. A substitution, if past experience with the customer warrants this procedure.
4. A request for permission to substitute some other item, with a sales talk to induce acceptance.
5. An offer to be of assistance if no substitution can be made.

Some of the above suggestions are carried out in the following letter:

Dear Madam:

Thank you for your order of November 10.

We are sending you today, by parcel post insured, the ten yards of poplin that you ordered.

Because we realize your immediate need for this material, we have taken the liberty of sending the poplin in two lengths, 8½ yards and 3 yards, as this is all we have in stock. The new supply will not be available until November 18.

We are certain that you will like this poplin, which is of the best quality, and for which we are glad to accept your check in full payment as for ten yards.

Sincerely yours,

How to handle an order that cannot be filled because of policy.

When an order cannot be filled, the letter of explanation to the customer will build goodwill and leave the way open for future business if it is constructed as follows:

1. Express appreciation for the order.
2. Courteously explain the reasons.
3. If pertinent, show the customer that the refusal is in his own interests.

The letter on page 542 refuses the order in a straightforward, businesslike way. It uses the opportunity to sell the product at the same time.

How to acknowledge remittances. The routine acknowledgment of remittances may be covered by a courteous form letter, unless other factors make a special letter advisable. The following forms are among many that can be used:

Gentlemen:

Thank you for your check in payment of your May account.

We wish to express our appreciation of the satisfactory manner in which you have made your payments.

Very truly yours,

* * *

Gentlemen:

We have received your remittance of \$, for which we thank you. The amount will be placed to your credit.

Very truly yours,

* * *

Gentlemen:

Thank you for your check for \$, which we have placed to your credit. The unpaid balance is now \$

Very truly yours,

Building goodwill through acknowledgments of inquiries. Answers to inquiries about the company's products are really sales letters. These were discussed on page 546, *et seq.*

In the following paragraphs we are concerned with acknowledgments of inquiries not directly related to sales. Every company receives requests at times for information, help, data to be used in research, and the like. The answer affords an opportunity to build goodwill. Below are some suggestions for letters complying with requests and refusing requests.

Retaining goodwill while refusing requests. In a letter refusing to grant a request, the following procedure will guard against alienating goodwill:

1. Be courteous and concise.
2. Refuse the request, state the reason, and express regret.
3. Close with sales material, if pertinent.
4. Offer other assistance, if possible.

Here is a letter that refuses information and at the same time creates goodwill.

Dear Mr. Smith:

Mr. Jones has just turned over to me your letter of February 3, as I am in charge of the correspondence activities of the firm.

Yes, we believe that the people in our organization have written some unusually good letters. Nothing would give me greater pleasure than to

select a portfolio of these and send them to you, but unfortunately I am not permitted to do so. It has always been against the policy of the firm to send out our letters for publicity purposes.

If Mr. Sullivan were in town I might try a little salesmanship on him and see if he wouldn't be willing to make an exception in this case. However, he is in Hawaii, and I would not have time to contact him before you will need the letters.

So, under the circumstances, there is nothing that we can do to help you in the preparation of your manuscript—except give you our best wishes that it will be completely successful. There is much need for missionary work in the field of business letter writing, and anyone who is undertaking something of this kind deserves the heartiest commendation.

Very truly yours,

Getting the maximum goodwill from complying with requests. The person who receives the material requested will naturally feel kindly disposed toward the company granting it. However, more is gained in goodwill if a letter accompanies the material. Such a letter should cover the following:

1. Cheerfully grant the favor.
2. Offer further assistance.
3. Close with sales material, if pertinent.

Here is a letter that obtains the maximum goodwill.

Dear Mr. Smith:

I consider it a pleasure to be able to assist any way I can in furnishing material for your new manuscript on better business letters.

The letter I mailed to our agents and salesmen last December, a copy of which is enclosed, was intended to stimulate their business-building efforts, and, at the same time, bring to their attention the importance of good public relations. The response to this letter was all that could be expected.

I hope that you will be able to use this in your book.

If I can be of further assistance, please consider me at your service.

Cordially yours,

How to acknowledge letters that praise. Voluntary letters from customers expressing satisfaction with a product may form excellent testimonials for future advertising and sales letters. Such letters require a cheerful, gracious acknowledgment, with a request for permission to quote the comments of the customer in advertising matter.

The acknowledgment may also be used to sell the satisfied cus-

tomer another product, provided the customer has a real or potential need for the article offered.

The following letter, asking permission to quote the customer's comments, brought the requested "O.K." and an order for the product offered.

Dear Miss Bell:

Thank you for your letter of the 21st, received today, enclosing remittance of \$3.56 to cover our invoice for *The Private Secretary's Manual*, and containing your gratifying comment on the material in the book.

If we may have permission to quote your comment, along with that of other alert secretaries, in some of our advertising matter, will you please return this letter to me with your "O.K." and initials opposite this paragraph.

In the hope of returning the favor, I would like to make a suggestion that I think would be in line with your ideas of what constitutes a good secretary.

We have just published a book—*Successful Salesmanship*—that contains at least a score of particularly good ideas and "ammunition" for the sales manager of a company like John Morris & Co. A brief description of the book is attached.

Since we will gladly send the book on five days' approval, my suggestion is that you return the attached card—which is all ready to sign and mail—and let me send you *Successful Salesmanship* with the distinct understanding that if the Sales Manager, after seeing the book, isn't perfectly willing to O.K. our memo invoice for the price of the book—only \$5—then you need only mail it back to us. That will end the matter.

A stamped, addressed envelope is enclosed for the return of this letter with your "O.K." opposite the second paragraph giving permission to quote your comment on the Secretary's Manual.

Yours very truly,

Letters received in absence of addressee. A letter received in the absence of the addressee should be immediately acknowledged by the secretary or assistant of the addressee if it cannot be answered with authority by someone else. The purpose is to build goodwill through courtesy.

Dear Sir:

In the absence of Mr. Van der Beek, I wish to acknowledge your letter of July 25, which is being held for his attention on his return early next week.

Very truly yours,
(signed) Mary Fitts
Secretary to Mr. Van der Beek.

Dear Sir:

Your letter of August 14 arrived the day after Mr. Tauber left on a three-week selling trip. Since it does not appear to require an immediate reply, I will hold it for his attention on his return.

Very truly yours,
(signed) Joan McGregor
Secretary to Mr. Tauber.

General Goodwill Letters

A letter to disappointed applicants. If applicants for positions are future prospects for the company's product, a letter to those who are not successful in obtaining employment will help to build goodwill. The following letter of the L. E. Waterman Company suggests the type of letter suitable under such circumstances:

Dear Mr. Morgan:

Thank you, Mr. Morgan, for the interest you display in Waterman's, evidenced by your application for a position on our sales staff.

We regret that our response must be disappointing, as there is no opening at the present time, nor do we anticipate any in the near future. However, we are retaining your application in our files, should we have the occasion to engage a man of your qualifications.

We shall be glad to call on you if the opportunity arises. And meanwhile, we wish you very early success in attaining a position that will be both profitable and pleasant.

Very truly yours,

Goodwill through letters of introduction. Letters of introduction must state the name of the person being introduced, the reason for the introduction, and sufficient personal or business details to make the introduction appear appropriate.

When written for delivery by the person being introduced, the letter is left unsealed, and it is properly assumed that it has been read before being presented.

The tone of the letter of introduction depends upon how well the writer knows the principals and the reasons for writing it. Although the letter may actually be conferring a favor on the addressee by bringing him in contact with a person who will be valuable to him, it is usually written in the spirit of asking a favor. For example:

Mr. Harry W. Overbeck,
Winchendon Knitting Mills,
Ware, Massachusetts.

Dear Mr. Overbeck:

This letter will be handed to you by my friend of long standing, Horace Bowes, a well-known writer of articles on business.

Mr. Bowes is engaged in the preparation of a book in which he hopes to outline the development of the textile industry during the last half-century. He believes that through a talk with you he could obtain both information and inspiration that would be valuable to him in this work.

Since you are *the* authority on your particular phase of the industry, he has asked for an introduction to you. I shall appreciate any courtesies you may show him, and I know he will.

Sincerely yours,

The following letter is less formal than that above because it is based on a first-name acquaintanceship:

Dear Harry:

When we had lunch together, I mentioned Jack Hunt, who was doing some big things for one of our lines. Since that time he has decided that he ought to be handling something that will give him a bigger opportunity.

I don't know whether you're interested in getting additional sales right now or not. Maybe you're too far behind in production as it is.

But seriously, talk to this fellow, won't you? Jack Hunt is a good egg. The next lunch is on me.

Sincerely,

The business-pleasure introduction. Sometimes a letter of introduction is written for a business acquaintance who is traveling for pleasure. For example:

My dear McKenna:

John Henry Mainwaring, my good friend and the company's valued client, is on his way to the Pacific Coast. He is accompanied by Mrs. Mainwaring, which means that it is a pleasure trip.

I told him that if his route led through Toledo, he should not fail to look you up, and he said he wouldn't. So if he presents this letter, he has!

Don't let him get away without seeing the factory. And ask him if he'd like to have any checks cashed. Take it from me, they'll be good.

I shall appreciate any courtesies you may show him.

Sincerely,

Introduction on cards. Often an introduction written on a personal or business card adequately fulfills the purpose if there is no necessity for formality or detailed information. Such introductions might read:

Introducing Mr. Samuel A. Leffingwell.

(signed) George D. Twelvetreets.

To introduce Ned Gannon. Treat him right.

(signed) Jack Halliburton.

This is George Rand, the man I spoke to you about.

(signed) H. F. Jones.

Goodwill through thank-you letters. Thank-you letters help to build goodwill. Opportunities are constantly arising in which they can be used in business. The letters may be short and should not be forced. The following examples illustrate circumstances in which they are useful:

Gentlemen:

Thank you for allowing us the 2% cash discount on our bill after the ten days had elapsed. Basing our belief on your invariable fairness through all our dealings, we felt sure you would make this allowance when you understood the circumstances.

Sincerely yours,

* * *

Dear Mr. Fordyce:

I want to express to you my personal appreciation of your courtesy to our salesman, John Titus, when you learned of the disquieting news he had received from home. We are glad to report that his mother passed the crisis and is now resting comfortably.

The help you gave Mr. Titus made us all feel good.

Sincerely yours,

Goodwill through sympathy. A simple but effective way to gain the goodwill of employees is to show concern about them when they are absent because of illness. Here are two illustrative letters:

Dear Mr. Saunders:

I am no doctor, but I know I can help you. Here is how:

Your regular salary check will be sent each week to Mrs. Saunders as long as you are incapacitated. This will relieve your mind of financial worries.

Your work at the office will not get behind, as your good friends here have offered to absorb your duties while you are away. You don't have to worry about your work.

Your job will be waiting for you when you are ready to go on with it—but no sooner.

That leaves you with practically nothing to do except get better.

The boys at the office send you their best.

Sincerely,

* * *

Dear Miss Owens:

I was very sorry to hear of the accident that has laid you up in the hospital. I am told that it was not serious, but I know that it must be painful, and my sympathies are all with you.

My correspondence is being handled by the three other young women, but, without wishing to appear too critical, I feel as if I were working with my right hand tied behind my back.

We shall all be glad to see you when you are well enough to return.

Sincerely,

Goodwill through congratulations. One of the best ways of fostering goodwill in business is to take advantage of opportunities to send congratulatory letters. Such letters presuppose a certain degree of personal relationship. The tone of the letter is governed by the closeness of the relationship. Several examples given below show opportunities for building goodwill in this way.

Mr. Harvey S. Wing,
Boston Store,
Ottumwa, Iowa.

Dear Mr. Wing:

As one department store man to another, I wish to pay homage to your genius for dramatizing your window displays. The way you have worked out the selling idea for party gowns in your southeast window is masterly.

Congratulations!

Sincerely,

* * *

Mr. Howard M. Gurney, President,
Wickwire Hosiery Company,
New York City.

Dear Mr. Gurney:

I have just read in today's paper of your election as Mayor of Billings Center, and I hasten to congratulate both you and the community you represent. I am sure that you will bring to your job the same ability that has made your business such a success.

Sincerely yours,

Mr. Samuel S. Dakin,
Hotel St. Anthony,
San Antonio, Texas.

Dear Sam:

When a salesman breaks his own record for the size of an order, it may or may not be something for the sales manager to talk about, but—

When a salesman breaks all the records in his company—*that's news!*

You know perfectly well that I am talking about the Wales Company order.

Great work, boy.

Sincerely,

* * *

Mr. A. J. Wortman,
Cooperative Credit Association,
New York City.

Dear Mr. Wortman:

Your talk on "Collection Methods" at yesterday's Rotary Club meeting was instructive and interesting to everyone present. I congratulate you on your command of the subject and the manner in which you presented it.

Sincerely yours,

6. KEEPING GOODWILL IN ANSWERING COMPLAINTS

How to reply to complaint letters. The following are the chief points to keep in mind in replying to letters of complaint.

1. Answer the complaint or claim letter promptly—if possible, within twenty-four hours. Delay is liable to aggravate the customer's dissatisfaction. If a decision as to whether or not an adjustment should be made cannot be reached immediately, write a brief letter of acknowledgment, expressing regret for the cause of the complaint or claim and assuring the customer that an investigation is being made and that prompt action will be taken.

2. The adjustment letter is a sales letter; it should sell service and satisfaction. The object is to settle the difficulty in a manner satisfactory to both parties, to retain the customer, and to build goodwill.

3. The adjustment letter should assume that the customer is honest in his complaint or claim. Do not try to put the customer in the wrong.

4. Adapt the adjustment letter to the reader and show sincere appreciation of his point of view. Write the letter in a spirit of service and fair treatment.

5. Thank the customer for his letter, and for the opportunity that it gives you to explain your policies or to remedy defects in your goods or service. Take the view that the customer is benefiting you by his criticism. Do not express surprise at the customer's dissatisfaction or tell him that his is the only complaint you have received.

6. Emphasize the positive, constructive side of the adjustment problem. Do not revive the unpleasant aspects by restating the complaint or claim. Do not use offensive words and phrases, such as *you assert, you state, you say, you claim, your claim, your complaint, we cannot understand, we are at a loss, our records show.*

7. If the customer is in the right, explain the cause of the error on your part clearly, concisely, and completely. Express regret, but do not be effusive in apologies.

8. If the customer's letter is sarcastic, angry, or abusive, do not assume that this gives you license to reply in the same tone. Never show irritation, however much the circumstances may seem to justify it. If the customer is in the wrong, do not try to be funny or clever at his expense.

9. If the complaint or claim is the result of a misunderstanding on the part of the customer, do not suggest that he is ignorant or careless. Write a pleasant, friendly letter of explanation; do not adopt a superior tone.

10. Convince the customer of the justness of your decision.

Workable outline for an adjustment letter. The following is a practical outline for the adjustment letter:

1. Get on common ground with the claimant by thanking him for his letter or by expressing regret for the inconvenience caused him. Search out some point on which you can agree with the customer, even though this point be merely an expression of sympathy. An opening of this kind disarms the reader and puts him in a receptive mood.

2. Explain the facts in connection with the claim. However, do not restate the claim in full. Show that you have given the customer's letter careful consideration.

3. State cheerfully the adjustment action that you propose to take.
4. Close by expressing appreciation and a desire to co-operate.

Example of poor adjustment letter. The following letter illustrates the tone that should *not* be used in replying to complaint and claim letters:

Dear Sir:

We were very much surprised to receive your letter of January 27, in which you assert that the ECONOMY OIL BURNER recently installed in your home is not everything that we advertise our burner to be.

If the difficulty of which you complain were caused by faulty design or manufacture, it would certainly seem that we would get complaints from other people. Yours, however, is the only complaint that we have received, and in the past few months we have sold through our agents more than fifty burners in your state alone.

From what you say about the performance you have been getting, we believe that it is not the fault of the burner that the results are not all you had hoped for. The burner must have been poorly installed.

We advise you to get in touch with whoever installed your ECONOMY for you, and have it put right. We definitely do not advertise anything that is not true.

Very truly yours,

This same letter, rewritten in a better tone, might read as follows:

Dear Mr. Ferguson:

We appreciate very much your writing us direct with regard to the ECONOMY OIL BURNER that you recently purchased. The performance of every ECONOMY is guaranteed by us, and we welcome any opportunity to show that we are always ready to stand behind our guaranty.

We have mailed a copy of your letter of January 27 to our agents, John Brown & Company, who installed the burner for you. We have also instructed John Brown & Company to give the burner a thorough examination—to check the installation in every particular. In the event that any parts are found to be defective, they will be replaced at our expense. It will not be necessary for you to communicate with John Brown & Company; they will call at your home within the next few days.

Since I am anxious to number you among the many enthusiastic users of the ECONOMY, I wish that you would write me personally in, say, two weeks' time, and let me know whether the burner is operating to your entire satisfaction.

Very truly yours,

Letters granting adjustments and acknowledging error. A prompt, complete adjustment is in order when investigation shows that the goods were defective, that there was a delay in shipment, that a mistake was made in filling the order, or that some other error for which the seller is to blame occurred. A frank acknowledgment of the error should be written, and the customer assured that precautions have been taken to avoid similar trouble in the future. The seller should not try to defend himself or offer a lengthy explanation. Such an explanation will merely serve to develop in painful detail the shortcomings of the house. A brief, frank, cheerful letter is most effective.

Gentlemen:

Thank you for writing us on November 10 regarding the platinum setting that you ordered on October 29.

By immediately checking back, we found that a mistake had been made when your order was transcribed in our order department.

We are very sorry that you and your customer have been inconvenienced, but we are at the same time grateful to you for helping us place the blame and prevent similar mistakes in the future.

Although we have never, in the case of expensive settings such as yours, promised delivery in less than two weeks, I am personally taking care of your order and am having it handled so that you will receive the setting not later than Saturday morning.

Please be assured of our desire to co-operate with you, as we have in the past.

Very truly yours,

* * *

Dear Mr. Mitchell:

We are glad you notified us promptly that some of your sheets were damaged in transit.

No doubt the error was made by one of the inspectors in the shipping department. We try to use every safeguard to prevent such an occurrence, but, try as we do, there will be a slip once in a great while. Whenever an error is brought to our attention, we are glad to make things right as quickly as possible.

We have entered a replace order for the fifty sheets. These will be sent not later than Monday of next week.

We are very sorry that you have been inconvenienced, and in the future we shall do everything in our power to see that your shipments reach you in perfect condition.

Very truly yours,

Dear Mr. Gardner:

We were very sorry to learn from your letter of May 3 of the inconvenience caused you by the error in your last shipment. Despite the constant and diligent supervision that we give to filling orders correctly, it seems that once in a great while a mistake is made.

We are sending you today, by express, the case of canned peaches that you ordered.

With regard to the case of pears sent you in error, we should be obliged if you would hold this in the meantime. Mr. Stark, of our sales department, will visit you on Wednesday of next week. If you are not able to use the pears in your own trade, possibly Mr. Stark can dispose of them to another customer and save the cost of returning them to us.

We appreciate your writing us promptly concerning the error, and assure you that every care will be taken in filling your future orders.

Very truly yours,

How to handle complaints about service. When a customer complains about the service that he has been receiving, the letter of reply is most effective if it bears the signature of a vice president or other officer of the company. The signature of an officer has a conciliatory effect, in that it impresses the customer with the fact that his complaint has received serious attention. The letter may apologize for the difficulty, sympathize with the customer, and assure him that his business is appreciated and that his unfortunate experience has been unusual. It may close with the suggestion that the customer give the company further opportunity to prove the quality of its service, and that in the future his orders be directed to the personal attention of the writer.

Dear Mr. Lewis:

I very much appreciate your frank letter of August 4.

It was so specific as to details that I was able to take immediate action toward correcting a situation that obviously had no reason to exist.

I assure you of my regret at your inconvenience. May I suggest that you communicate with me whenever you find our service not up to the standard of your experiences before this incident.

Sincerely yours,

Vice President

* * *

Dear Mr. Wright:

Your frank letter of May 2 was referred to me, and, despite your request that no apology be made, I am writing you this letter, which, however, is to be a letter of thanks rather than an apology.

Once in a while I read a report in which one of our customers has (as in this instance) a real, honest-to-goodness reason for thinking that Graham & Company do not know how to fill an order correctly. I question whether, if I were you, I should have written as considerably as you did. I sometimes wonder, when such a report comes to me, why some of our customers don't take their business elsewhere without letting us know their grievance. That is why Graham & Company should thank you for telling us where we have fallen down in connection with your business.

Your order was filled on April 23. During that period we received more than double our usual amount of business. With the great increase in volume of orders, coupled with our desire to make immediate shipment of every order, and with a percentage of comparatively inexperienced employees, the ordinarily careful supervision and inspection of orders were probably relaxed. The management of a business such as ours, therefore, has to depend to some extent on the letters that come from customers; and it is for this reason that I welcome yours.

We want an opportunity to prove to you that Graham & Company can and do handle orders correctly; and since you have had so much misfortune in connection with your orders, I am going to ask that, in the event you do decide to give us an opportunity to prove that your recent experience is not typical, you send your next few orders to me personally, so that I may have them checked and satisfy myself that you are not going to be caused further inconvenience.

I am doing this because I am sure you are convinced that in buying from us you do save money, and that your sole reason for discontinuing your dealings with us is that we have made mistakes in recent orders.

Very truly yours,

Vice President

Handling complaints where carrier is at fault. If the carrier is to blame for delay in delivery, the letter should state the date and method of shipment and tell the customer that the goods are being traced at once. It may also ask the customer to write or wire collect if delivery is not made by a certain date, in which event a duplicate shipment will be forwarded.

The seller is usually not legally responsible for damage to goods that he delivered safely into the hands of the carrier, for it is the buyer's responsibility to seek redress from the carrier. However, as a service and a goodwill gesture, many companies make an immediate adjustment to the customer and then take upon themselves the filing of a claim with the carrier, with or without the aid of the customer,

as the situation demands. If the goods have been badly damaged, a duplicate shipment is forwarded immediately. If the damage is slight, the goods may be offered to the customer at a discount.

Dear Mr. Hayes:

Your letter of May 3 reached us this morning.

The shipment of furniture that you ordered on April 18 left our factory on April 23, N.Y.N.H. & H. freight, car #238967, and should certainly have been delivered to you not later than April 26. We have asked the railroad to trace the shipment immediately.

If the furniture does not reach you by May 7, please wire us collect, and we will forward a duplicate shipment at once, by express.

We very much regret the delay and hope that it will not cause you serious inconvenience.

Very truly yours,

* * *

Dear Mr. Davidson:

We were very sorry to learn from your letter of March 12 that the mahogany desk which you ordered as a birthday gift for your son arrived so badly damaged that you cannot accept it.

As the Chicago, Milwaukee and St. Paul Railroad gave us a receipt acknowledging that the desk was received by them perfectly crated, it must have been damaged in transit. Although our responsibility ends when the railroad has accepted the desk, we know how much you are interested in this handsome and useful gift for your son. We are, therefore, sending you today, by prepaid express, another desk exactly like the one you ordered. It should reach you promptly.

If you will please telephone the express company to make a special delivery immediately upon the arrival of the desk at their receiving station, you should have the desk not later than the day of your son's birthday.

Please leave the damaged desk in the hands of the railroad. We shall enter a claim with them so that you will not be troubled further.

We appreciate your writing us promptly and hope that your son will be pleased with the gift that you have chosen for him.

Sincerely yours,

* * *

Dear Mr. Kenney:

We were very sorry to learn from your letter of September 6 that the case of canned tomatoes included with your last order reached you in damaged condition.

As we received from the shipper a receipt showing that the goods as handed over to him were properly crated, the case must have become wet

and the labels soiled in transit. Although our responsibility ended when we delivered the goods into the hands of the carrier, we realize that you would have a good deal of difficulty in proving a claim, since the shipment was signed for before the damage was discovered. Under the circumstances we will be glad to co-operate with you, and suggest that you accept the tomatoes at a 20% discount.

While it is true that the labels are badly soiled and torn, the contents of the cans will still be in perfect condition, and no doubt you could readily dispose of the tomatoes by placing them on special sale. The 20% discount will enable you to do this without suffering any loss. It will also save you the trouble of repacking the goods and trucking them to the freight station.

If this suggestion is agreeable to you, please let us know, and we will credit your account with the 20% discount. We appreciate your writing us promptly and are asking the carrier to be more careful in handling your future shipments.

Very truly yours,

Handling the customer who is at fault. If the customer is in the wrong, but his claim is a small one or his business is valuable, it may be better to grant the claim than run the risk of causing offense. The expense in such cases may be regarded as an investment in advertising and goodwill. A reasonably liberal adjustment policy may make many friends.

Any letter covering this type of situation must be carefully written. The tone must be firm, or the customer may think the company an "easy mark." The fact that an exception is being made must be clearly indicated, and yet not in such a way that the customer will be irritated or humiliated by being made to feel that the adjustment is granted reluctantly or that he is receiving something to which he is not entitled. The object is, on the one hand, to sell service and satisfaction; on the other, to avoid setting up a dangerous precedent.

Dear Mr. Lewis:

Thank you for your letter of September 6. We were very sorry to learn that you have been having trouble with one of the stabilators on your STANDARD car.

A careful examination of the stabilator, as returned to us by your service station in Lynbrook, leads us to believe that the spring did not break because of defective materials or poor workmanship. The adjusting nut appears to have been turned three notches tighter than is necessary on a STANDARD. Each turn of the nut winds the stabilator spring tighter; and, when the spring is too tight, there is excessive strain during the re-

covery of the car springs after the car has passed a hole or obstruction in the road.

Our guaranty covers only defects in materials and workmanship. However, in view of the fact that you have driven your STANDARD less than three months, we are glad to make an exception and to put a new spring in the stabilator without charge.

We are today sending the stabilator to your service station in Lynbrook. It will take the service man less than fifteen minutes to attach it.

The enclosed booklet, "The Stabilators on Your STANDARD," may be of interest. We hope that you will derive full satisfaction from the easy-riding qualities that these stabilators give to thousands of STANDARD cars.

Very truly yours,

* * *

Dear Mrs. Davics:

We wish to thank you for writing us with regard to your purchase of July 14, and also for returning the shoes for our inspection.

We have examined the shoes, and certainly agree that they are in poor condition, considering the fact that they have been used for only three weeks. However, there seems to have been a misunderstanding between us. The shoes that you purchased were advertised, at a special price, as suitable for indoor wear. Shoes of this type are not strong enough to be worn for tennis.

Although the shoes cannot, of course, be repaired, we wish you to be fully satisfied with every purchase that you make here. Accordingly, we are sending you a shoe that is made of durable canvas and is also unusually light in weight. Many prominent tennis players wear this model, which we now have on sale at the remarkably low price of \$2.50.

If you wish to keep the shoes that we are sending, we will be glad to credit you with the full cost of the original pair, \$1.50, and to add the balance, \$1.00, to your charge account. We are doing this in appreciation of your patronage, and in the hope that you will continue to be one of our valued customers.

Very truly yours,

Letters refusing adjustments. If the claim or complaint is clearly unreasonable or unjust, the letter refusing an adjustment should state the facts in frank, straightforward style. Although the seller must, of course, absolve himself of blame or responsibility, he should be careful to avoid using a tone that seems to accuse the customer. A sincere statement of facts, together with an appeal to the customer's sense of fairness, is most effective. The facts speak for themselves in convincing the customer of the justness of the decision, and the writer's sincerity wins his respect and goodwill. Letters

refusing adjustments may properly be long, since the explanation must be complete.

Dear Mr. Jackson:

The return of merchandise shipped as ordered has become a costly problem, and, insofar as the goods mentioned in your letter of October 3 are concerned, we are asking your co-operation.

These goods were delivered to you some months ago in exact conformity with your order. If they did not please you or were not precisely what you had expected, we feel that in all fairness to us they should have been returned promptly.

Oftentimes, when delay in returning goods occurs, the styles are sold out, and delayed returns then become odd lots for which we have no outlet except at a sacrifice. This is true of the merchandise that you list in your letter.

It is quite embarrassing to us, as I am sure you understand, to offer you any credit less than one hundred cents on the dollar. On the other hand, however, I know that you would not expect us to assume an unwarranted loss.

We are willing to take back the goods and issue credit to you for whatever we can get for them. However, it would undoubtedly be better for you to move the goods through your own store at reduced prices. This, I am sure, would entail a smaller loss.

We leave the decision in your hands.

Cordially yours,

* * *

Dear Mr. Adams:

When a customer writes us for the privilege of returning boots for exchange or credit, the first thought that comes to him is that we have customers scattered all over the United States, and that we can use this returned merchandise by placing it with others.

Naturally, it's embarrassing to us to decline an accommodation, which in itself appears to be only a small item, but, when you consider that over a period of time such requests run into the thousands, you can appreciate that it would be necessary for us to set up a department requiring additional help and resulting in added expense. This expense cannot readily be added into the cost of the goods, because that would be unfair to those customers who carry large stocks and who do not ask for such privileges. They, therefore, should not be penalized with such costs.

It has been estimated that the cost of handling returned goods ranges from slightly over 50¢ per pair in the case of shoes, lace boots, and cowboy boots to slightly over \$1.00 in the case of riding and field boots. This last figure is greater because usually these boots must again be placed on the forms and retread.

All of us realize that a properly balanced stock is the only satisfactory method of fitting a customer. To attempt to fit a customer with a pair of boots, judging from the size of his or her foot, is almost impossible, due to the variation in the types of lasts, etc. There are times when you feel you cannot afford the risk of keeping a special size in stock, if the boots do not fit, and it is then that you think of an exchange or return.

In our fifty-odd years of dealing with merchants, we have found most of them to be fair. The trouble, if any, has been that we have not always understood each other's problems. In this case, if you are willing to reimburse us for the extra handling cost, plus postage both ways, and if the bottoms have not been scratched or soiled, the deal is made. Is this satisfactory?

Yours very truly,

P. S. Write your reply on the back of this letter and drop it into the mail.

* * *

Gentlemen:

Thank you for your letter of May 4 regarding the shipment of furniture delivered to you on April 28. We were very glad to hear from you, especially since you are one of our new customers, and your letter gives us the opportunity to explain our policies.

We regret that we cannot refund the freight charges paid by you, in the amount of \$18.35. It has always been our policy to ship f.o.b. Chicago, the home of our factory. By doing this we can give you our merchandise at the lowest possible figure, which just covers the cost of production plus a small competitive profit.

Many firms ship their goods f.o.b. the city in which the retail store is located. However, since someone must pay the freight, and the seller cannot afford to do so, the charges are added to the cost of the merchandise. We do not believe that this policy is fair. What it really means is that the total freight charges are divided among all the customers of the house, regardless of the fact that some are located only a few miles away from the factory while others are in Maine or California.

We endeavor to bring you the high quality of EASYREST FURNITURE at the lowest possible price. We hope that the merchandise recently delivered to you is entirely satisfactory and that we will have many business dealings in the future.

Very truly yours,

* * *

Gentlemen:

The charge of \$7.50 for the halftone cut we made for you, to which you refer in your letter of August 3, covers only the actual cost of manufacture.

Your impression that the charge is too high is understandable, for the cost of making such cuts varies greatly. Not only the fineness and clearness of the reproduction, but also the quality of the printing paper, affect materially the labor charge involved in any particular cut.

Our engravers are employees of long standing, who know thoroughly the quality of paper and the type of presses we use. Consequently they are able to do their work with a minimum loss of time and can produce precisely the results required.

After taking these factors into consideration, you will, we are sure, willingly remit the full amount of our statement. You have our assurance that the charge is regular and in accordance with our established rates.

Very truly yours,

* * *

Dear Mr. Hopkins:

We wish that it were possible to grant your request of December 10. Were we to do so, however, we should be compelled in all fairness to do likewise for the several thousand people who purchased STANDARD cars this summer and fall. It would be exceedingly difficult to know where to draw the line.

Styles change in automobiles just as they do in furniture and clothes and hats, and it is impossible to make an adjustment as a result of such changes. For instance, a man would not think of going to his local hat dealer with a hat that he had purchased a month previously to ask that he be given a rebate merely because a new style had just come out.

Your local dealer did not act in bad faith, because no dealer definitely knows just when a model will be changed. When you purchased your STANDARD, you made your selection on the basis of value and assured satisfaction. Only the most modern production methods and our large resources enabled us to manufacture that model to sell at that price.

It is not our policy to stand still. Whenever we find any improvements that have been thoroughly tested, they are embodied at once. Hence, the STANDARD that will come out of the factory six months from now will doubtless have some improvements which are not yet in production. For the same reason the car that we will be building a year hence will differ still further.

You can readily see, therefore, that it is never going to be possible to have the latest model, or perhaps we should say the ultimate model, because our engineers and designers are constantly striving to bring out a better and better automobile.

It may interest you to know that I personally purchased a new STANDARD only eight weeks ago, although by waiting I could have had one of the new models at a saving. We are confident that the car that we manufacture has no superior, and we are sure that you will more and more appreciate your own STANDARD as time goes on.

Very truly yours,

Handling the customer where nothing is really wrong. In many cases a complaint will be made that shows the user of the product needs further education in its use. A proper handling of the situation will save expense, build goodwill, and satisfy the customer.

In the fountain pen industry, for example, the greatest common complaint is so-called "leaking." In almost all cases, the pen itself is absolutely perfect, but its use has been imperfect. To ask people to send their pens in immediately would involve handling expense to the company and a service fee to customers. Furthermore, the impression would be created that the pen is faulty—something to be avoided if the pen is perfect.

The L. E. Waterman Company found the following letter an excellent solution to the problem:

Dear Mrs. Seale:

We're glad you wrote and gave us the opportunity to make any necessary adjustments to your Waterman's gift pen so that it gives you the writing satisfaction millions of other Waterman's users experience.

Rather than inconvenience you immediately by asking you to send your pen to us, may we make this suggestion. Many instances of leaking are caused by improper filling of the pen. When the pen is almost empty, the great amount of air in the barrel will expand and force a few drops of ink out.

Make certain that these "almost empty periods" are kept few and far between, by making certain that your pen is completely full when you fill it. Keep the entire nib under ink for the count of ten, after you snap the filling lever back into place. Give your pen a good big drink of Waterman's ink.

Then, at the first sign of ink flowing heavier again, refill—and you should have no repetition of the trouble. But if these simple instructions do not help, if something is actually wrong with your pen, by all means send it to us at our main office in Newark. We'll be glad to give it our thorough and complete attention.

Very truly yours,

Handling the satisfied customer who asks too much. In many lines of business the owner of a product that has given satisfaction over a period of years will offer the product back to the company in exchange for a new one on the assumption that the company will value the testimonial and possibly use the old product as a relic. The L. E. Waterman Company, for example, receives many letters

from people with old fountain pens who offer them in exchange for new ones. To make the exchange would be unprofitable; to refuse the offer might create ill will. The following letter solves the problem by showing why the offer cannot be accepted and interposing a fair and mutually profitable trade-in for those who do want a new pen:

Dear Mr. Swanton:

Thank you for the very kind offer of your fountain pen and a letter of testimonial regarding it.

We have never offered to exchange 30-year-old Waterman's for new ones, Mr. Swanton, for a very good reason. Strange as it seems, there are far too many Waterman's pens, 30 years and older, still in active service. Then, too, the sentimental and curiosity value of pens that age still performing perfectly deters owners from returning them.

As we have many of these old veterans in our display cases now, we're certain your pen would be of far greater service working for you, than merely reclining on display for us. Should it need some minor adjustment to restore it to perfect working order, we'd be glad to look it over for you.

Or, if you'd prefer to trade in your old Waterman's for a new one, we'd accept it as one-third payment for any new pen retailing at up to \$5.00, in accordance with our special trade-in plan for the convenience of Waterman's patrons.

Thank you again, Mr. Swanton, for your courtesy and consideration, and, if we can be of service to you, please don't hesitate to get in touch with us.

Very truly yours,

7. LEGAL ASPECTS OF BUSINESS LETTERS

Business letters and the law. The law cannot prevent a person from writing anything he pleases, but it can and often does make him responsible for his statements. A letter may involve a person in a contractual obligation; it may subject him to liability for injury to the reputation of another person; it may be used in a lawsuit as evidence of an admission against the writer's interests. The lawbooks are filled with cases in which a letter, thoughtlessly written, has cost the writer endless embarrassment and thousands of dollars. A proper understanding of the legal consequences of a written statement, a moment's consideration of the contents or phraseology of the letter, might have avoided the litigation entirely or changed its outcome.

The dangers of careless letter writing are further increased by the

fact that the law may hold a person responsible, not only for the letters which he himself writes, but for those written by his agents and employees. An agent may, by correspondence, bind his principal to contracts entered into within the scope of his authority. A principal, or employer, is responsible for libelous letters written by his agent or employee, not only where the agent or employee was carrying out express directions or acting pursuant to express authority, but also where he was acting in the usual course of his employment. Admissions of an agent made in letters within the scope of his authority are allowed as evidence against his principal. A person is, of course, always liable for letters written by his agent or employee where he ratifies them expressly or by his conduct acquiesces therein.

Contracts by Correspondence

What a contract is. A contract has been defined as an agreement by which two parties mutually promise and engage, or one of them promises or engages to the other, to give some particular thing or to do or abstain from doing some particular act. The contract is created by a proposal or offer by one of the parties and an acceptance thereof by the other. It may be oral or written, express or implied. The following elements are necessary to make the contract valid and enforceable:

1. The parties must be competent to contract. A person under 21 years of age is an infant according to law and is not competent to contract; an insane person cannot enter into a contract, although he may be held liable for necessities supplied to him.

2. There must be an agreement between the parties—that is, a clear and definite offer on one side, and an unconditional and unqualified acceptance of the offer on the other.

3. The agreement must be supported by a consideration—that is, something of value in the eyes of the law, in the way of price or compensation that may be a benefit to the party promising or a loss to the person to whom the promise is made.

4. The subject matter of the contract must be legal. Gambling and usurious contracts, for example, are illegal.

A letter may constitute a contract. A letter containing a proposal, signed by the person making the proposal, may constitute an

offer, and a reply acquiescing in the proposal, signed by the person to whom the offer was addressed or by his duly authorized agent, may constitute an acceptance. The two letters together may result in a valid and enforceable contract. To establish a contract by correspondence, the offer must be clear and definite, and the acceptance must be without conditions or qualifications. An acceptance upon terms varying from those offered is a rejection of the offer and puts an end to the negotiations unless the party who made the original offer renews it or properly assents to the modification suggested. This does not mean that all the terms of the agreement must appear in a single letter or even in two letters. The complete contract may be gathered from a series of letters between the parties, determining step by step the various terms of the contract. It must, however, be clear from the correspondence that the minds of the parties have met with respect to the material elements of the contract. A circular and price list announcing goods for sale at specified prices is generally considered simply as an invitation for an offer and not an offer itself. The final determination of whether or not it is an offer depends upon the intent of the parties as gathered from the correspondence between them.

May oral statements contradict the terms of a contract evidenced by letters? Where letters contain a definite and complete contract, the law will not permit oral evidence to show what the contract between the parties was. This protection against variation or contradiction is furnished by the so-called "parol evidence rule." The parol evidence rule is a general rule of law which holds that, in the absence of fraud or mistake, extrinsic evidence is not admissible upon a trial to show that the real agreement of the parties was different from that expressed in a writing; nor where a writing is free from ambiguity is parol evidence admissible to explain its meaning. If a series of letters does not contain all the terms of the contract, either in the proposition made or in its acceptance, parol evidence may be allowed to prove the exact terms of the contract.

Letters as memoranda satisfying the statute of frauds. The term "statute of frauds" is used to describe the laws in the various states requiring certain contracts and transfers of property to be evidenced by a writing signed by the party who is to be charged

therewith, or by his duly authorized agent. The following agreements, among others, are subject to the statute of frauds:

1. An agreement to answer for the debt, default, or miscarriage of another person.
2. Agreements not to be performed within one year from the making thereof.
3. Transfers and contracts for the transfer of real property and interests therein.
4. Contracts for the sale of goods, wares, or merchandise in excess of a certain amount (which varies in the different states), except where a part of the goods is accepted and received by the buyer or where he gives something in part payment.

No particular form of instrument or language is required for the written memorandum. Any document, written either to evidence the contract or for any other purpose, is sufficient if it states all the essential elements of the contract with reasonable certainty and is signed by the party to be charged or by his agent. A letter may be a sufficient writing to satisfy the statute of frauds, and several letters may be considered together in supplying the essential elements of such a memorandum as will satisfy the statute. The writing need not be addressed to the other party to the contract; a letter to the writer's agent may constitute an adequate memorandum of the contract.

Libelous Letters

What libel is. A libel has been defined as a false and malicious publication that tends to injure the reputation of a living person or the memory of a deceased person, and to expose him to public hatred, contempt, or ridicule. A corporation is a person in this sense, as well as an individual, and a publication that injures the corporation's credit, property, or business is actionable. The libel may be in the form of a writing such as a letter, a printing such as a newspaper, or it may be by signs and pictures. The statutes in some states define a libel, and in such cases the statute governs in determining whether or not a publication constitutes a libel. In Missouri, for example, a libel is defined by law as "the malicious defamation of a person made public by any printing, writing, sign, picture,

representation, or effigy, tending to provoke him to wrath or expose him to public hatred, contempt, or ridicule, or to deprive him of the benefits of public confidence and social intercourse, or any malicious defamation made public as aforesaid, designed to blacken and vilify the memory of one who is dead, and tending to scandalize or provoke his surviving relatives and friends." The fact that a statement which is libelous is proved to be true generally frees the person who made the defamation from civil liability therefor.

A libelous letter must be communicated to a third party in order to be actionable. In order that a suit may be maintained for a defamatory writing, it must have been read by someone other than the person defamed. A letter containing a libel that is addressed to the person libeled and is not read by anyone else is generally not actionable. The reader may be a copyist who reproduces a longhand draft. He may be a stenographer who takes the libelous writing by dictation and examines and transcribes the notes, although some courts have taken the view that publication to a stenographer is privileged and does not subject the writer to liability unless impelled by actual malice. A private letter between officers of a corporation in the course of a company's business, which is not communicated to others, has been held not to be published, and the corporation has been deemed immune from liability for any damages resulting therefrom. Similarly, a letter written and mailed by one agent of a corporation within the scope of his employment to another agent of the same corporation does not amount to a publication of such a nature as to constitute a libel against the corporation.

Must pecuniary loss be shown in a suit for libel? The law divides written words charged to be libelous into three classes:

1. Words libelous *per se*.
2. Words libelous *per quod*.
3. Words that cannot possibly bear a defamatory meaning.

The first class includes those words which are injurious upon their face and without the aid of extrinsic proof. The law presumes damage from the mere publication of the libel, and hence calls it libel *per se*—that is, "by itself." To be libelous *per se*, the words must be susceptible of but one meaning and must be of such a nature that the court can presume that they tend to disgrace and degrade a person,

to injure him in his business or profession, or to hold him up to public hatred or ridicule and cause him to be shunned and avoided. The second class of libelous words, libel *per quod* (meaning "by which"), includes those words which are reasonably susceptible of a defamatory meaning as well as an innocent one, and may be defamatory by reason of their imputation or of extrinsic facts; such words require proof of pecuniary loss. Words that fall into the third class, and cannot possibly bear a defamatory meaning, cannot be made the basis of an action for libel.

Examples of communications that are libelous. The following kinds of statements have been held in court cases to inflict an injury on a person's business, and to be actionable without proof of pecuniary loss:

1. Imputing insolvency or bankruptcy, or suggesting that a person is in pecuniary difficulties.
2. Imputing to a merchant or tradesman want of credit or responsibility.
3. Charging a merchant with falsifying his scales and selling merchandise to customers by false weight.
4. Charging one with receiving stolen goods.
5. Imputing want of knowledge, skill, or capacity to conduct business; but disparaging the merchandise of another person or the quality of his products, without imputing fraud, is not actionable without proof of pecuniary loss.
6. Imputing to an officer or employee dereliction of duty or lack of due qualification; but a letter to the employer of a person not engaged in a vocation requiring credit, to the effect that the employee refuses to pay his debts, sent for the purpose of obtaining the employer's help in effecting collection, is not actionable without proof of pecuniary loss.

Libelous letters may be privileged. Under certain circumstances communications that ordinarily would be defamatory are deemed by the law to be justified or "privileged." This means that no civil liability for their publication attaches, unless it is proved that the communication was made maliciously. Such privilege occurs where the communication is made by one person in pursuance of a duty—political, judicial, social, or personal—in a matter where his interest

is concerned, to another person having a corresponding duty or interest. The court determines in the first instance whether the occasion exists that justifies the publication of the defamatory statement in the absence of malice, and the person suing must then show the existence of actual or express malice in order to sustain his action. Malice, in this case, does not necessarily imply hatred, ill will, anger, wrath, or vindictiveness; it may mean no more than the antithesis of good faith.

When is the privilege lost? Whether or not a communication is privileged depends, not only upon the occasion which calls for the publication, but also upon the character of the communication. If, for example, the defamatory statement goes beyond the plain necessities of the situation, and uses excessive language, the privilege is lost, and the nature of the communication furnishes evidence of express malice. If a communication is privileged, the privilege covers all incidents of the transmission of the communication in accordance with the usual course of business. For example, the communication may be dictated to a stenographer for transmission without loss of the privilege. There is considerable authority for the view that communications between employer and employee are privileged where the communication relates to matters pertaining to the employment and is made in good faith.

Examples of libelous letters that are privileged. The following letters have been held to be privileged:

1. A letter written in answer to a request for information concerning a former employee.
2. A communication from a mercantile agency to a person having an interest in the particular matter, but not in a report issued for general circulation among its subscribers. A false publication that a person is a criminal, voluntarily made by a credit bureau to subscribers and others, is not privileged.
3. A letter written by a steamship company in the ordinary course of its business to the seller of merchandise to ascertain what it should do with merchandise left in its hands, in which it was stated that the purchaser had filed a petition in bankruptcy.
4. A letter written by an attorney for one creditor to another

creditor, stating that the debtor was insolvent, and requesting authorization to represent the creditor in bankruptcy proceedings.

5. An answer by a businessman to a confidential inquiry as to the financial standing of some individual, firm, or corporation, where the answer is fairly and honestly made, and the writer has reasonable and probable cause to believe his statements to be true.

6. A letter from the cashier of a bank to a stockholder regarding the financial standing of a surety on an official bond to the bank.

7. An answer to a request for information concerning the trustworthiness of another who has applied for credit.

Letters as Evidence of Admission Against the Writer

What is an admission that can be used as evidence against the firm? In order that a letter may be offered in evidence as an admission against the interest of the firm or person writing, the letter itself must contain an admission of some fact. A letter containing merely an innuendo from which one must conjecture what the writer was referring to cannot be used as evidence of an admission against his interest. A letter containing an admission against interest, to be allowed as evidence against the writer, need not have been written to the person who is offering it as evidence. It may be written to one who is not a party to the suit. For example, a letter written to a third person telling such person to deal with a designated individual, the writer's agent, and stating that any deal made with him would be satisfactory, was held in a court action to be competent proof of the agent's authority. An anonymous threatening letter, written to frighten a litigant into abandoning a pending suit, was deemed to be in the nature of an admission that a valid cause of action existed and that the writer had no defense thereto. A letter to a third party in which the writer stated that he had entered into a contract with the plaintiff was held admissible in an action on the contract.

When a letter containing an offer of compromise may be admissible as evidence of liability. The law favors the settlement of disputed claims without litigation, and to encourage such settlements the general rule has been laid down that an offer of settlement which has been rejected cannot be used as evidence of the existence or of the amount of liability. This fact is true whether the offer of

compromise is made before or after suit has been begun. Letters containing offers of compromise are, however, generally admitted in evidence under the following circumstances:

1. Where an offer of settlement is not rejected but is accepted and agreed upon and thereafter repudiated by the person making the offer; evidence of the offer is allowed in an action on the claim.

2. Where an admission against interest of particular facts, material to the issue before the court, accompanies an offer of compromise but is independent of it, the admission may be received as evidence tending to establish the facts stated, unless:

- (a) The admission is so integrated that the offer of compromise is inseparable from it.

- (b) It appears that the admission against interest is made as a concession to induce a compromise.

- (c) The admission is stated to be made without prejudice.

3. Where a letter making an offer to pay a certain amount is written and received before any controversy is pending as to the amount due, the letter is admissible to show the amount due. Similarly, a letter seeking to determine differences of opinion as to title to property, written long before suit is brought involving title to the property, is not considered an offer of compromise and is allowed to be introduced as evidence.

May letters be used as evidence against the recipient? A person to whom a letter is addressed is ordinarily not required to make any reply, and failure to answer the letter is no evidence of the truth of the facts stated therein. The reason for this general rule is that a person cannot make evidence for himself by his own "self-serving" declarations as to the character of his dealings or as to the liability of the person to whom the statement is addressed; a letter from one party to the other is incompetent to prove the statements therein in favor of the writer. There are, however, exceptions to the general rule. When a letter is written making a claim that in common experience would naturally be denied by the addressee, or where it is his duty to reply, the letter and the failure to reply may be admitted in evidence. Whether or not an unanswered letter is proof of an admission depends upon the circumstances of each case. Want of facility in writing, habitual delay in correspondence, or press of

business, may tend to lead to the conclusion that silence is not acquiescence.

A letter may extend or revive an outlawed debt. Statutes have been enacted in the various states limiting to a fixed period the time within which suit may be brought on certain causes of action. In New York, for example, an action on a contract, express or implied, other than a judgment or a sealed instrument, is barred unless commenced within six years after accrual of the cause of action—that is, within six years after the contract has been breached and a right to sue thereon has arisen. These statutes, commonly known as “statutes of limitations,” are the outgrowth of a legal fiction resting upon the theory that after a long lapse of time during which a claimant has made no assertion of his rights, the obligation is presumed to have been paid or discharged. The presumption may, however, be waived by the debtor in any one of the following ways:

1. By an admission or acknowledgment of the existence of the debt, from which a promise to pay may be implied; no express promise to pay is required, but a mere acknowledgment of a debt is not sufficient unless the acknowledgment is one from which a promise to pay is clearly inferable.
2. By an unconditional promise to pay the debt.
3. By a conditional promise to pay the debt, provided the condition has been performed.

The acknowledgment or promise may be made either before or after the entire statutory period has expired. If it is made before the expiration of the limited period, the old debt is vitalized for another statutory period, dating from the time of the acknowledgment or promise; if it is made after the statutory period has run, a new cause of action arises. In some states the statutes specifically require that an acknowledgment of indebtedness or promise to pay shall be in writing, signed by the party to be charged therewith, and in such cases signed letters or other signed documents are sufficient to satisfy the requirements. The letter or other document must, however, identify the debt explicitly and certainly; where there are several debts, a general acknowledgment of them is insufficient. Similarly, an acknowledgment is not sufficient if it leaves the amount of the debt in dispute. In some states the statutes requiring acknowledg-

ments or promises to be in writing have been held to apply only to those acknowledgments or promises made after the statutory period of limitations has fully expired.

8. GETTING SALES VALUE OUT OF LETTER LAYOUT

Stationery and letterhead. Rightly or wrongly, people judge many things by appearances. An old-fashioned letterhead, poorly designed and reproduced on cheap stationery, must inevitably make an unfavorable impression. The appearance of the business letter—the design of the letterhead, the quality of the stationery, and the neatness and correctness of the typing—has a real sales value; it forms in the mind of the reader a subconscious picture of the character of the firm whose name appears at the top of the sheet.

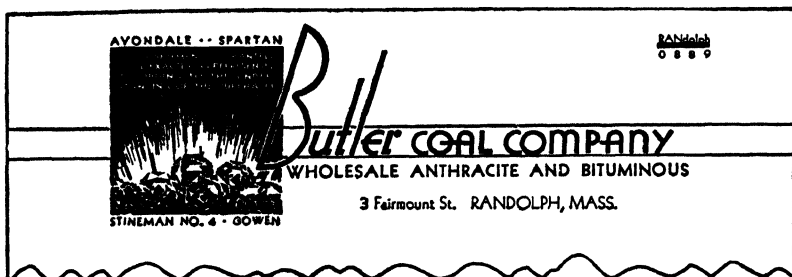
Most business houses use bond stock for their letter paper; ledger, parchment, and many book papers are also suitable. In bond stock the weight most commonly used is twenty-pound, although twenty-four or twenty-eight pound is sometimes employed. Bond stock of less than twenty-pound weight is not desirable.

The standard size of letter paper for commercial use is $8\frac{1}{2} \times 11$ inches; other sizes preferred by some firms are $5\frac{1}{2} \times 8\frac{1}{2}$ inches and $7\frac{1}{4} \times 10\frac{1}{2}$ inches. Many houses use stationery of note-paper size for business letters addressed to women. The size of the letter paper used for sales letters varies greatly.

The design of the letterhead should reflect the character of the firm. In general, simplicity and compactness are desirable. The best procedure is to have a specialist submit designs from which a choice can be made. A number of companies produce letterheads exclusively. Artists, printers, engravers, and lithographers also do excellent work in designing individual letterheads.

The most usual methods of reproduction are letterpress (printing), lithography, offset, engraving, embossing, die-stamping, and plateless engraving. Each of these methods has its advantages; selection may be made on the basis of taste and expense.

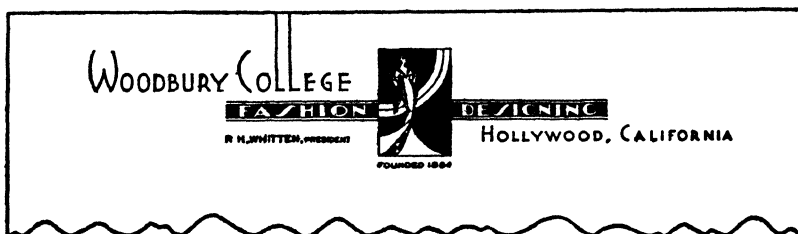
Examples of effective letterheads. A number of effective letterheads, representative of various lines of business, are reproduced on pages 612-613.



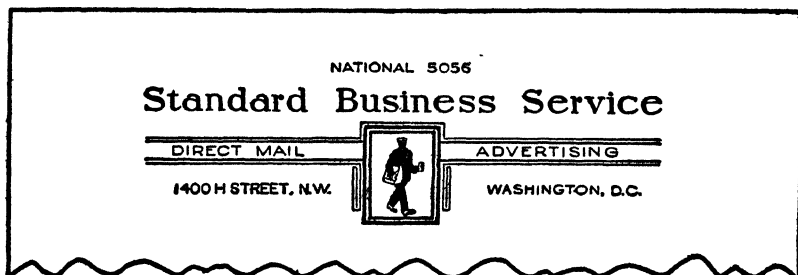
Printed in Black and Blue, on Franconia Bond.



Engraved in Black and Red, on Crane's Japanese Linen Bond.



Engraved in Black, on Howard Bond.



Printed in Black and Orange.

Figure 54. Examples of Effective Letterheads.

NOVO
ENGINE COMPANY

NEW YORK OFFICE 475 ST. LUCAS AVENUE

CABLE ADDRESS: NOVO LANSING, MICHIGAN; CODES: BENTLEY'S; GENERAL
 TELEGRAPH: WESTERN UNION UNIVERSAL EDITION A.S.C. FIFTH EDITION

LANSING
 MICHIGAN
 U.S.A.

TELEPHONE 8-1908

Lithographed in Grey, on Howard Bond.

THE HUSSEY MANUFACTURING COMPANY

IRONWORKERS SINCE EIGHTEEN THIRTY-FIVE

STRUCTURAL STEEL AND ORNAMENTAL IRON

PHONE 39-2 • NORTH BERWICK, ME

Printed in Blue and Red, on Rockledge Bond.

Stephen
 BAILEY
 7 0993

J. C. SHUTE COMPANY, INC.

WHOLESALE DEALERS OF COMMISSION MERCHANTS
 • FOREIGN AND DOMESTIC FRUITS •

231 WASHINGTON STREET *New York*

*Designed and engraved by Nahm
 Photogravure Co., N. Y. C.
 Engraved on Adirondack Bond*

JOHN A. BROWN COMPANY

JOHN A. BROWN President
 JOHN H. DUNKIN Vice Pres

208-221 WEST MAIN STREET

APPLIATED WITH
 BROWN-DUNKIN CO. TULSA

OKLAHOMA CITY

FOREIGN OFFICES
 LONDON
 PARIS
 BERLIN
 VIENNA
 FLORENCE
 BELFAST
 BRUSSELS

NEW YORK OFFICE
 126 W 31ST STREET

Printed in Black, on Arrowhead Bond.

Figure 55. Examples of Effective Letterheads.

Setup of the letter. The competent secretary or stenographer gives careful attention to the mechanical setup of the letter—the arrangement on the page, the width of the margins, and the position of the date, the inside address, the salutation, and the complimentary close. Modern business practice has established certain conventions of good usage and correctness in respect to such matters; observance of these conventions reflects good taste.

The standard styles in which letters are set up are:

1. Full block (Figure 56).
2. Block (Figure 57).
3. Semiblock (Figure 58).
4. Indented (Figure 59).
5. Official (Figure 60).

Some of the less commonly used styles are:

1. Hanging paragraph (Figure 61).
2. Simplified (Figure 62).

Letters written in these styles are reproduced in the following pages. Read each of the letters for an explanation of its distinguishing characteristics.

Punctuation. Either close or open punctuation may be used in the structural parts of a letter. *Close punctuation* means punctuation marks after the date line, each line of the address, the complimentary close, and each line of the signature. *Open punctuation* means the omission of punctuation marks after each of these parts, unless a line ends in an abbreviation.

The generally approved practice is to use close punctuation in an indented style of address and to use open punctuation in a block style of address. Whether open or close punctuation is used in the address, (1) the period after the date line is omitted, (2) a comma is usually placed after the complimentary close, and (3) the comma is omitted after each line of the signature.

Continuation sheets. When a letter is more than one page in length, all pages except the first should be written on paper without a letterhead. Some firms, however, print their name and address in small type at the top of the continuation sheet, near the left-hand

Prentice-Hall, Inc.

EXECUTIVE OFFICES

70 Fifth Avenue, New York 11

March 25, 19--

In reply refer to 15:1 RTS

Mr. N. D. Edwards, Office Manager
Robertson-Davies Company
35 Fifth Avenue
New York 11, New York

Dear Mr. Edwards:

This is an example of the full block style of letter adopted as standard at Prentice-Hall. We have reproduced this letter in our Employee Manual so that everyone will be familiar with the form and the instructions for its use.

Since Prentice-Hall is a leading exponent of modern business methods, we naturally use the most efficient letter form. This style saves time and energy.

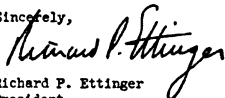
As you can see, there are no indentations. Everything, including the date, the reference, and the complimentary close, begins at the extreme left. This eliminates several mechanical operations in typing letters.

Our dictaphone typists always use this form unless the dictator instructs otherwise. The dictator is at liberty to alter the form if a change is essential for business reasons.

In the reference line we type the department's reference number and the dictator's initials so that the reply can be directed promptly to the proper person. Every department head knows the reference numbers assigned to his department.

As the dictator's name is typed in the signature, we do not consider it necessary to include his initials in the identification line.

Sincerely,



Richard P. Ettinger
President

bs

Figure 56. Full Block Style.

The distinguishing feature of the Full Block Style of letter is that all the structural parts of the letter begin flush with the left margin. There are no indentations. The dictator's initials are not included in the identification line, but if the expected reply is to be routed to a person other than the dictator, that person's initials may be typed in the reference line. Open punctuation is used.



HOOEEN LETTERS INCORPORATED

Mailing Individually Typewritten Letters • Multigraphing • Mimeograph Process Letters • Addressing • Mimeographing • Offset • Mailings

352 FOURTH AVE. NEW YORK 10 N. Y. • TELEPHONE LEXINGTON 2-6162

March 25, 19--

MORRIS H. HADDAD
PRESIDENT

In reply please refer to 15:1 ME

The Nahm Photogravure Company
352 Fourth Avenue
New York 10, N. Y.

Attention J. S. Heller

Gentlemen:

This is an example of the block style of letter. Probably more business concerns use it than any other style of letter, because its marginal uniformity saves time for the typist. Many companies are adopting the full block style, however, as it saves even more time than the block.

As you can see, the inside address is blocked and paragraph beginnings are aligned with the left margin, as they are in the full block form. Open punctuation is used in the address.

The date and reference lines are flush with the right margin. The date line is two spaces below the letterhead, and the reference line is two spaces below the date line. The complimentary close begins slightly to the right of the center of the page. Both lines of the signature are aligned with the complimentary close.

I do not advocate including the dictator's initials in the identification line, because his name is typed in the signature.

Sincerely yours,

Mary Haddad

Mary Haddad
Correspondence Chief

Figure 57. Block Style.

The distinguishing feature of the inside Block Style of letter is that the inside address and the paragraphs are blocked, flush with the left-hand margin. The salutation and attention line, if any, are aligned with the inside address. The date and reference line are flush with the right-hand margin. The typed signature is aligned with the complimentary close. Open punctuation is used.

D. H. AHREND COMPANY

INCORPORATED

Creative Direct Advertising

325 to 333 EAST 44th STREET • NEW YORK 17 MURRAY HILL 6-3212

March 25, 19

Mr. H. D. Edwards, Office Manager
Robertson-Davies Company
35 Fifth Avenue
New York 11, New York

Dear Mr. Edwards.

This is an example of the semi-block style of letter. Many companies prefer it to the block style because it combines an attractive appearance with utility. Private secretaries, who are not usually concerned with mass production of correspondence, favor it

This style differs from the block form in only one respect--the first line of each paragraph is indented five or ten spaces. In this example the paragraphs are indented ten spaces. As in all letters, there is a double space between paragraphs.

The date line is flush with the right margin, two or four spaces below the letterhead. The complimentary close begins slightly to the right of the center of the page. All lines of the signature are aligned with the complimentary close. Open punctuation is used in the address.

No identification line is used in this example. As the dictator's name is typed in the signature, his initials are not necessary. The typist's initials are shown on the carbon copy.

Very sincerely yours,

D. H. AHREND COMPANY

Marcia Abbie

MARCIA ABBIE
Assistant to President



Figure 58. Semi-Block Style.

The distinguishing feature of a Semi-Block Style of letter is that all structural parts of the letter begin flush with the left-hand margin, but the first line of each paragraph is indented five or ten spaces. All lines of the typed signature are aligned with the complimentary close. The date is typed in the conventional position. Open punctuation is used.

LENZ & RIECKER

INCORPORATED

Printers

75 VARICK STREET · NEW YORK 13

Holland Plaza Building, Corner Canal Street

Telephone, WALKER 5-9393-6-7

March 25, 194-

Mr. N. D. Edwards, Office Manager,
Robertson-Davies Company,
35 Fifth Avenue,
New York 11, New York.

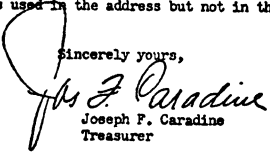
Dear Mr. Edwards:

This is an example of the indented style of letter. I am enclosing three sheets from our Correspondence Manual that describe the other forms in which you are interested.

Many conservative organizations still use the indented style as they prefer it to new forms. The indented style is correct, however, for any type of organization.

Each line of the address is indented five spaces more than the preceding line. The beginning of each paragraph is indented the same as the third line of the address, which is ten spaces. The complimentary close begins a few spaces to the right of the center of the page. Each line of the signature is indented three spaces from the beginning of the complimentary close. Close punctuation is used in the address but not in the signature.

Sincerely yours,



Joseph F. Caradine
Treasurer

Enclosures 3

Figure 59. Indented Style.

The distinguishing feature of the Indented Style of letter is that each line of address is indented five spaces more than the preceding line. The first line of each paragraph is indented ten spaces. Each line of the typed signature is indented three spaces from the beginning of the complimentary close. Close punctuation is used in the address but not in the signature.



GO PLACES AND DO THINGS

EVER READY *Label* CORPORATION

137 EAST 25th STREET
NEW YORK 10, N. Y.
MURRAY HILL 4-4300

March 25, 19--

Dear Mr. Edwards.

This letter is an example of the official style. It is used in many personal letters written by executives and professional men, and looks unusually well on the executive-size letterhead.

The structural parts of the letter differ from the standard arrangement only in the position of the inside address. The salutation is placed two to five spaces below the date line, depending upon the length of the letter. It establishes the left margin of the letter. The inside address is written in block form, flush with the left margin, from two to five spaces below the final line of the signature. Open punctuation is used in the address.

The identification line, if used, should be placed two spaces below the last line of the address, and the enclosure mark two spaces below that. As the dictator's name is typed in the signature, it is not necessary for the letter to carry an identification line. The typist's initials are on the carbon of the letter, but not on the original.

Very truly yours,

Alan Kleiner
Treasurer

Mr. W. E. Edwards, Office Manager
Robertson-Davies Company
35 Fifth Avenue
New York 11, New York

Figure 60. Official Style.

The distinguishing feature of the Official Style of letter is that the inside address is placed below the signature, flush with the left-hand margin, instead of before the salutation. The identification line and enclosure notations, if any, are typed two spaces below the last line of the address. Open punctuation is used. This style is especially appropriate for personal letters in business.

Mailings incorporated

25 WEST 45TH STREET • NEW YORK 19 • NEW YORK • LONGACRE 3-2270



March 25, 19--

Mr. E. D. Edwards, Office Manager
Robertson-Davies Company
35 Fifth Avenue
New York 11, New York

Dear Mr. Edwards:

This letter is an example of the hanging paragraph style of letter. It is rarely used as it is more difficult and takes longer to write than the other styles.

The distinctive feature of the hanging paragraph style is that the first line of each paragraph is flush with the left margin and all other lines are indented five spaces. To write this letter it is necessary to use the tabulator after each carriage shift.

The inside address is written in block style. It may be in the standard position or below the signature, to the left, as in the official form. As the address is blocked, open punctuation is used.

Sincerely yours,

Lewis Kleid

Lewis Kleid
President

Figure 61. Hanging Paragraph Style.

The distinguishing feature of the Hanging Paragraph Style is that the first line of each paragraph is flush with the left-hand margin, but all other lines are indented five spaces. It takes longer to write a letter in this style than in other styles, because the tabulator is used after each carriage shift. The inside address and the lines of signature are in block style. Open punctuation is used.



NATIONAL OFFICE MANAGEMENT ASSOCIATION
12 EAST CHELTEN AVENUE
PHILADELPHIA 44, PA.

June 16, 1949

this is a
SIMPLIFIED
letter

Mr. N. D. Edwards
Robertson-Davies Company
35 Fifth Avenue
New York 11, N. Y.

MUCH ADO ABOUT SOMETHING

Your interest in better business letters, Mr. Edwards, makes writing to you a real pleasure. Especially when you give me an opportunity to discuss NOMA's Simplified Letter.

The SL is really just a sensible way of putting a soft collar on business correspondence — a way of combining dignity with informality at a low cost in keystrokes and typewriter manipulation. Yet it incorporates the same sound principles that good letter writers, like you, have demonstrated for years.

Physically, I suppose, the dropping of the meaningless salutation and close, and the use of the left block format will first catch your attention. This letter actually looks as the typewriter was made to make it look.

But, more important, the philosophy behind the SL seeks to reduce slow starting — a long windup and a wobbly pitch. It seeks to combine sincerity and simplification without sacrificing friendliness.

Every letter becomes a challenge. Every letter echoes the sound of the writer's own thinking. As I write to you I'm acutely aware of that sound. I hope you won't think me presumptuous in trying to demonstrate the endless possibilities of this way of letter thinking.

I'd be glad to send you more detailed suggestions on the SL, and to receive your report of experience in trying them out.

Your letter was a happy reminder that letters, too, invite inquiring minds — invite much ado about something simplified.

Vaughn Fry
VAUGHN FRY, PUBLIC RELATIONS

Miss Beese May Miller, Mr. W. E. Evans

there is more to a truly
SIMPLIFIED LETTER
than merely dropping
close and yours truly

Figure 62. Simplified Letter.

The distinguishing feature of a Simplified Letter is that the salutation and complimentary close are omitted. "Copy to" is also omitted before the names of persons to whom carbon copies of the letter are to be sent. All structural parts of the letter are flush with the left-hand margin. The subject line is placed between the address and the body of the letter. Open punctuation is used.

margin. Continuation sheets should be of the same size and quality as the letterhead. They should be ordered at the same time as the letterhead.

Envelopes. Envelopes should be of the same quality as the letterhead. The most popular sizes for business use are:

No. 5	4½" by 5½"
No. 6¼	3½" by 6"
No. 6¾	3¾" by 6½"
No. 10	4½" by 9½"

No. 6¾ and No. 10 fit the 8½ by 11 letterheads. No. 5, which is the Baronial size, is widely used by business executives for their personal stationery.

9. MAKING THE STRUCTURAL PARTS OF A LETTER PERFECT

Where to type the date line. The standard position of the date line on the page is two to four spaces below the last line of the letterhead, flush with the right-hand margin of the letter. If the letter is very short, you may drop the date line to give a better balance to the page. The date line, however, does not affect the placement of the letter on the page.

The date line is sometimes centered on the page, about two spaces below the letterhead. If this style is used, center the date line *exactly*. Do not use this position unless the date line is easily distinguishable from the letterhead. Figure 63 is an example of a letterhead where the center position is used effectively.

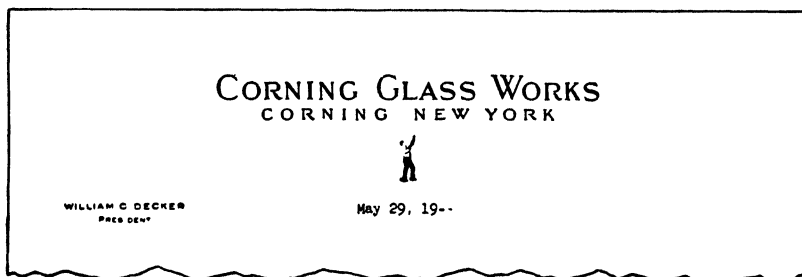


Figure 63. Date Line in Center Position.

With some letterheads, the letter presents a better appearance if the date line is not placed in the standard positions. It is permissible to ignore standard practice, but if there is any doubt as to where the date line would be most effective, follow the standard style. Figure 64 is a reproduction of a letterhead where the appearance of the letter is improved by placing the date line in a position other than the conventional one.

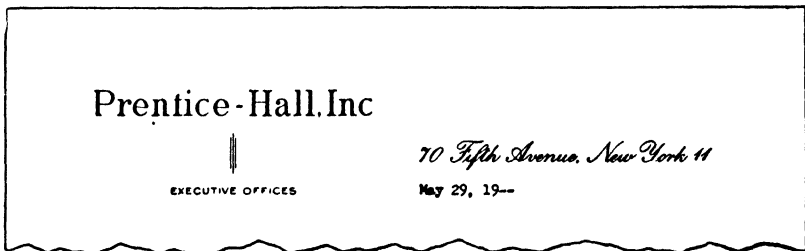


Figure 64. Date Line Aligned with Letterhead.

How to type the date line. 1. Date the letter the day it is dictated, not the day it is typed.

2. Type the date conventionally, all on one line.
3. Do not use *d*, *nd*, *rd*, *st*, or *th* following the day of the month.
4. Do not abbreviate or use figures for the month.
5. Do not spell out the day of the month or the year, except in very formal letters.

RIGHT
September 15, 195-

WRONG
September 15th, 195-
9/15/5-
Sept. 15, 195-
September fifteenth, Nineteen hundred
and fifty-

Inside Address

What the inside address contains. The inside address contains the name of the addressee and the address, including the zone number when it is available. In addressing an individual in a company, the inside address contains both the individual's name and that of the company. It may also contain the individual's business title.

Where to type the inside address. Begin the inside address at the left-hand margin of the letter, not less than 2 spaces, nor more than 12, below the date line. The exact position of the first line of the address depends on the length of the letter. The inside address should not extend beyond the middle of the page. In the block style of address carry over part of an extremely long line to a second line. Indent the carry-over line three spaces. It is preferable to single space the address even if the body of the letter is double-spaced.

The Mississippi Electrical Power
and Light Company
148 West Tenth Street
Jackson 4, Mississippi

In the official style (Figure 60) place the inside address in the lower left-hand corner of the page, even with the left-hand margin of the letter and two spaces below the signature.

How to type the inside address. 1. The inside address should correspond exactly with the official name of the company addressed. If *Company*, *Co.*, *The*, *Inc.*, or *&* is part of the company's official name, use the form used in the company title.

2. Do not precede the street number with a word or a sign.

RIGHT
70 Fifth Avenue

WRONG
No. 70 Fifth Avenue
70 Fifth Avenue

3. Spell out the numerical names of streets and avenues if they are numbers of 12 or under. When figures are used, do not follow with *d*, *st*, or *th*. Use figures for all house numbers except *One*. Separate the house number from a numerical name of a thoroughfare with a space, a hyphen, and a space. Authorities give different rules for writing addresses, but the following are standard, approved forms.

23 East Twelfth Street
23 East 13 Street
One Fifth Avenue

2 Fifth Avenue
234 - 72 Street

4. Never abbreviate the name of a city. States, territories, and possessions may be abbreviated, but the better practice is not to abbreviate them. The following are the approved forms of abbreviations for the state, territories, and possessions:

Alabama	Ala.	Nebraska	Nebr.
Arizona	Ariz.	Nevada	Nev.
Arkansas	Ark.	New Hampshire	N. H.
California	Calif.	New Jersey	N. J.
Canal Zone	C. Z.	New Mexico	N. Mex.
Colorado	Colo.	New York	N. Y.
Connecticut	Conn.	North Carolina	N. C.
Delaware	Del.	North Dakota	N. Dak.
District of Columbia	D. C.	Oklahoma	Okla.
Florida	Fla.	Oregon	Oreg.
Georgia	Ga.	Pennsylvania	Pa.
Hawaii	T. H.	Philippine Islands	P. I.
Illinois	Ill.	Puerto Rico	P. R.
Indiana	Ind.	Rhode Island	R. I.
Kansas	Kans.	South Carolina	S. C.
Kentucky	Ky.	South Dakota	S. Dak.
Louisiana	La.	Tennessee	Tenn.
Maryland	Md.	Texas	Tex.
Massachusetts	Mass.	Vermont	Vt.
Michigan	Mich.	Virginia	Va.
Minnesota	Minn.	Washington	Wash.
Mississippi	Miss.	West Virginia	W. Va.
Missouri	Mo.	Wisconsin	Wis.
Montana	Mont.	Wyoming	Wyo.

Do not abbreviate the following:

Alaska	Iowa	Samoa
Guam	Maine	Utah
Idaho	Ohio	Virgin Islands

5. The zone number follows the city and is separated from the state by a comma.

6. If there is no street address, put the city and state on separate lines.

7. Do not abbreviate business titles or positions, such as President, Secretary, and Sales Manager. *Mr.* (or *Mrs.* or *Miss*) precedes the individual's name, even when the business title is used.

If a person's business title is short, place it on the first line; if it is long, place it on the second line.

Mr. James E. Lambert, President
Lambert & Woolf Company
1005 Tower Street
Cleveland 3, Ohio

Mr. George F. Moore
Advertising Manager
Price & Patterson
234 Seventh Avenue
New York 5, New York

The modern trend is to omit the business title, particularly if it makes the address run over four lines. For example, *Advertising Manager* would be omitted in the preceding address.

8. In addressing an individual in a firm, corporation, or group, place the individual's name on the first line, and the company's name on the second line.

9. Do not hyphenate a title unless it represents a combination of two offices.

10. When writing to the officer of a company who holds several offices, use only the title of the highest office, unless letters from him are signed differently.

11. If a letter is addressed to a particular department in a company, place the name of the company on the first line and the name of the department on the second line.

Forms of address. (For the correct forms of addressing men in official or honorary positions see the chart at page 641, *et seq.*)

1. Always precede a name by a title, unless initials indicating degrees (see 2.) or Esquire (see 4.) follows the name. The use of a business title or position or of Sr. or Jr. after a name does not take the place of a title.

RIGHT

Mr. Ralph P. Edwards, President

WRONG

Ralph P. Edwards, President

2. Initials or abbreviations indicating degrees and other honors are sometimes placed after the name of the person addressed. Use only the initials of the highest degree; more than one degree may be used, however, if the degrees are in different fields. A scholastic title is not used in combination with the abbreviation indicating that degree, but another title may be used in combination with abbreviations indicating degrees.

RIGHT

Robert E. Saunders, Ph.D.
 Dr. Ralph Jones (*preferred*)
 or
 Ralph Jones, M.D.
 The Reverend Perry E. Moore,
 D.D., LL.D.

To a professor

Professor Robert E. Saunders

WRONG

Robert E. Saunders, A.B., A.M.,
 Ph.D.
 Dr. Ralph Jones, M.D.
 Professor Robert E. Saunders,
 Ph.D.

3. *Messrs.* may be used in addressing a firm of men, or men and women, when the names denote individuals. Do not use *Messrs.* as a form of address for corporations or other business organizations that bear impersonal names.

RIGHT

American Manufacturing Com-
 pany
 Messrs. Marvin, Tobin and Smart
 James Marshall & Sons

WRONG

Messrs. American Manufacturing
 Company
 Messrs. James Marshall & Sons

4. *Esquire* or *Esq.* may be used in addressing prominent attorneys or other high ranking professional men who do not have other titles. *Mr.* does not precede the name when *Esquire* or *Esq.* is used. In fact, no other title is used with *Esquire* or *Esq.*

RIGHT

Honorable Richard P. Davis
 Allison D. Wells, Esquire
 Nathan Rogers, Jr., Esq.

WRONG

Honorable Richard P. Davis, Esq.
 Mr. Allison D. Wells, Esquire
 Mr. Nathan Rogers, Jr., Esq.

Note: The title *Esq.* is commonly used in England and in her colonies. **There** it is the proper title to use in addressing the heads of business firms, banking executives, doctors, and the like.

CORRECT IN ENGLAND

Robert E. Meade, Esq., President
 Laurence D. Goode, Esq., M.D.

Forms for addressing women. 1. *Firm composed of women.* In addressing a firm composed of women either married or unmarried, use *Mesdames* or *Mmes.*

2. *Unmarried woman.* Use *Miss* when you are addressing an unmarried woman or when you do not know whether she is married or unmarried. (A few business concerns now use *Ms.*)

3. *Married woman.* Socially a married woman is addressed by her husband's full name preceded by *Mrs.* In business, she may be addressed either by her husband's name or by her given name and her married name, preceded by *Mrs.* Use the form she prefers if you know it.

4. *Widow.* Socially a widow is addressed by her husband's full name preceded by *Mrs.* In business either her husband's full name or her given name and her married name, preceded by *Mrs.*, is correct. Use the form that she prefers if you know it.

5. *Divorcee.* If a divorcee retains her married name, the title *Mrs.* is preferable to *Miss*. If she uses her maiden name, she may use either *Miss* or *Mrs.* In business she may be addressed by her given name combined with her married name or by both her maiden and married names. Follow the form she prefers if you know it. Socially she is addressed by her maiden name combined with her married name.

WHEN HUSBAND'S NAME IS RETAINED		WHEN MAIDEN NAME IS USED
<i>Business</i>	<i>Social</i>	<i>Business and Social</i>
Mrs. Margaret Weeks	Mrs. Barkley Weeks	Mrs. Margaret Barkley
Mrs. Margaret Barkley Weeks		Miss Margaret Barkley

6. *Wife of a titled man.* Do not address a married woman by her husband's title. Address her as *Mrs. Robert E. Adams* or *Mrs. R. E. Adams*. If she is addressed jointly with her husband, the correct form is *Dr. and Mrs. Robert E. Adams, Judge and Mrs. Irving Levey*.

7. *Professional women.* Address a woman with a professional title by her title, followed by her given and last names. A married woman may use her maiden name if she prefers. In social correspondence her title is sometimes dropped in addressing her and her husband.

When you do not know whether an addressee is a man or a woman, use the form of address appropriate for a man. *Women in official or honorary positions are addressed just as men in similar positions, except that Madam, Mrs., or Miss replaces Sir or Mr. See the chart at page 641, et seq.*

8. *Man and woman.* When writing to a man and woman in their individual capacities address them by their respective titles,

placing one name under the other. If they are husband and wife, use one line.

Mrs. Jay S. Russell
Mr. Adam L. Matthews
Mr. and Mrs. Harry Smith

Salutations

Where to type the salutation. Type the salutation two spaces below the inside address, flush with the left-hand margin. If an *attention* line is used, type the salutation two spaces below the attention line.

How to type the salutation. 1. Capitalize the first word, the title, and the name. Do not capitalize *dear* unless it is used as the first word of the salutation.

2. Use a colon following the salutation. A comma is used only in social letters, particularly in those written in longhand.

3. *Mr.*, *Mrs.*, and *Dr.* are the only titles that are abbreviated.

Forms of salutation. The form of salutation varies with the tone of the letter and the degree of acquaintanceship between the writer and the addressee. See the chart at page 632 for salutations of varying degrees of formality, together with the appropriate complimentary close to use with each. See the chart at page 641, *et seq.* for the correct salutation to use in letters to people in official or honorary positions.

1. If the letter is addressed to an individual, make the salutation singular, for example, *Dear Sir*. If the letter is addressed to a company or group, make it plural, for example, *Gentlemen* or *Dear Sirs*.

2. Never use a designation of any kind after a salutation.

RIGHT

Dear Mr. Roberts:

WRONG

Dear Mr. Roberts, C.P.A.:

3. Never use a business title or designation of position in a salutation.

RIGHT

Dear Mr. Adams:

WRONG

Dear Secretary:
Dear Secretary Ames:

4. If the letter is addressed to a company to the attention of an individual, the salutation is to the company, not to the individual.

5. Follow a title with the surname:

RIGHT

Dear Professor Ames:

WRONG

Dear Professor:

6. The salutation in a letter that is not addressed to any particular person or firm, such as a general letter of recommendation, is *To Whom It May Concern*. Note that each word begins with a capital.

7. The salutation in a letter addressed to an organization composed of men and women is *Gentlemen or Ladies and Gentlemen*; to a man and woman, *Dear Sir and Madam*; to a married couple, *Dear Mr. and Mrs. Marsh*.

Forms of salutation in letters addressed to women. 1. Do not use Miss as a salutation unless it is followed by a name.

RIGHT

Dear Miss Brown: (preferred)
Dear Madam:

WRONG

Dear Miss:

2. If the letter is addressed to a firm of women, the salutation is *Ladies or Mesdames*. Do not use "Dear" or "My dear" with either of these salutations.

3. The salutation to two women with the same name is:

My dear Mesdames Smith (if married)
My dear Misses Smith (if unmarried)

When in doubt as to whether the addressee is a man or woman, use the salutation appropriate for a man. For the correct form of salutation in letters addressed to women holding official or honorary positions, see the chart at page 641, *et seq*.

Body of the Letter

How to type the body. 1. Single space unless the letter is very short. Single space a short letter if half-sheet letterheads are used.

2. Double space between paragraphs.

3. When the block style is used, begin each line flush with the left-hand margin of the letter.

4. When the indented or semiblock style is used, indent the first line of each paragraph five to ten spaces.

5. Always indent paragraphs when a letter is double-spaced.

How to set up enumerated material in the body of the letter.

1. Indent five spaces from each margin of the letter—more if necessary to center the material.

2. Precede each item with a number, followed by a period. Or the number may be enclosed in parentheses.

3. Begin each line of the indented material two spaces to the right of the number.

4. Single space the material within each item, but double space between items.

How to write dates. When the day precedes the months, it is permissible to write the day out or to use the figure with the ordinal abbreviation. For example, *fifth of March*, or *5th of March*.

Complimentary Close

Where to type the complimentary close. Type the complimentary close two spaces below the last line of the letter. Begin it slightly to the right of the center of the page, except in the full block style. It should never extend beyond the right margin of the letter.

How to type the complimentary close. 1. Capitalize only the first word.

2. Follow the complimentary close with a comma. This is the better practice even when open punctuation is used in the inside address.

Forms of complimentary close. The form varies with the tone of the letter and the degree of acquaintanceship between the writer and the addressee. The degree of formality of the complimentary close should correspond with the salutation. Notice the following chart, which gives the appropriate complimentary close to use with various salutations. See the chart at page 641, *et seq.* for the correct complimentary close to use in letters to people in official or honorary positions.

VARIOUS SALUTATIONS AND APPROPRIATE
COMPLIMENTARY CLOSES

	SALUTATIONS	COMPLIMENTARY CLOSES
<i>Very Formal</i>	My dear Sir: Sir: My dear Madam: Madam:	Respectfully, Yours respectfully, Respectfully yours, Very respectfully yours,
<i>Formal</i>	Dear Sir: Dear Madam: Gentlemen: Mesdames:	Very truly yours, Yours very truly Yours truly,
<i>Less Formal</i> (The trend today is to use these forms in business correspondence, rather than the formal forms)	Dear Mr. Satterby: My dear Mr. Satterby: Dear Mrs. Grimshaw: My dear Mrs. Grimshaw: Dear Miss Bylow: My dear Miss Bylow:	Sincerely, Sincerely yours, Yours sincerely, Very sincerely,
<i>Personal</i> (Implying personal acquaintance or previous friendly correspondence)	Dear Mr. Satterby: Dear Mrs. Grimshaw: Dear Miss Bylow:	Yours cordially, Cordially, Cordially yours, Most sincerely,

Signature

What the signature contains. The signature to a business letter usually consists of the typed name of the company, the signature of the writer, and the typed name of the writer and his business title. Some authorities recommend using the firm name when the pronoun *we* is used throughout the letter and omitting it when *I* is used. The modern trend and the approved practice is to omit the firm name, except in a signature to formal documents. The typed name of the writer can be omitted if it appears on the letterhead.

The inclusion in the signature of the writer's business title or position, indicates that he is writing the letter in his official capacity. Thus, if an officer of a company writes a letter on firm stationery about a purely person matter, his position is not included in the signature.

Firms of attorneys, certified public accountants, and the like fre-

quently sign letters manually with the firm name, particularly if the letter expresses a professional opinion or gives professional advice.

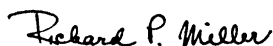
Where to type the signature. When the firm name is included in the signature, type it two spaces below the complimentary close, the writer's name four spaces below the firm name, and the writer's position either on the same line or on the next line. When the firm name is not included, type the writer's name and position four spaces below the complimentary close.

When the inside address is typed in block form, align the signature with the first letter of the complimentary close. When the indented form is used in the inside address (Figure 59), align the signature with the third or fourth letters of the complimentary close. In either case the lines of the signature should be blocked, unless an unusually long line makes this arrangement impractical. No line of the signature should extend beyond the right-hand margin of the letter.

How to type the signature. 1. Type the firm name in capitals, exactly as it appears on the letterhead.

2. Type the signature exactly as the dictator signs his name.

RIGHT



Richard P. Miller
President

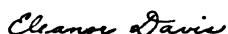
WRONG



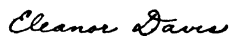
R. P. Miller
President

3. Business titles and degree letters follow the typed signature. No title precedes either the written or typed signature except *Miss* or *Mrs.*

Forms of signature for women. 1. An *unmarried woman* may precede her typed signature with *Miss* in parentheses, or omit it. If no title is included, the implication is that it should be *Miss*.



(Miss) Eleanor Davis



or Eleanor Davis

2. A *married woman* should indicate in her signature the title to be used in addressing her. She may precede her typed signature with *Mrs.* in parentheses, or she may type her married name in

parentheses beneath the pen-written signature. The latter form is compulsory for social usage.

Eleanor Davis

(Mrs.) Eleanor Davis

or

Eleanor Davis

(Mrs. John R. Davis)

3. A widow signs her name as she did before her husband's death.

4. Assuming that a divorcee does not use her maiden name, she signs her given name, with or without the initial of her maiden name, and her former husband's surname. The typed signature is the same as the written signature preceded by *Mrs.* in parentheses. Or the typed signature may combine her maiden name with her former husband's surname.

RIGHT

Eleanor M. Davis

(Mrs.) Eleanor M. Davis
or

Eleanor M. Davis

(Mrs. Montgomery Davis)

WRONG

Eleanor M. Davis

(Mrs. John R. Davis)

Secretary's signature. When a secretary signs her employer's name to a letter, she should place her initials immediately below it.

Yours very truly,

Hiram R. Jones
m.s.

Hiram R. Jones
President

When she signs a letter in her own name as secretary to her employer, she should not include his initials unless another man in the organization has the same name. Always precede his name by a title.

RIGHT

Elizabeth Mason

Secretary to Mr. Nelson

WRONG

Secretary to Mr. R. S. Nelson

Secretary to R. S. Nelson

Miscellaneous Structural Parts of Letters

Attention line. Strictly business letters addressed to a firm are often directed to the attention of an individual by the use of an *attention line*, in preference to addressing the letter to the individual. This practice marks the letter as a business rather than a personal letter and insures that it will be opened in the absence of the individual to whom it is directed.

Type the attention line two spaces below the address. The word *of* is not necessary. The attention line has no punctuation and is not underscored. When a letter addressed to a firm has an attention line, the salutation is *Gentlemen* because the salutation is to the firm, not the individual. It is permissible to direct the letter to the attention of an individual without including his given name or initials, if they are unknown.

<i>Preferable:</i>	Attention Mr. Walter R. Richardson
<i>Permissible:</i>	Attention Mr. Richardson

Subject line. Subject lines are a convenience to both the writer and the reader. They make it unnecessary for the writer to devote the first paragraph of his letter to a routine explanation of the subject of the letter; they facilitate the distribution of mail to various departments; they also expedite subject filing.

Center the subject line two spaces beneath the salutation. If the full block style of letter (Figure 56) is used, type the subject line flush with the left-hand margin. Never place the subject line before the salutation. It is part of the body of the letter, not of the heading.

Sometimes the subject line is preceded by *In re* or *Subject*. The better practice is to omit these words, except in letters about legal matters. In these letters *In re* is customarily used. No punctuation follows *In re*; a colon follows *Subject*. The important words in a subject line are capitalized. The last line may be underlined, but the modern trend is to omit the underlining.

Reference line. If a file reference is given in an incoming letter, include a reference line in your reply, whether requested or not. Place your own reference beneath the incoming reference.

When letterheads include a printed reference notation, such as

In reply please refer to, type the reference line after it. Otherwise, type the reference line on a line with the salutation in the center of the letter. If the letter also has a subject line, type the reference line at the right of the letter about four spaces beneath the date.

Your File 3476
Our File 2785

or

April 20, 19..

Our Order 846-D

Identification line. The identification line shows who dictated the letter and who typed it. The only purpose of the identification line is for reference by the business organization *writing* the letter. The dictator's name is typed in the signature. Unless company rules require otherwise, the secretary types nothing but her initials in the identification line and does not show them on the original of the letter.

If the company requires the usual identification line, type the initials of the dictator and the stenographer flush with the left-hand margin, on a line with the last line of the signature. If the official style of letter is used (Figure 60), the identification line is typed two spaces below the address. When the person who signs the letter has not dictated it, type his initials first and follow with those of the dictator and the transcriber.

Forms. In the following illustrations SRD is the dictator and AM the typist. Lower case instead of capitals may be used for the typist's initials.

SRD:AM Usual form.

HRL:SRD:AM When letter is signed by person other than the dictator. (The identification line *must not* appear on the original.)

(AM) When the letter is composed by the typist.

SRDJr:AM When father and son with the same name are in the organization.

SRDavis:AM When the dictator's name is not included in the typed signature. (The identification line should appear on the original.)

Enclosure mark. When a letter contains enclosures, type the word *Enclosure* or the abbreviation *Enc.* flush with the left-hand margin one or two spaces beneath the identification line. If there

is more than one enclosure, indicate the number. If the enclosures are of special importance, identify them. If an enclosure is to be returned, make a notation to that effect.

RPE:ES
Enclosure

RPE:ES
Enc. 2

RPE:ES
Enc. Cert. ck. \$2,350
Mtge.—Nelson to Jones

RPE:ES
Enc. Policy 35 4698—M (to be returned)

“Personal” notation. A letter or envelope should not be marked “Personal” or “Confidential” as a device to catch the attention of a busy man. These words should be used only when no one but the addressee is supposed to see the letter. Type the word *Personal* or *Confidential* four spaces above address, which is at the top of the letter. You may underline the notation to catch the eye.

Mailing notation. When a letter is sent by any method other than regular mail, type a notation of the exact method on the envelope, in the space below the stamps and above the address. Make a similar notation on the letter two spaces above the address.

Carbon copy distribution notation. When a carbon copy is to be sent to another person, type the distribution notation flush with the left-hand margin, below all other notations. If space permits, separate it from the other notations by two spaces.

SRE:NG
Enclosure
Copy to Mr. S. A. Williams

The abbreviation *c.c.* may be used instead of *Copy to*. In the simplified form of letter (Figure 62) neither is used.

Blind copy notation. Type the carbon copy notation in the upper left-hand portion of the letter *on the carbons only*. This indicates that the addressee of the letter does not know that a copy was sent to anyone.

Postscript. When it is necessary to add a postscript to a letter, type it two spaces below the identification line or the last notation that is on the letter. The left margin of the postscript should be indented five spaces from the left margin of the letter itself. You may include or omit the abbreviation “P.S.” Type the dictator’s initials after the postscript.

Heading on second page. If the letter runs to a second page, use a plain sheet, without a letterhead, but of the same size and quality as the letterhead. The heading should contain the name of the addressee, the number of the page, and the date. Leave spaces between the heading and the body of the letter. (See also "Continuation sheets" on page 614.)

Mr. R. H. Smith

2.

September 12, 19—

Envelopes

The items in the envelope address are the same as those in the inside address (see page 623). The Post Office Department prefers the indented style and that the name of the state be on a separate line from the name of the city. The name of the state must not be abbreviated.

Mr. R. S. Jackson, President,
Northern Manufacturing Company,
25 West 79 Street,
Milwaukee,
Wisconsin.

Figures 65 and 66 show acceptable and commonly used styles of address on envelopes. They also show the correct placement of the attention line and personal and special delivery notations. All mailing notations are placed in the position shown by "Special Delivery" in Figure 66.

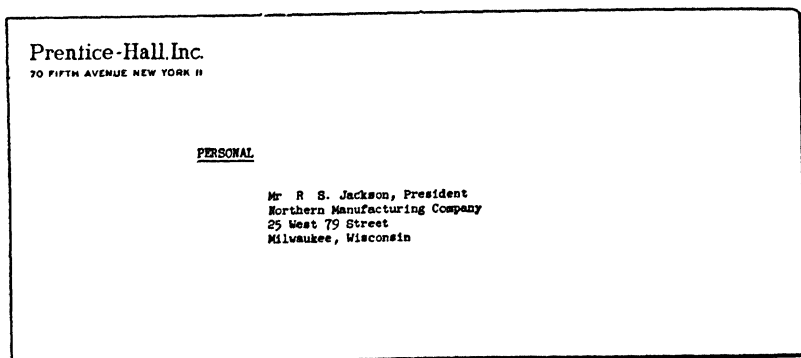


Figure 65. Envelope Showing Correct Placement of Personal Notation.

The name of a foreign country is written in capitals in an address on the envelope, but usually only initial capitals are used in the inside address.

Prentice-Hall, Inc. 70 FIFTH AVENUE, NEW YORK 22	
	<u>SPECIAL DELIVERY</u>
	Northern Manufacturing Company 25 West 79 Street Milwaukee, Wisconsin
Attention Mr. R. S. Jackson	

Figure 66. Envelope Showing Correct Placements of Attention Line and Special Delivery Notation.

If the envelope is too large to fit into the typewriter, the address should be written by hand, in the same form that is used when the address is typed. Since these envelopes are frequently used for mailing matter other than first-class mail, "First-Class Mail" should be written immediately beneath the place for stamps when first-class matter is mailed in them. The envelope should be sealed if the matter is first-class mail. (See page 622 for a table of the most popular sizes of envelopes.)

10. HOW TO ADDRESS PERSONS HOLDING HONORARY OR OFFICIAL POSITIONS

Every business firm is occasionally called upon to write a letter to a person who holds an official or honorary position. The question arises as to the proper form to use.

The chart on page 641 gives the correct forms of written address, salutation, and complimentary close in letters to persons holding official or honorary titles, whether of high or low rank. It also gives the correct form for referring to those persons in a letter and the correct form to use in speaking to or informally introducing them. The secretaries should be trained to refer to this chart.

The chart is broken down into:

Government Officials

United States

State and Local

Court Officials

United States Diplomatic Representatives

Foreign Officials and Representatives

Officers of the Armed Forces

Ecclesiastical Personages

Catholic Faith

Jewish Faith

Protestant Faith

University and Collegé Officials

Use the name in writing, except in those few instances where the name is omitted in the chart. If only the person's title is known, address him by the title prefaced by *The*. For example, *The Lieutenant Governor of Iowa*. The salutation would be *Sir* or *My dear Governor*. Every effort should be made, however, to learn the name of the person addressed.

When a person is acting as an official, the word *acting* precedes the title in the address, but not in the salutation or spoken address. For example, *Acting Mayor of Memphis*, *My dear Mayor Blank*.

Women in official or honorary positions are addressed just as men in similar positions, except that *Madam*, *Mrs.*, or *Miss* replaces *Sir* or *Mr.* (See the illustrations in the following chart when a woman is an ambassador or a minister.)

In many cases the name in the address is followed by the abbreviation of a scholastic degree. If the addressee does not have the degree, do not use the initials. Do not address a person by a scholastic title unless he actually possesses the degree that the title indicates.

UNITED STATES GOVERNMENT OFFICIALS

PERSONAGE	ENVELOPE AND INSIDE ADDRESS	FORMAL SALUTATION	INFORMAL SALUTATION	FORMAL CLOSE	INFORMAL CLOSE	1. SPOKEN ADDRESS 2. INFORMAL INTRO- DUCTION OR REFERENCE ¹
<i>The President</i>	The President The White House Washington 25, D. C. ²	Mr. President	My dear Mr. President:	Respectfully yours,	Faithfully yours, (official) Very respectfully yours (private individual)	1. Mr. President 2. Mr. Introduction (The President)
<i>Vice President of the United States</i>	The Vice President United States State Washington, D. C. or The Honorable John R. Blank Vice President of the United States Washington, D. C.	Sir:	My dear Mr. Vice President	Very truly yours,	Sincerely yours,	1. Mr. Vice President or Mr. Blank 2. The Vice President
<i>Chief Justice of the United States</i>	The Chief Justice The Supreme Court Washington, D. C.	Sir:	My dear Mr. Chief Justice:	Very truly yours,	Sincerely yours,	1. Mr. Chief Justice 2. The Chief Justice
<i>Associate Justice of the United States Supreme Court</i>	Mr. Justice Blank The Supreme Court Washington, D. C.	Sir:	My dear Mr. Justice:	Very truly yours,	Sincerely yours,	1. Mr. Justice or Mr. Justice Blank 2. Mr. Justice Blank
<i>Speaker of the House of Representatives</i>	The Honorable John R. Blank Speaker of the House of Representatives Washington, D. C.	Sir:	My dear Mr. Speaker:	Very truly yours,	Sincerely yours,	1. Mr. Speaker or Mr. Blank 2. The Speaker, Mr. Blank (The Speaker or Mr. Blank)

¹ The form of introduction and the form of reference to a person are usually similar. When they differ, the form of reference is shown here in parentheses.

² On the inside address it is permissible to omit "Washington 25, D. C."

OFFICIALS (Continued)

OVERNMENT OFFICIALS (Continued)

	FORMAL CLOSE	INFORMAL CLOSE	1. SPOKEN ADDRESS 2. INFORMAL INTRO- DUCTION OR REFERENCE
My dear Mr. Secretary:	Very truly yours,	Sincerely yours,	1. Mr. Secretary or Mr. Blank 2. The Secretary of State, Mr. Blank (The Secretary or Mr. Blank)
My dear Madam Secretary:	Very truly yours,	Sincerely yours,	1. Madam Secretary or Mrs. (Miss) Blank 2. The Secretary of Labor, Mrs. (Miss) Blank (The Secretary or Mrs. (Miss) Blank)
My dear Mr. Blank:	Very truly yours,	Sincerely yours,	1, 2. Mr. Blank
My dear Mr. Blank:	Very truly yours,	Sincerely yours,	1, 2. Mr. Blank

	FORMAL CLOSE	INFORMAL CLOSE	1. SPOKEN ADDRESS 2. INFORMAL INTRO- DUCTION OR REFERENCE
My dear Mr. Secretary:	Very truly yours,	Sincerely yours,	1. Mr. Secretary or Mr. Blank 2. The Secretary of State, Mr. Blank (The Secretary or Mr. Blank)
My dear Madam Secretary:	Very truly yours,	Sincerely yours,	1. Madam Secretary or Mrs. (Miss) Blank 2. The Secretary of Labor, Mrs. (Miss) Blank (The Secretary or Mrs. (Miss) Blank)
My dear Mr. Blank:	Very truly yours,	Sincerely yours,	1, 2. Mr. Blank
My dear Mr. Blank:	Very truly yours,	Sincerely yours,	1, 2. Mr. Blank

<i>Director of an Office, Chief of a Division or Bureau</i>	John R. Blank, Esquire Chief, Bureau of Labor Statistics Department of Labor Washington, D. C.	My dear Mr. Blank:	My dear Mr. Blank:	Very truly yours,	Sincerely yours,	1, 2. Mr. Blank
<i>United States Senator (man)</i>	The Honorable John R. Blank United States Senate Washington, D. C.	Sir:	My dear Senator Blank:	Very truly yours,	Sincerely yours,	1. Senator Blank or 2. Senator Blank
<i>United States Senator (woman)</i>	The Honorable Mary Blank United States Senate Washington, D. C.	Madam:	My dear Senator Blank. My dear Mrs. (Miss) Blank:	Very truly yours,	Sincerely yours,	1. Senator Blank or 2. Senator Blank
<i>United States Representative (man)</i>	The Honorable John R. Blank House of Representatives Washington, D. C.	Sir:	My dear Mr. Blank:	Very truly yours,	Sincerely yours,	1. Mr. Blank 2. Mr. Blank or Representative Blank
<i>United States Representative (woman)</i>	The Honorable Mary Blank House of Representatives Washington, D. C.	Madam:	My dear Mrs. (Miss) Blank:	Very truly yours,	Sincerely yours,	1, 2. Mrs. (Miss) Blank
<i>Territorial Delegate</i>	The Honorable John R. Blank Delegate of Alaska House of Representatives Washington, D. C.	Sir:	My dear Mr. Blank:	Very truly yours,	Sincerely yours,	1, 2. Mr. Blank
<i>Resident Commissioner</i>	The Honorable John R. Blank Resident Commissioner of Puerto Rico Washington, D. C.	Sir:	My dear Mr. Blank:	Very truly yours,	Sincerely yours,	1, 2. Mr. Blank
<i>Secretary to the President</i>	The Honorable John R. Blank Secretary to the President The White House Washington 25, D. C.	Sir:	My dear Mr. Blank:	Very truly yours,	Sincerely yours,	1, 2. Mr. Blank
<i>Secretary to the President with military rank</i>	Major General John R. Blank Secretary to the President The White House Washington 25, D. C.	Sir:	My dear General Blank:	Very truly yours,	Sincerely yours,	1, 2. General Blank

UNITED STATES GOVERNMENT OFFICIALS (Continued)

PERSONAGE	ENVELOPE AND INSIDE ADDRESS	FORMAL SALUTATION	INFORMAL SALUTATION	FORMAL CLOSE	INFORMAL CLOSE	1. SPOKEN ADDRESS 2. INFORMAL INTRO- DUCTION OR REFERENCE
<i>Assistant Secretary to the President</i>	The Honorable John R. Blank Assistant Secretary to the President The White House Washington 25, D. C.	Sir:	My dear Mr. Blank:	Very truly yours,	Sincerely yours,	1, 2. Mr. Blank
<i>High Officials of the United States, in gen- eral: Comptroller General, Director of Bureau of the Budget, Librarian of Congress</i>	<i>Formal</i> The Comptroller General of the United States Washington, D. C. <i>Informal</i> The Honorable John R. Blank Comptroller General of the United States Washington, D. C.	Sir:	My dear Mr. Blank:	Very truly yours,	Sincerely yours,	1, 2. Mr. Blank
<i>Heads of Inde- pendent Federal Agencies, Boards, Commissions, Es- tablishments, Or- ganizations, etc.</i>	<i>Formal</i> The Chairman of the Board of Governors of the Federal Reserve System Washington, D. C. <i>Informal</i> The Honorable John R. Blank Director, Mutual Security Agency Washington, D. C.	Sir:	My dear Mr. Chairman (or Mr. Director): or My dear Mr. Blank:	Very truly yours,	Sincerely yours,	1, 2. Mr. Blank

STATE AND LOCAL GOVERNMENT OFFICIALS

PERSONAGE	ENVELOPE AND INSIDE ADDRESS	FORMAL SALUTATION	INFORMAL SALUTATION	FORMAL CLOSE	INFORMAL CLOSE	1. SPOKEN ADDRESS 2. INFORMAL INTRO- DUCTION OR REFERENCE
<i>Governor of State*</i>	<i>Formal</i> The Honorable the Governor of Iowa Des Moines <i>Informal</i> The Honorable John R. Blank Governor of Iowa Des Moines	Sir:	My dear Governor:	Respectfully yours,	Sincerely yours,	1. Governor Blank <i>or</i> Governor 2. Governor Blank <i>or</i> The Governor (Omits his own state: The Gov- ernor of Iowa)
<i>Lieutenant Gov- ernor</i>	The Honorable John R. Blank Lieutenant Governor of Iowa Des Moines	Sir:	My dear Governor Blank:	Respectfully yours, <i>or</i> Very truly yours,	Sincerely yours,	1. Governor Blank 2. The Lieutenant Governor of Iowa, Gove nor Blank (The Lieutenant Governor <i>or</i> Governor Blank)
<i>Secretary of State</i>	The Honorable John R. Blank Secretary of State of Iowa Des Moines	Sir:	My dear Mr. Secretary:	Very truly yours,	Sincerely yours,	1, 2 Mr. Blank
<i>Attorney General</i>	The Honorable John R. Blank Attorney General of New York Albany, New York	Sir:	My dear Mr. Attorney General	Very truly yours,	Sincerely yours,	1, 2. Mr. Blank
<i>State Representa- tive or Assembly- man</i>	The Honorable John R. Blank House of Representatives Nashville, Tennessee	Sir:	My dear Mr. Blank:	Very truly yours,	Sincerely yours,	1. Mr. Blank 2. Mr. Blank <i>or</i> Representative Blank
<i>Mayor of a city</i>	The Honorable John R. Blank Mayor of Memphis Tennessee	Sir:	My dear Mayor Blank:	Very truly yours,	Sincerely yours,	1. Mayor Blank <i>or</i> Mr. Mayor 2. Mayor Blank

* The form of addressing Governors varies in the different states. The form given here is that used by the State Department of the United States.

STATE AND LOCAL GOVERNMENT OFFICIALS (Continued)

PERSONAGE	ENVELOPE AND INSIDE ADDRESS	FORMAL SALUTATION	INFORMAL SALUTATION	FORMAL CLOSE	INFORMAL CLOSE	1. SPOKEN ADDRESS 2. INFORMAL INTRO- DUCTION OR REFERENCE
<i>Commissioners of a city</i>	<i>Formal</i> The Commissioners of the City of Buffalo New York	Sirs:	<i>Always formal</i>	Very truly yours,	<i>Always formal</i>	1. Gentlemen 2. The Commis- sioners
<i>President of Board of Commissioners</i>	<i>Formal or Informal</i> The Honorable John R. Blank President, Board of Commis- sioners of the City of Buffalo New York	Sir:	My dear Mr. Blank:	Very truly yours,	Sincerely yours,	1, 2. Mr. Blank
<i>District Attorney</i>	The Honorable John R. Blank District Attorney, Sunflower County County Courthouse Indianola, Mississippi	Dear Sir:	Dear Mr. Blank:	Very truly yours,	Sincerely yours,	1, 2. Mr. Blank
<i>City Attorney City Counsel Corporation Counsel</i>	The Honorable John R. Blank City Attorney (City Counsel, Corporation Counsel) Aliceville, Alabama	Dear Sir:	Dear Mr. Blank.	Very truly yours,	Sincerely yours,	1, 2. Mr. Blank
<i>Alderman</i>	Alderman John R. Blank City Hall Aliceville, Alabama	Dear Sir:	Dear Mr. Blank:	Very truly yours,	Sincerely yours,	1, 2. Mr. Blank

COURT OFFICIALS

PERSONAGE	ENVELOPE AND INSIDE ADDRESS	FORMAL SALUTATION	INFORMAL SALUTATION	FORMAL CLOSE	INFORMAL CLOSE	1. SPOKEN ADDRESS 2. INFORMAL INTRO- DUCTION OR REFERENCE
<i>Chief Justice^a of a State Supreme Court</i>	The Honorable John R. Blank Chief Justice ^a of the Supreme Court of Minnesota Minneapolis, Minnesota	Sir:	My dear Mr. ^{aa} Chief Justice: or My dear Judge Blank:	Very truly yours,	Sincerely yours,	1. Mr. Chief Justice or Judge Blank 2. Mr. Chief Justice Blank or Judge Blank
<i>Associate Justice Presiding Justice</i>	The Honorable John R. Blank Associate (Presiding) Justice, Appellate Division Supreme Court New York, New York	Sir:	My dear Mr. Justice:	Very truly yours,	Sincerely yours,	1, 2. Mr. Justice (or Judge) Blank
<i>Judge of a Court^{ab}</i>	The Honorable John R. Blank Judge of the United States Dis- trict Court for the Southern District of California Los Angeles, California	Sir:	My dear Judge Blank:	Very truly yours,	Sincerely yours,	1, 2. Judge Blank
<i>Clerk of a Court</i>	John R. Blank, Esquire Clerk of the Superior Court Boston, Massachusetts	Sir:	My dear Mr. Blank:	Very truly yours,	Sincerely yours,	1, 2. Mr. Blank

^a If his official title is *Chief Judge*, substitute *Chief Judge* for *Chief Justice*.

^{aa} Never use *Mr.* with *Chief Judge* or *Judge*.

^{ab} This does not apply to a *Justice* of the United States Supreme Court.

UNITED STATES DIPLOMATIC REPRESENTATIVES

PROVINCIAL	ENVELOPE AND INSIDE ADDRESS	FORMAL SALUTATION	INFORMAL SALUTATION	FORMAL CLOSE	INFORMAL CLOSE	1. SPOKEN ADDRESS 2. INFORMAL INTRO- DUCTION OR REFERENCE
<i>American Am- bassador (man)</i>	The Honorable John R. Blank American Ambassador Paris	Sir:	My dear Mr. Ambassador:	Very truly yours,	Sincerely yours,	1. Mr. Ambassador or Mr. Blank 2. The American Ambassador's (The Ambassador or Mr. Blank)
<i>American Am- bassador (woman)</i>	The Honorable Mary L. Blank American Ambassador Paris	Madam:	My dear Madam Ambassador:	Very truly yours,	Sincerely yours,	1. Madam Amba- sador or Mrs. (Miss) Blank 2. The American Ambassador's (The Ambassador or Mrs. (Miss) Blank)
<i>American Minister (man)</i>	The Honorable John R. Blank American Minister Helsinki	Sir:	My dear Mr. Minister:	Very truly yours,	Sincerely yours,	1. Mr. Minister or Mr. Blank 2. The American Minister's Mr. Blank (The Minister or Mr. Blank)
<i>American Minister (woman)</i>	The Honorable Mary Blank American Minister Luxemburg	Madam:	My dear Mrs. (Miss) Blank; or My dear Madam Minister:	Very truly yours,	Sincerely yours,	1. Madam Minister or Mrs. (Miss) Blank 2. The American Minister's Mrs. (Miss) Blank (The Minister or Mrs. (Miss) Blank)

<i>American Chargé d'Affaires ad Interim</i>	John R. Blank, Esquire American Chargé d'Affaires ad Interim Rome	Sir:	My dear Mr. Blank:	Very truly yours,	Sincerely yours,	1, 2. Mr. Blank
<i>American Consul General, Consul, or Vice-Consul</i>	John R. Blank, Esquire American Consul General London, England (The same form for Consul or Vice Consul)	Sir:	My dear Mr. Blank:	Very truly yours,	Sincerely yours,	1, 2. Mr. Blank
<i>High Commissioner</i>	<i>Formal</i> The United States High Commissioner to Peru Lima <i>Informal</i> The Honorable John R. Blank United States High Commissioner to Peru Lima	Sir:	My dear Mr. Commissioner: or My dear Mr. Blank:	Very truly yours,	Sincerely yours,	1, 2. Commissioner Blank or Mr. Blank
<i>United States Delegate to the United Nations (with Ambassadorial rank)</i>	The Honorable John R. Blank Chief of the United States Mission to the United Nations New York, New York	My dear Mr. Ambassador: or Sir:	My dear Ambassador Blank	Very truly yours,	Sincerely yours,	1, 2. Mr. Ambassador (The Chief of the United States Mission to the United Nations)

* With reference to ambassadors and ministers to Central or South American countries, the phrase is "Ambassador of the United States" or "Minister of the United States."

* When an Ambassador or Minister is not at his post, the name of the country to which he is accredited must be added, thus, "The American Ambassador to France."

FOREIGN OFFICIALS AND REPRESENTATIVES

PERSONAGE	ENVELOPE AND INSIDE ADDRESS	FORMAL SALUTATION	INFORMAL SALUTATION	FORMAL CLOSE	INFORMAL CLOSE	1. SPOKEN ADDRESS 2. INFORMAL INTRO- DUCTION OR REFERENCE
<i>Foreign Amba- sador in the United States?</i>	His Excellency, John R. Blank Ambassador of Colombia Washington, D. C.	Excellency:	My dear Mr. Ambassador:	Respectfully yours,	Sincerely yours,	1. Mr. Ambassador or Mr. Blank 2. The Ambassador of Colombia (The Ambassador or Mr. Blank)
<i>Foreign Minister in the United States?</i>	The Honorable John R. Blank Minister of Hungary Washington, D. C.	Sir:	My dear Mr. Minister:	Respectfully yours,	Sincerely yours,	1. Mr. Minister or Mr. Blank 2. The Minister of Hungary (The Minister or Mr. Blank)
<i>Foreign Diplomatic Representative with a Personal Title</i>	His Excellency Count John Blank's Ambassador of Italy Washington, D. C.	Excellency:	My dear Mr. Ambassador:	Respectfully yours,	Sincerely yours,	1. Mr. Ambassador or Count Blank 2. The Italian Am- bassador (The Ambassador or Count Blank)
<i>Secretary General of the United Nations</i>	Mr. John R. Blank Secretary General of the United Nations New York, New York	Sir: or My dear Mr. Secretary General:	My dear Mr. Blank:	Respectfully yours,	Sincerely yours,	1. Mr. Blank or Sir 2. The Secretary Gen- eral of the United Nations or Mr. Blank

<i>President of a Republic</i>	His Excellency, John R. Blank President of the United States of Brazil	Excellency:	My dear Mr. President:	I remain, with great respect, Very truly yours,	Sincerely yours,	1. Your Excellency 2. not announced (President Blank or The President)
<i>British Prime Minister</i>	The Right Honorable John R. Blank, M. P. Prime Minister London	Sir:	My dear Mr. Prime Minister: or My dear Mr. Blank:	Respectfully yours, or Very truly yours,	Sincerely yours,	1. Mr. Blank 2. Mr. Blank or The Prime Minister
<i>Canadian Prime Minister</i>	The Right Honorable John R. Blank, C. M. G. Prime Minister of the Dominion of Canada Ottawa	Sir:	My dear Mr. Blank:	Very truly yours,	Sincerely yours,	1. Mr. Blank 2. Mr. Blank or The Prime Minister
<i>Member of the British Cabinet</i>	The Right Honorable John R. Blank, P. C. Secretary of State for Foreign Affairs London	Sir:	My dear Mr. Secretary of State: or My dear Mr. Blank:	Respectfully yours,	Sincerely yours,	1, 2. Mr. Blank
<i>Lord Chief Justice</i>	The Right Honorable The Lord Chief Justice of England ¹⁰ London	Sir:	My dear Lord Chief Justice:	Respectfully yours,	Sincerely yours,	1. My Lord Chief Justice ¹⁰ or Sir 2. The Lord Chief Justice

¹ The correct title of all ambassadors and ministers of foreign countries is "Ambassador (Minister) of " (name of country) with the exception of Great Britain. The adjective form is used with reference to representatives from Great Britain—British Ambassador, British Minister.

² To avoid a long line of address, use this style.

³ All members of the British Cabinet are members of the Privy Council and as such are entitled to the initials P.C. after their names.

¹⁰ If he is a peer in his own right, he is addressed by his title of nobility.

1. OFFICERS OF THE ARMED FORCES 14—ARMY

PERSONAGE	ENVELOPE AND INSIDE ADDRESS	FORMAL SALUTATION	INFORMAL SALUTATION	FORMAL CLOSE	INFORMAL CLOSE	1. SPOKEN ADDRESS 2. INFORMAL INTRODUCTION OR REFERENCE
<i>General of the Army</i>	John R. Blank, U.S.A. General of the Army War Department Washington, D. C.	Sir:	My dear General Blank:	Very truly yours,	Sincerely yours,	1, 2. General Blank
<i>General, Lieutenant, Major, or Brigadier General</i>	General (Lieutenant General, Major General, or Brigadier General) John R. Blank, U.S.A., Fort Sam Houston Texas	Sir:	My dear General Blank:	Very truly yours,	Sincerely yours,	1, 2. General Blank
<i>Colonel, Lieutenant Colonel</i>	Colonel (Lieutenant Colonel) John R. Blank, U.S.A., Fort Leavenworth Kansas	My dear Colonel Blank:	My dear Colonel Blank:	Very truly yours,	Sincerely yours,	1, 2. Colonel Blank
<i>Major</i>	Major John R. Blank, U.S.A., Fort Dix New Jersey	My dear Major Blank:	My dear Major Blank:	Very truly yours,	Sincerely yours,	1, 2. Major Blank
<i>Captain</i>	Captain John R. Blank, U.S.A., Fort Schuyler New York	My dear Captain Blank:	My dear Captain Blank:	Very truly yours,	Sincerely yours,	1, 2. Captain Blank
<i>First Lieutenant, Second Lieutenant</i> ¹³	Lieutenant John R. Blank, U.S.A., Fort Shelby Mississippi	My dear Lieutenant Blank:	My dear Lieutenant Blank:	Very truly yours,	Sincerely yours,	1, 2. Lieutenant Blank
<i>Chaplain in the United States Army</i>	Chaplain John R. Blank, U.S.A., Fort Dix New Jersey	My dear Chaplain:	My dear Chaplain:	Very truly yours,	Sincerely yours,	1. Chaplain Blank 2. Chaplain (Chaplain Blank) ¹⁴

¹³ U.S.A. is changed to A.U.S. (Army of the United States) to indicate the Reserve.

¹⁴ Modern regulations the form shown here for unofficial correspondence.

¹⁵ Roman Catholic chaplains and certain Anglican priests are spoken and referred to as "Father Blank," but are introduced as "Chaplain Blank."

¹⁶ Air Force titles are the same as the Army's. U.S.A.F. is used instead of U.S.A. and A.F.U.S. is used to indicate the Reserve.

OFFICERS OF THE ARMED FORCES¹⁵—NAVY

PERSONAGE	ENVELOPE AND INSIDE ADDRESS	FORMAL SALUTATION	INFORMAL SALUTATION	FORMAL CLOSE	INFORMAL CLOSE	1. SPOKEN ADDRESS 2. INFORMAL INTRO- DUCTION OR REFERENCE
<i>Admiral</i>	Admiral John R. Blank, U.S.N., Chief of Naval Operations Department of the Navy Washington, D. C.	Sir:	My dear Admiral Blank:	Very truly yours,	Sincerely yours,	1, 2. Admiral Blank
<i>Fleet Admiral</i>	Fleet Admiral John R. Blank, U.S.N.	Sir:	My dear Admiral Blank:	Very truly yours,	Sincerely yours,	1, 2. Admiral Blank
<i>Rear Admiral</i>	Rear Admiral John R. Blank, U.S.N., United States Naval Academy Annapolis, Maryland	Sir:	My dear Admiral Blank:	Very truly yours,	Sincerely yours,	1, 2. Admiral Blank
<i>Vice Admiral</i>	Vice Admiral John R. Blank, U.S.N., Mississippi San Diego, California	Sir:	My dear Admiral Blank:	Very truly yours,	Sincerely yours,	1, 2. Admiral Blank
<i>Commodore, Captain, Commander</i>	Commodore (Captain, Com- mander) John R. Blank U.S.S. Texas San Diego, California	My dear Com- modore (Captain, Commander) Blank:	My dear Commodore (Captain, Command- er) Blank:	Very truly yours,	Sincerely yours,	1, 2. Commodore (Captain, Commander) Blank
<i>Junior Officers (Lieutenant Com- mander, Lieu- tenant, Lieutenant, Junior grade, Ensign)</i>	Lieutenant Commander (Lieu- tenant, etc.) John R. Blank, U.S.N., U.S.S. Missouri Norfolk, Virginia	My dear Mr. Blank:	My dear Mr. Blank:	Very truly yours,	Sincerely yours,	1. Mr. Blank ¹⁷ 2. Lieutenant Com- mander or Lieu- tenant, etc.) Blank (Mr. Blank ¹⁷)
<i>Chaplain</i>	Captain John R. Blank (Ch. C.), U.S.N., Department of the Navy Washington, D. C.	Reverend Sir.	My dear Chaplain:	Very truly yours,	Sincerely yours,	1. Chaplain Blank 2. Chaplain Blank (Chaplain Blank)

¹⁵ Marine Corps titles are the same as the Army, except that the top rank is *Commandant of the Marine Corps*. U.S.M.C. indicates regular service, U.S.N.R. in-
dicates the Reserve.

¹⁶ U.S.N. indicates regular service, U.S.N.R. indicates the Reserve.

¹⁷ Junior officers in the medical or dental corps are spoken to and referred to as "Dr." but are introduced by their rank.

CATHOLIC FAITH

PERSONAGE	ENVELOPE AND INSIDE ADDRESS	FORMAL SALUTATION	INFORMAL SALUTATION	FORMAL CLOSE	INFORMAL CLOSE	1. SPOKEN ADDRESS 2. INFORMAL INTRO- DUCTION OR REFERENCE
Pope	His Holiness The Pope or His Holiness Pope Pius XII Vatican City	Your Holiness:	<i>Always Formal</i>	I have the honor to profess my- self, with pro- found respect, the servant of your Holiness	<i>Always Formal</i> or Respectfully yours, (permissible)	1. Your Holiness or Most Holy Father 2. NOT INTRODUCED (His Holiness or The Pope)
Apostolic Delegate	His Excellency, The Most Re- verend John Blank The Apostolic Delegate Washington, D. C.	Your Excel- lency:	My dear [Archbishop]	I have the honor to be, Excel- lency Respectfully yours,	Respectfully, or Sincerely yours, (permissible)	1. Your Excellency 2. NOT INTRODUCED (The Apostolic Delegate)
Cardinal in the United States	His Eminence, John Cardinal Blank Archbishop of New York New York, New York	Your Emi- nence:	My dear Cardinal Blank:	Respectfully yours,	Respectfully, or Sincerely yours, (permissible)	1. Your Eminence 2. NOT INTRODUCED (His Eminence or Cardinal Blank)
Archbishop in the United States	The Most Reverend John Blank, D.D. [S.T.D.] Archbishop of Boston	Most Re- verend Sir: Your Excel- lency.	My dear Archbishop	Respectfully yours,	Respectfully, or Sincerely yours, (permissible)	1. Your Excellency or Archbishop Blank 2. Archbishop Blank
Bishop in the United States	The Most Reverend John Blank Bishop of New Orleans New Orleans, Louisiana	Your Excel- lency: (ec- clesiastical usage) Most Re- verend Sir:	My dear Bishop.	Respectfully yours,	Respectfully, or Sincerely yours, (permissible)	1. Your Excellency or Bishop Blank 2. Bishop Blank
Abbot	The Right Reverend John R Blank Abbot of Westmoreland Abbey Washington, D. C.	Right Rever- end Father Abbot:	Dear Father Abbot. or Right Reverend and dear Father Blank:	Respectfully yours,	Respectfully, or Sincerely yours, (permissible)	1. Father Abbot 2. Father Blank

<i>Canon</i>	The very Reverend Canon John R. Blank, D.D. [LL.D.] Canon of Washington Cathedral Washington, D. C.	Very Reverend Canon	Dear Canon Blank	Respectfully yours,	Respectfully, or Sincerely yours,	1, 2. Canon Blank
<i>Monsignor</i>	The Right (or Very) ¹⁸ Reverend Magr. John R. Blank Baltimore, Maryland	Monsignor	Right (Very) Reverend and dear Monsignor Blank.	Respectfully yours,	Respectfully, or Sincerely yours,	1, 2. Monsignor Blank
<i>Brother</i>	Brother Albert Francis, F.S.C Superior 206 Elm Street Madison, Delaware	My dear Brother:	Dear Brother Francis	Respectfully yours,	Respectfully, or Sincerely yours, (permissible)	1, 2. Brother Francis
<i>Superior of a Brotherhood ¹⁹ and Priest</i>	The Very Reverend John R. Blank, M.M., Director Maryknoll, New York	Very Reverend Father Superior	Dear Father Superior:	Respectfully,	Respectfully,	1. Father Blank
<i>Priest</i>	<i>With Scholastic Degree:</i> The Reverend John R. Blank, Ph.D. Notre Dame University Indiana <i>Without Scholastic Degree:</i> The Reverend John R. Blank St. Patrick's Church Mobile, Alabama	My dear Dr. Blank: Reverend Sir:	Dear Dr. Blank. Reverend and dear Father Blank:	Very truly yours, Very truly yours,	Sincerely yours, Sincerely yours,	1, 2. Doctor Blank 1, 2. Father Blank

¹⁸ Dependent upon rank. See the *Official (Roman) Catholic Directory*.

¹⁹ The address for the superior of a Brotherhood depends upon whether or not he is a priest or has a title other than Superior. Consult the *Official Catholic Directory*.

CATHOLIC FAITH (Continued)

PERSONAGE	ENVELOPE AND INSIDE ADDRESS	FORMAL SALUTATION	INFORMAL SALUTATION	FORMAL CLOSE	INFORMAL CLOSE	1. SPOKEN ADDRESS 2. INFORMAL INTRO- DUCTION OR REFERENCE
<i>Sister Superior</i>	The Reverend Sister Superior ²⁰ (order, if used) Convent of the Angels New Orleans, Louisiana	My dear Sister Superior: or My dear Reverend Sister:	My dear Sister Superior:	Respectfully,	Respectfully,	1. Sister Blank or Sister St. Mary 2. The Sister Superior or Sister Blank (Sister St. Mary)
<i>Sister^{21a}</i>	Sister Mary Pia, O.P. St. Thomas High School Bayswater, New York	Dear Sister:	My dear Sister Mary Pia:	Respectfully,	Respectfully,	1, 2. Sister Mary Pia
<i>Mother Superior of a Sisterhood (Catholic or Protestant)</i>	The Reverend Mother Superior, O.C.A. ²⁰ Sacred Heart Convent New Orleans, Louisiana or Mother Superior, O.C.A. Sacred Heart Convent New Orleans	My dear Reverend Mother or My dear Mother Superior:	My dear Reverend Mother: or My dear Mother Superior:	Respectfully,	Respectfully,	1, 2. Reverend Mother
<i>Member of Community</i>	Mother Mary Jones, R.S.C.J. Convent of the Sacred Heart	Dear Mother Jones:	My dear Mother Jones:	Respectfully,	Respectfully,	1, 2. Mother Jones

²⁰ The address of the superior of a Sisterhood depends upon the order to which she belongs. The abbreviation of the order is not always used. Consult the *Official Catholic Directory*.

^{21a} A special classification for a nun is not given here because the exact sense of the word implies a strictly cloistered Religious.

JEWISH FAITH

PERSONAGE	ENVELOPE AND INSIDE ADDRESS	FORMAL SALUTATION	INFORMAL SALUTATION	FORMAL CLOSE	INFORMAL CLOSE	1. SPOKEN ADDRESS 2. INFORMAL INTRO- DUCTION OR REFERENCE
<i>Rabbi</i>	<i>With scholastic degree:</i> Rabbi John R. Blank, Ph.D. <i>or</i> Dr. John R. Blank	Sir:	My dear Dr. Blank: <i>or</i> My dear Rabbi Blank:	Very truly yours,	Sincerely yours,	1, 2. Dr. Blank
	<i>Without scholastic degree:</i> Rabbi John R. Blank	Sir:	My dear Rabbi Blank:	Very truly yours,	Sincerely yours,	1, 2. Rabbi Blank

PROTESTANT FAITH

PERSONAGE	ENVELOPE AND INSIDE ADDRESS	FORMAL SALUTATION	INFORMAL SALUTATION	FORMAL CLOSE	INFORMAL CLOSE	1. SPOKEN ADDRESS 2. INFORMAL INTRO- DUCTION OR REFERENCE
<i>Archbishop (Anglican)</i>	To His Grace The Lord Archbishop of Can- terbury Canterbury England	Your Grace: or My Lord Archbishop:	My dear Archbishop:	Respectfully yours,	Sincerely yours,	1. Your Grace NOT INTRODUCED (His Grace or The Archbishop)
<i>Presiding Bishop of the Protestant Episcopal Church in America</i>	The Most Reverend John R. Blank, D.D., LL.D., Presiding Bishop of the Prot- estant Episcopal Church in America Seabury House Greenwich, Conn.	Most Rev- erend Sir:	My dear Bishop Blank: or My dear Bishop:	Respectfully yours,	Sincerely yours,	1, 2. Bishop Blank
<i>Anglican Bishop</i>	The Right Reverend The Lord Bishop of London London, England	My Lord Bishop:	My dear Bishop	Respectfully yours,	Sincerely yours,	1. My Lord 2. The Lord Bishop of London
<i>Methodist Bishop</i>	The Reverend Bishop Blank Methodist Bishop Memphis, Tennessee	Reverend Sir.	My dear Bishop Blank:	Respectfully yours,	Sincerely yours,	1, 2. Bishop Blank
<i>Protestant Episcopal Bishop</i>	The Right Reverend the Bishop of Jacksonville or The Right Reverend John R. Blank, D.D., LL.D., Bishop of Jacksonville Jacksonville, Florida	Right Rev- erend Sir:	My dear Bishop: or My dear Bishop Blank:	Respectfully yours,	Sincerely yours,	1, 2. Bishop Blank
<i>Anglican Archdeacon</i>	The Venerable John R. Blank The Archdeacon of San Fran- cisco San Francisco, California	Mr. Arch- deacon:	My dear Archdeacon:	Very truly yours,	Sincerely yours,	1, 2. Archdeacon Blank

Protestant Episcopal Archdeacon	The Venerable John R. Blank, D.D. The Archdeacon of Baltimore Diocese of Maryland Baltimore, Maryland	Mr. Arch- deacon:	My dear Archdeacon:	Very truly yours,	Sincerely yours,	1, 2. Archdeacon Blank or Dr. Blank
Dean	The Very Reverend John R. Blank, D.D. Dean of St. Luke's Cathedral New York, New York	Very Reverend Sir: or My dear Mr. Dean:	My dear Dean Blank:	Very truly yours,	Sincerely yours,	1, 2. Dean Blank or Dr. Blank
Protestant Minister	<i>With Scholastic Degree:</i> The Reverend John R. Blank, D.D., Litt.D. Starkville, Mississippi <i>Without Scholastic Degree:</i> The Reverend John R. Blank Brownsville, Texas	My dear Dr. Blank: or My dear Mr. Blank:	My dear Dr. Blank: or My dear Mr. Blank:	Very truly yours, or Very truly yours,	Sincerely yours, or Sincerely yours,	1, 2. Dr. Blank or 1, 2. Mr. Blank
Protestant Priest	<i>With Scholastic Degree:</i> The Reverend John R. Blank, D.D. St. Thomas' House Richmond, Virginia <i>Without Scholastic Degree:</i> The Reverend John R. Blank Richmond, Virginia	My dear Dr. Blank: or My dear Mr. Blank: or My dear Father Blank:	My dear Dr. Blank: or My dear Mr. Blank: or My dear Father Blank:	Very truly yours,	Sincerely yours,	1, 2. Dr. Blank or 1, 2. Mr. Blank or Father Blank

■ Applies only to the head of a Cathedral or of a Theological Seminary

COLLEGE OFFICIALS

PERSONAGE	ENVELOPE AND INSIDE ADDRESS	FORMAL SALUTATION	INFORMAL SALUTATION	FORMAL CLOSE	INFORMAL CLOSE	1. SPOKEN ADDRESS 2. INFORMAL INTRO- DUCTION OR REFERENCE
<i>President of a University</i>	John R. Blank, LL.D., Ph.D. or Dr. John R. Blank President, Wells College Aurora, New York (Use only highest degree un- less degrees are in different fields) <i>Catholic Priest</i> The Very Reverend John R. Blank, S.J., D.D., Ph.D. President, Fordham University New York 10, New York	Sir:	My dear Dr. Blank:	Very truly yours,	Sincerely yours,	1, 2. Dr. Blank
<i>University Chancellor</i>	Dr. John R. Blank Chancellor, University of Alabama University Alabama	Sir:	My dear Dr. Blank.	Very truly yours,	Sincerely yours,	1, 2. Dr. Blank
<i>Professor</i>	Professor John R. Blank (If he holds a doctor's degree) John R. Blank, Ph.D. George Washington University Washington 10, D. C.	My dear Sir: or My dear Professor (Doctor) Blank: or My dear Dr. Blank:	My dear Professor (Doctor) Blank	Very truly yours,	Sincerely yours,	1, 2. Professor Blank or Dr. Blank
<i>Dean or Assistant Dean of a College or Graduate School</i>	Dean John R. Blank School of Commerce (If he holds a doctor's degree) Dr. John R. Blank Dean (Assistant Dean) School of Commerce University of Mississippi Oxford, Mississippi	My dear Sir. or My dear Dean Blank:	My dear Dean Blank	Very truly, yours,	Sincerely yours,	1. Dean Blank 2. Dean Blank or Dr. Blank, the Dean (Assistant Dean) of the School of Commerce

11. DICTIONARY OF CORRECT USAGE

A

accept, except. ACCEPT means to receive with approval, reply to affirmatively, agree to; EXCEPT means to exclude, make an exception to.

This order will be ACCEPTED ON [agreed to on] our usual terms. This order will be EXCEPTED FROM [made an exception to] our usual terms.

addicted to, subject to. ADDICTED TO means devoted to persistently, as to a bad habit or indulgence; SUBJECT TO means prone to, conditional upon. *Jones is ADDICTED TO alcohol. Jones is SUBJECT TO [prone to] colds. This arrangement is SUBJECT TO [conditional upon] approval by Mr. Jones.*

affect, effect. These two verbs are totally different in meaning. AFFECT means to have an influence upon, produce an effect upon, effect a change in, concern; EFFECT means to cause, bring about, produce, result in, have as a result. *Passage of this bill would have AFFECTED [influenced or concerned] the entire country. Passage of this bill can be EFFECTED [brought about] only through the co-operation of both parties.* Note the difference in meaning between the following sentences: *The change of climate may AFFECT [alter for better or for worse the prospects of] his recovery. The change of climate may EFFECT [bring about] his recovery.* The word AFFECT can never be used as a noun; EFFECT used as a noun, means result. *The EFFECT [result; not, AFFECT] of a sarcastic business letter is to antagonize the customer.*

all right. This expression should always be written as two words. There is no such word as ALRIGHT; the forms ALLRIGHT and ALL-RIGHT are also incorrect. *Are you ALL RIGHT? It will be ALL RIGHT to ship the goods on the tenth.*

all-round. Informal but permissible. Means the same as ALL-AROUND. *Jones is a good ALL-ROUND [preferable to ALL-AROUND] salesman.*

almost. See **most**.

already, all ready. ALREADY means beforehand, by or before a particular time; ALL READY means prepared, wholly ready. *I ALREADY have all the goods I need. I have the goods ALL READY [prepared] for shipment.*

altogether, all together. ALTOGETHER means wholly, completely, entirely; ALL TOGETHER means gathered, assembled. *The story is ALTOGETHER [entirely] false. We were ALL TOGETHER [assembled] in the room.*

among. See **between**.

an. The use of AN before such words as history, historical, humble, is now regarded as unnecessary; A is the preferred usage, in both written and spoken English [*A history; A historical work; A humble workman*]. Use A before all consonants except silent h [*A history; but, AN hour*]. Also, use A before words beginning with the sound of y or w [*A unit; A eulogy; A one*].

anyone, any one. Should be written as one word when used to mean anybody. *If we send ANYONE [anybody], it should be Jones.* Write as two words when the meaning is one particular person or thing from among a number. *If we send ANY ONE of the salesmen, it should be Jones.*

any place, every place, no place, some place. Commonly misused for ANYWHERE, EVERYWHERE, NOWHERE, SOMEWHERE. *Are you going ANYWHERE [not, ANY PLACE] this afternoon? I have looked EVERYWHERE [not, EVERY PLACE] for the missing bill. I have NOWHERE [not, NO PLACE] to go this afternoon. The book must be SOMEWHERE [not, SOME PLACE] in the room.*

anywheres, nowheres. Incorrect; use ANYWHERE, NOWHERE. *I can't find the letter ANYWHERE [not, ANYWHERES] in the files. The letter was NOWHERE [not, NOWHERES] to be found.*

apt, liable. These two words are frequently confused. APT usually means having an unfortunate tendency to; LIABLE usually means exposed to a risk. Correct: *We have found that when we ship by parcel post delays are APT [have an unfortunate tendency] to occur.* Correct: *This shipment is LIABLE to be [exposed to the risk of being] delayed if we ship by parcel post.* Correct: *Businessmen are APT [have an unfortunate tendency] to dictate letters carelessly.* Correct: *A businessman who dictates letters carelessly is LIABLE to lose [exposed to the danger of losing] his customers.* Where the sense is simple probability, use LIKELY. *The goods are LIKELY to [probably will] arrive on the tenth.*

as . . . as, so . . . as. Use AS . . . AS in affirmative statements; in negative statements and in questions implying a negative answer, good usage requires the use of SO . . . AS. Affirmative statement: *This window display is AS attractive AS the last one.* Negative statement. *This window display is not so attractive AS the last one.* Question implying a negative answer: *Could any businessman be so foolish AS to ship such an order?*

as, like. Use AS when a verb follows. *Do AS I do. Write this exactly AS I dictated it. He tried, AS any businessman would [try], to get a lower price.* When no verb follows, use LIKE. *His dictation is LIKE mine in some respects.*

as, whether. Do not use AS in place of WHETHER OR THAT. *I am not sure WHETHER [not, AS] I can ship the goods on that date.*

at about. Omit the AT. *Jones arrived this morning ABOUT [not, AT ABOUT] ten o'clock.*

ought. Means "anything," but in this sense is now obsolete. The name of the symbol 0 is NAUGHT, not AUGHT.

B

back of. Preferable to use BEHIND. *His store is just off Clinton Street, BEHIND [not, IN BACK OF] the post office.*

beside, besides. BESIDE means by the side of, close to; BESIDES means additionally, in addition to. *The letter is on my desk, BESIDE [along-*

side; not, **BESIDES**] *the telephone*. **BESIDES** [in addition to; not, **BESIDE**] *these two bills, there are several others that should be paid before the fifteenth*. *We have these two bills, and several others* **BESIDES** [in addition; not, **BESIDE**].

between, among. Use **BETWEEN** where only two persons or things are referred to; use **AMONG** where more than two are referred to. *On this point there was a difference of opinion* **AMONG** [not, **BETWEEN**] *the directors*. *On this point there was a difference of opinion* **BETWEEN** [not, **AMONG**] *Jones and Smith*.

biweekly, bimonthly. **BIWEEKLY** means once every two weeks; **BI-MONTHLY** means once every two months. **SEMIWEEKLY** means twice a week; **SEMIMONTHLY** means twice a month. All four expressions are confusing and should be avoided. It is clearer to use **ONCE EVERY TWO WEEKS**, **ONCE EVERY TWO MONTHS**, **TWICE A WEEK**, **TWICE A MONTH**.

but that, but what. The most common error here is the use of **BUT THAT** or **BUT WHAT** after "doubt." Wrong: *There is no doubt* **BUT THAT** [or, **BUT WHAT**] *the shipment will reach you promptly*. Correct: *There is no doubt* **THAT** *the shipment will reach you promptly*.

C

can, may. **CAN** denotes ability or power; **MAY** denotes permission. **CAN** you [will you be able to] *make payment next month?* **MAY** we [will you give us permission to] *ship your order by freight?* **CAN** I [is it possible for me to] *go to Alaska by plane?* **MAY** I [do I have your permission to] *go to Alaska by plane?*

compare to, compare with. If the meaning is merely to suggest a similarity, or state that a similarity exists, use **TO**. If the meaning is to estimate the degree of similarity, or state the details of a similarity, use **WITH**. *The speaker compared the British law* **WITH** *the American* [here the meaning is that the speaker made a detailed comparison]. *The speaker compared the new law to a plague* [here the meaning is that the speaker merely suggested a similarity]. In many cases either **TO** or **WITH** may be used. *Compared to* [or, *with*] *him, I am a genius*. After an intransitive verb, only **WITH** can be used. *Round steak cannot compare* **WITH** *filet mignon*.

contemplate. Should not be followed by **ON**, **OVER**, or any other preposition. *I am* **CONTEMPLATING** [not, **CONTEMPLATING ON**, **CONTEMPLATING ON MAKING**, or **CONTEMPLATING OVER**] *a trip through the Middle West*.

contemptible, contemptuous. **CONTEMPTIBLE** means despicable, deserving of being despised; **CONTEMPTUOUS** means scornful. *He played a* **CONTEMPTIBLE** [despicable] *trick on Jones*. *His comments on the new sales plan were very* **CONTEMPTUOUS** [scornful].

continual, continuous. **CONTINUAL** means occurring in close succession, frequently repeated; **CONTINUOUS** means without stopping, without interruption. **CONTINUAL** [frequent] *breakdowns in the factory delayed delivery of the goods*. *The machinery has been in* **CONTINUOUS**

operation [has not been stopped] *for sixty hours*. He is CONTINUALLY [frequently] *asking for special favors*. He drove CONTINUOUSLY [without stopping] *for six hours*.

could of. See of.

credible, credulous, creditable. CREDIBLE means believable; CREDULOUS means easily imposed upon, believing too easily; CREDITABLE means praiseworthy. *The price quoted seems hardly CREDIBLE [believable]. He is too CREDULOUS [easily imposed upon] to make a good purchasing agent. His record as a salesman was highly CREDITABLE [praiseworthy].*

D

data. The word DATA is plural; the singular form, now seldom used, is DATUM. *We have proved that these [not, THIS] data ARE [not, IS] reliable.*

different from. This is the correct form, DIFFERENT THAN being invariably wrong. *My sales plan is DIFFERENT FROM [not, DIFFERENT THAN] the one that you suggested.*

differ from, differ with. DIFFER used in the sense of being different, exhibiting a difference, is followed by FROM, not WITH; in the sense of having a difference of opinion, expressing dissent, disputing, it is usually followed by WITH. *My sales campaign DIFFERS FROM [is unlike] yours in three ways. I DIFFER WITH [disagree with] you as to the value of your sales campaign.*

disinterested, uninterested. DISINTERESTED means unselfish, impartial, without thought of personal gain; UNINTERESTED means not interested, not enthusiastic. *A magistrate must perform his duties in a DISINTERESTED manner [impartial manner, without thought of personal gain]. He seems UNINTERESTED in his work [lacking in interest or enthusiasm].*

E

each other, one another. No differentiation need be made. The rule that EACH OTHER should be used when only two things are referred to, and that ONE ANOTHER should be used when more than two are referred to, is no longer generally accepted. Hence all the following forms are correct: *Smith and I see ONE ANOTHER quite often. Smith and I see EACH OTHER quite often. It will be interesting for the four of us to see ONE ANOTHER again after so many years. It will be interesting for the four of us to see EACH OTHER again after so many years.* The possessive of EACH OTHER is EACH OTHER'S, not EACH OTHERS'; the possessive of ONE ANOTHER is ONE ANOTHER'S, not ONE ANOTHERS'. *They tore EACH OTHER'S [not, EACH OTHERS'] clothes. They tore ONE ANOTHER'S [not, ONE ANOTHERS'] clothes.*

effect. See affect.

either. Correct when used to designate one of two persons or things; not correct when used to designate one of three or more. Correct: *EITHER of the two men will be suitable.* Wrong: *EITHER of the four*

men will be suitable. Correct: ANY [or, ANY ONE] of the four men will be suitable. EITHER should be followed by a singular verb. If EITHER Jones or Smith is [not, ARE] going to Chicago, tell HIM [not, THEM] to see Brown.

else. A common error is to combine ELSE with BUT. Wrong: *It was nothing ELSE BUT selfishness on his part.* Correct: *It was nothing BUT selfishness on his part.* Correct: *There was no one BUT [not, ELSE BUT] him in the room.* For the possessive form, use SOMEBODY ELSE'S [not, SOMEBODY'S ELSE]. *He took SOMEBODY ELSE'S [not, SOMEBODY'S ELSE] hat.* Similarly: EVERYONE ELSE'S, ANYONE ELSE'S, NO ONE ELSE'S, etc. *I took mine, but he took EVERYONE ELSE'S [not, EVERYONE'S ELSE].*

everybody. Write as one word.

everyone, every one. Write as one word when the meaning is everybody. EVERYONE [everybody] in the department should attend the weekly sales meetings. Write as two words when the meaning is each one of a group of persons or things. EVERY ONE [each one] of the department heads must be present at this meeting. All of the salesmen have done well; EVERY ONE [each one] of them deserves a prize.

every place. See any place.

except. See accept.

F

farther, further. No differentiation need be made. Most writers prefer FURTHER. *I will walk one mile, and no FURTHER.* The speaker was asked to cite some FURTHER examples.

firstly. When SECONDLY, THIRDLY, etc., follow, begin with FIRSTLY, not FIRST. The choice between FIRSTLY, SECONDLY, THIRDLY, etc., and FIRST, SECOND, THIRD, etc., is a matter of personal preference.

former. Correct when used to designate the first of two persons or things; incorrect when used to designate the first of three or more. Correct: *Smith and Jones were at the convention; the FORMER gave a very interesting talk.* Wrong: *Smith, Jones, and Brown were at the convention; the FORMER gave a very interesting talk.* Correct: *Smith, Jones, and Brown were at the convention; the FIRST-NAMED gave a very interesting talk.* However, this construction is awkward; where three or more are mentioned, it is best to repeat the word referred to. Thus: *Smith, Jones, and Brown were at the convention; SMITH gave a very interesting talk.*

G

guarantee, guaranty. For the verb, always use GUARANTEE. *We GUARANTEE [not, GUARANTY] that the goods will be satisfactory.* For the noun, *business convention has established a specialized use of GUARANTY*, which is illustrated in such expressions as *contract of GUARANTY*, *act of GUARANTY*. However, GUARANTEE is never wrong, even in these connections, and hence a safe rule to follow is: When in doubt, use GUARANTEE.

H

had better, had best. Both good usage. Correct: *You HAD BETTER not stay in Chicago more than two weeks.* Correct: *It HAD BEST be done at once.*

had have, had of. Often incorrectly used in place of HAD. Wrong: *If he HAD OF [OR, HAD HAVE] tried, he could have done it.* Correct: *If he HAD tried, he could have done it.*

had ought, hadn't ought. See ought.

hardly. This word itself carries a negative idea, and hence should not be followed or preceded by NOT. Wrong: *I COULDN'T HARDLY get the table through the door.* Correct: *I COULD HARDLY get the table through the door.*

help. Should not be followed by BUT when used in the sense of avoid. Wrong: *I can't HELP BUT feel that he really meant to do it.* Correct: *I can't HELP FEELING that he really meant to do it.*

hopes. Sometimes incorrectly used in place of HOPE. Wrong: *We have no HOPES of ever receiving payment.* Correct: *We have no HOPE of ever receiving payment.*

I

if. Often misused in place of WHETHER. Wrong: *I am not sure IF I can ship the goods on that date.* Correct: *I am not sure WHETHER I can ship the goods on that date.*

imply, infer. IMPLY is used to denote something suggested, assumed, insinuated, or vaguely expressed. *Your letter IMPLIES that I have tried to evade payment of the bill.* INFER means to draw from, deduce from, gather from, or conclude from. *I INFER from your letter that you cannot grant an extension of time.*

in back of. See back of.

inferior, superior. Should always be followed by TO, not THAN. *It is INFERIOR from every point of view TO [not, THAN] the material previously used.*

ingenious, ingenuous. INGENIOUS means clever, skillful; INGENUOUS means frank, innocent, trusting. *His suggestion is a very INGENIOUS [clever] solution of the problem. You would think that a young man of 22 would not be so INGENUOUS [trusting, easily imposed upon].*

irregardless. There is no such word; the correct form is REGARDLESS. Misuse is perhaps caused by confusion with the word IRRESPECTIVE, which is somewhat similar in meaning and is correct. *We should acknowledge all orders, REGARDLESS [not, IRREGARDLESS] of the amount involved.*

K

kind, sort. Write THIS KIND, THAT KIND, not THESE KINDS, THOSE KINDS. Similarly, write THIS SORT, THAT SORT, not THESE SORTS, THOSE SORTS. Wrong: *I don't like THESE KINDS of pencils.* Correct: *I don't like THIS*

KIND of pencil. Wrong: *I don't like THOSE SORTS of pencils.* Correct: *I don't like THAT SORT of pencil.*

kind of, sort of. These expressions should not be followed by **A** or **AN**.
What **KIND OF** [not, **KIND OF A**] *place* is it? It's *the SORT OF* [not, **SORT OF AN**] *account that has to be carefully watched.*

L

latter, last. The word **LATTER** may be used to designate the second of two persons or things previously mentioned, but should not be used where more than two have been mentioned. Correct: *We are now conducting a special sale of suits and overcoats; the **LATTER** are particularly good value.* But: *We are now conducting a special sale of hats, suits, and overcoats; the **LAST** [or, **LAST-NAMED**; not **LATTER**] are particularly good value.* In most cases, as here, the construction with **LAST** is awkward and may prove ambiguous; it is usually best to repeat the word referred to. Thus: *We are now conducting a special sale of hats, suits, and overcoats; the **OVERCOATS** are particularly good value.*

lay, lie. **LAY** means to put or set down, place, deposit; **LIE** means to rest, be in a certain position or location. *He likes to **LIE** [not, **LAY**] down after lunch. The letters are **LYING** [not, **LAYING**] on your table. He let the pen **LIE** [not, **LAY**] where it had fallen. **LAY** [not, **LIE**] the letters on the table.*

learn, teach. Do not use **LEARN** in the sense of **TEACH**. *The experience will **TEACH** [not, **LEARN**] him a lesson. Several years ago I **TAUGHT** [not, **LEARNED**] him how to check a credit.*

leave go, leave go of. Use **LET GO**. *LET IT GO* [not, **LEAVE IT GO**] *in the meantime. If you **LET GO** [not, **LEAVE GO OF**] the rope, you'll fall.*

less. Apply the word **LESS** only to things that are measured by amount, and not by size, quality, or number. Correct: *He bought **LESS** [a smaller amount of] butter this month than last.* But: *The staff in the New York office is **SMALLER** [not, **LESS**] than that in the Chicago office. **FEWER** [not, **LESS**] industrial accidents occurred this year than last.*

liable. See **apt**.

like. See **as, like** and **such as, like**.

likely. See **apt**.

loan, lend. Many authorities object to any use of **LOAN** as a verb. It is best to use the word only in connection with formal business transactions—as, for example, the placing of a loan by a bank. For general purposes use **LEND**. *Will you **LEND** [not, **LOAN**] me ten dollars? He **LENT** [not, **LOANED**] me ten dollars. But: The bank **LOANED** the money at six per cent.*

M

may. See **can**.

may of. See **of**.

Messrs. See page 627.

might of. See **of**.

most, almost. Do not use **most** in place of **almost**. Apart from the fact that **most** is not good usage, in many constructions it changes the meaning. Thus, *I am most ready to go* [meaning, I am very willing to go] is totally different from, *I am almost ready to go*.
must of. See **of**.

N

naught. See **aught**.
nobody. Always write as one word.
no one. Always write as two words.
no place. See **any place**.
nowheres. See **anywheres**.

O

of. **COULD OF, SHOULD OF, WOULD OF, MUST OF, MAY OF, MIGHT OF** are all incorrect; use **COULD HAVE, SHOULD HAVE, WOULD HAVE, MUST HAVE, MAY HAVE, MIGHT HAVE**. *I COULD HAVE made a larger profit. I SHOULD HAVE made a larger profit. I WOULD HAVE made a larger profit. I MUST HAVE made a mistake. I MAY HAVE made a mistake. I MIGHT HAVE made a mistake.*

off, from. Do not use **off** in place of **from**. *I bought it from* [not, **off**] *Jones*.

off of. Incorrect; omit the **of**. *I will give you ten per cent off* [not, **off of**] *the list price*.

one another. See **each other**.

oneself, one's self. The one-word form is preferred. *It is dangerous to cut oneself*. However, if emphasis is desired, **ONE'S SELF** may be used. *It is wise to know ONE'S SELF*.

only. The meaning that the sentence is intended to convey determines the position of the word **ONLY**. (1) *ONLY the teacher spoke to John*. (2) *The teacher ONLY spoke to John*. (3) *The teacher spoke ONLY to John*, or, *The teacher spoke to John ONLY*. Each of these three sentences conveys a different meaning. The first states that the teacher, and no one else, spoke to John; the second that the teacher did nothing beyond merely speaking to John; the third that the teacher addressed John to the exclusion of everyone else. No hard and fast rule can be given. The writer must consider carefully the exact meaning that he wishes to convey, and place the **ONLY** accordingly. As a final resort, if there is danger of ambiguity or misunderstanding, the construction should be changed to eliminate the **ONLY** entirely. **ONLY** is sometimes erroneously used as a conjunction. Wrong: *Your pen is the same as mine ONLY that the nib is different*. Right: *The one [or ONLY] difference between your pen and mine is the different nib*.

ought. Do not combine **ought** with **had**. *I ought* [not, **had ought**] *to have waited for the shipment*.

over with. Omit the **with**. *Our annual fall sale is now over* [not, **over with**].

P

pair, set. These are the singular, not the plural, forms. Wrong: *Send five PAIR of stockings and three SET of dishes.* Correct: *Send five PAIRS of stockings and three SETS of dishes.*

practicable, practical. PRACTICABLE means feasible, capable of being put into practice; PRACTICAL means useful or successful in actual practice. PRACTICAL may be used with reference to either persons or things. *Jones is a PRACTICAL man* [a "doer" rather than a theorist]. *No PRACTICAL solution could be found* [no solution that would work]. Note, however, that PRACTICABLE cannot be used with reference to persons, but only with reference to things. Thus, *Jones is a PRACTICABLE man* [a man "capable of being put into practice"] is meaningless. The following sentences illustrate the change in meaning that results when one word is substituted for the other: *The scheme is PRACTICABLE* [it can be carried out]. *The scheme is PRACTICAL* [it will be successful when carried out.]

prescribe, proscribe. PRESCRIBE means to lay down definite rules or directions, to dictate, direct, order the use of. PROSCRIBE means to prohibit, condemn. *The sales manager PRESCRIBED regular selling hours for the salesmen.* *The doctor PRESCRIBED cod-liver oil.* *The president PROSCRIBED [prohibited] smoking during office hours.*

principal, principle. A handy rule to keep in mind when using either of these words is: The word PRINCIPLE is a noun only, and cannot be used as an adjective. Therefore, whenever the form is an adjective, it is always spelled PRINCIPAL. *The New England states have been our PRINCIPAL source of business during the past five years.* PRINCIPLE means a fundamental or general truth, a rule. PRINCIPAL, which in the noun form has a variety of meanings, is used in all other cases. *We have always acted on the PRINCIPLE [fundamental truth] that honesty is the best policy.* *The loan, including PRINCIPAL and interest, amounted to \$158.63.* *An agent may, by correspondence, bind his PRINCIPAL to contracts entered into within the scope of his authority.*

proven. Not good usage; use PROVED. *It was PROVED [not, PROVEN] that the carrier was to blame.*

providing. Not good usage in place of PROVIDED. It is preferable not to use THAT after PROVIDED. *I will give you the order, PROVIDED [not, PROVIDING] you agree to make delivery not later than the tenth.*

R

reason. Do not complete a sentence beginning in some such way as THE REASON IS with: (1) a BECAUSE clause; (2) a BECAUSE OF phrase; (3) a DUE TO phrase; or (4) an ON ACCOUNT OF phrase. Complete the sentence with a THAT clause. Wrong: *The reason the goods were delayed was BECAUSE an error was made in the shipping department.* Wrong: *The reason the goods were delayed was BECAUSE OF an error in the shipping department.* Wrong: *The reason the goods were de-*

layed was DUE TO an error in the shipping department. Wrong: *The reason the goods were delayed was ON ACCOUNT OF an error in the shipping department.* Correct: *The reason the goods were delayed was THAT an error was made in the shipping department.*

regard. Do not use REGARDS in place of REGARD in the expressions IN REGARD TO, WITH REGARD TO. Correct: *With REGARD [not, REGARDS] to our past-due accounts, the situation is still unchanged.*

S

same. Not good business usage. Poor: *We will repair the spring and ship SAME to you on Wednesday of next week.* Correct: *We will repair the spring and ship IT to you on Wednesday of next week.*

semiweekly, semimonthly. See **biweekly**.

set. See **pair**.

should of. See **of**.

size, sized. Either may be used when preceded by an adjective. A hyphen should connect both these words with a preceding adjective. *Different-sized [or -size] screws . . .*

so . . . as. See **as . . . as**.

someone. Write as one word when SOMEBODY can be substituted; otherwise write as two words.

some place. See **any place**.

sort. See **kind**.

sort of. See **kind of**.

such as, like. LIKE is commonly misused in place of SUCH AS, where the meaning is for example. *In his factory are a number of useful machines, SUCH AS [not, LIKE] cutters and stampers, which are very seldom idle.*

superior. See **inferior**.

T

teach. See **learn**.

this here, these here, that there, those there. Incorrect; use merely THIS, THESE, THAT, THOSE. *Shipment of THIS [not, THIS HERE] order was supposed to have been made last week.*

W

wait on. Do not use in place of WAIT FOR. *We have been WAITING FOR [not, WAITING ON] the goods to arrive for three days.*

ways. Do not use in place of WAY. *He was a little WAY [not, WAYS] ahead. This year's sales are quite a BIT [not, WAYS] ahead of last year's, or, This year's sales are CONSIDERABLY ahead of last year's.*

where. Sometimes misused in place of THAT. *I see in this morning's paper THAT [not, WHERE] the Ames Corporation has declared a fifty-cent dividend.*

whether. See **as, whether**.

would of. See **of**.

SECTION 6

Business Protection Through Insurance

1. HOW TO REDUCE THE COST OF AMPLE INSURANCE PROTECTION

Purchase the proper form of insurance	675
Select your broker or agent carefully, and keep him informed	675
Read your policy	676
Some examples of the cost of failure to read a policy	677
Budgeting insurance premiums; purchase of long-term policies	678
Savings resulting from frequent appraisals	679
Reducing the cost of insurance by means of improvements reducing the risk	679
Savings effected by application of the deductible principle	680
When purchasing insurance under an experience rating plan, do not reveal the fact to persons covered	680
Points to investigate in choosing an insurance company	680
What types of insurance are most important?	682
Self-insurance; its advantages and dangers	683

2. LAW GOVERNING INSURANCE POLICIES

Conflicts between printed provisions and endorsements	685
Interpretation of an insurance policy where ambiguities exist	685
Violation of a policy; is policy again valid when violation ceases?	686

Legal status of brokers	686
Opinion of agent not binding on insurance company	687
Oral waiver of policy provisions by agent is not binding	687
Warranties and representations by the insured	687
Assignment of an insurance policy	688
Territorial limits on property insurance policies	688
"Other insurance" on the same property	688
Each policy is an independent contract	689
Doctrine of entirety of contract	689
Doctrine of insurable interest	689
Protection of beneficiaries of life insurance from claims of creditors	691

3. TYPES OF INSURANCE POLICIES

Insurance division	691
Adaptability of insurance	692
Specific policies	692
Blanket policies	693
General cover contract, or reporting insurance	693
Excess loss insurance	694
Coinsurance clauses	694
Floater policies	696

4. FIRE INSURANCE

Protection afforded by the standard fire insurance policy	696
Meaning of clauses in the standard fire insurance policy	696
Fire insurance policy is a personal contract	699
Risks excluded in fire insurance policy	699

672 BUSINESS PROTECTION THROUGH INSURANCE

Kinds of property excluded in fire insurance policy	701
Endorsements to fire insurance policy	701

5. LIABILITY INSURANCE

Purpose of liability insurance . . .	702
Types of liability	702
Standard provisions of liability insurance policies	704
Contingent public liability insurance	705
Fiduciaries' liability insurance	705
Comprehensive public liability and property damage insurance	705

6. WORKMEN'S COMPENSATION INSURANCE

Why workmen's compensation insurance is necessary	706
Methods of meeting the liabilities imposed by workmen's compensation laws	706
Safety devices and employee education	708
Employer's liability insurance	709

7. AUTOMOBILE INSURANCE

Types of automobile coverage	709
Automobile public liability insurance	710
Automobile property damage liability insurance	711
Automobile collision insurance	711
Automobile theft insurance	712
Automobile, fire, lightning, and transportation insurance	712
Comprehensive damage coverage	712
Nonownership automobile liability insurance (contingent liability insurance)	713
Omnibus clause in automobile insurance	714
Automobile fleet insurance	714
Experience rating of large automobile fleets	715

Which automobile covering is most important?	715
Self-insurance of automobiles	716
Garage-keeper's insurance	716
Comprehensive liability and property damage insurance	718

8. BURGLARY, THEFT, AND ROBBERY INSURANCE

Standard definitions of burglary, theft, and robbery	718
Types of burglary, theft, and robbery insurance	719
Mercantile open-stock burglary insurance	719
Interior robbery	720
Outside messenger robbery insurance	720
Payroll insurance	721
Mercantile safe burglary insurance	721
Money and securities insurance	722
Merchants' protective bonds	723
Securities insurance	724

9. FIDELITY AND SURETY BONDS

Use of bonds	725
Fidelity bonds	726
Surety bonds	726
Contract bonds	727
Court or judiciary bonds	727
Miscellaneous indemnity bonds	727

10. CREDIT INSURANCE

Need for credit insurance	727
Basic forms of credit insurance policies	728
Losses covered	728
Deductions in blanket policy	729
Underwriting basis of credit insurance	729
Limit of coverage in credit insurance	730
Loss adjustments	730
Example of loss adjustment	731
Endorsements on credit insurance policy	731
Collection service of the insurance company	733
How to reduce the cost of adequate credit insurance	733

11. MISCELLANEOUS INSURANCE COVERAGES

Fire and Allied Coverages

Supplemental contract	735
Explosion	735
Riot and riot attending a strike	735
Business interruption (use and occupancy)	735
Contingent use and occupancy insurance	736
Profits and commissions insurance	736
Rent insurance	736
Leasehold insurance	737
Improvements and betterments insurance	738
Accounts receivable insurance	739

Other Property Insurance

Sprinkler leakage insurance	739
Power plant insurance	739
Earthquake insurance	741
Windstorm and tornado insurance	741
Plate glass insurance	741

Floater Policies

Transportation insurance	741
Parcel post insurance	742
Registered mail insurance	742
Garment contractor's insurance	742

Bailee's customer's insurance	743
Salesmen's samples insurance	743
Jewelers' block insurance	743

Miscellaneous Coverages

Title insurance	743
Rain insurance	743
Check alteration and forgery insurance	744

12. BUSINESS LIFE INSURANCE

Types of organizations that should be interested in business life insurance	745
Uses to which business life insurance can be profitably applied	745
Business life insurance trusts	746
When the services of a trustee are necessary	746
When the services of a trustee are unnecessary	746
Determining factors where use of a trustee's services is optional	746
Charges made by corporate fiduciaries	747
Methods used to evaluate the interests of a decedent in a stock-transfer or partnership-liquidation agreement	747

SECTION 6

Business Protection Through Insurance*

1. HOW TO REDUCE THE COST OF AMPLE INSURANCE PROTECTION

Purchase the proper form of insurance. Insurance, like all other commodities, is placed on the market in various kinds of packages; some packages contain much more protection for a given premium than others.

Purchasing the *most* suitable form of insurance for the situation can keep costs down considerably. For example, any risk may be covered by "specific fire" insurance. If the value of the property at risk, however, fluctuates sharply, it will be much cheaper to buy at least a part of the coverage as "reporting insurance" if the business qualifies for it. The saving arises from the fact that under the reporting form of policy, a premium is charged only on the actual value of the property at risk; whereas, under the specific form of policy, the premium must be paid in advance on the full face value of the policy. Since the face value of the policy must be at least equal to the maximum amount that may be at risk at any time, it is apparent that the reporting form of insurance would be cheaper in such an instance.

Select your broker or agent carefully, and keep him informed. An insurance broker or agent who takes an interest in his client's business has been compared to a doctor of medicine. Like a qualified doctor the broker or agent can diagnose the needs of the client after a careful analysis of all the surrounding circumstances, and can prescribe the proper remedy. The agent or broker, on the other hand, who merely "writes up" something when his client informs him that he needs some "burglary insurance," is like the old country "horse

* Acknowledgment is made to Jerome S. Miller, Insurance Consultant, for his assistance in revising this section.

doctor" who gives out "snake oil" or some similar preparation, for every ailment.

A good broker or agent who is interested in the welfare of his policyholders, and who is kept informed by his clients of changes in their circumstances, can do a great deal to point out ways and means by which the insured can keep down the cost of ample and proper insurance protection.

Many businessmen make a habit of turning over all policies and supplementary documents to their insurance broker or agent every year for examination and analysis. This habit is a good one and should be cultivated by everyone. In many instances minor changes can be made that will more nearly fit the policy to the needs of the insured, or that will facilitate the settling of a claim in case of a loss. The following example illustrates a condition that is often found when a lease and a policy of insurance taken out in accordance with its terms are examined.

Leases usually contain some provision relative to liability for rent, and so forth, following a fire. Recently a broker, in examining a lease covering the property of his client, found that although the lessee was paying fire insurance premiums, he was not protected. One provision of the lease provided that the lessee should pay over to the landlord premiums to effect insurance upon the property. The landlord then took out insurance in his own name. Yet another clause of the same lease stated that in event of a loss, the lessee would be liable therefor. As a result of the second clause, in event of a loss, the insurance company would have paid the amount thereof to the landlord, and then would have sued the lessee (who had actually paid the premiums) for the amount of the loss. Such a result was prevented in this instance by the addition to the policy of a clause whereby the insurance company agreed not to sue the lessee.

This case illustrates the importance of keeping in close touch with your insurance agent or broker and informing him of all facts that may affect the insurance carried.

Read your policy. The importance of reading your policy before a loss is incurred cannot be overstressed. While most of the states have provided by law for so-called standard policies, the number and variety of permitted endorsements renders it very easy for the insurer

to reduce his liability. Furthermore, in many comparatively new forms, practice has not been standardized, and each company issues policies conforming to its own ideas of what liability should or should not be assumed.

Despite the fact that practically every word of the older standard contracts has long since been interpreted by the courts, almost 4 per cent of all litigation involves insurance or insurance contracts. Manifestly, the proper time to cure ambiguities, to add endorsements, or to remove unwanted clauses, is before a loss is incurred. But unless the insured will take the time to read his contract (or, better still, read it in company with his broker or agent), he will never know what changes should be made to adapt the contract to his particular needs.

Some examples of the cost of failure to read a policy. The cost of failure to read a policy before a loss occurs can probably best be illustrated by a number of cases selected at random from among the many court decisions handed down during the past years.

Case 1. The Frisco Frolics Company took out a so-called Theater Floater Policy. The form of Theater Floater Policy used covers against transportation hazards only while the insured's property is being transported by a common carrier. The Frolics Company, however, usually transported their property and effects in their own trucks. The Frolics Company apparently believed that they were fully protected against loss from all fire and transportation hazards. A loss was incurred while the Frolics Company's property was being transported in the theater company's trucks. Subsequently the insurance company refused to pay the claim on the ground that the risk was one which they had not assumed. The Court upheld the contention of the insurance company. Failure of the Frolics Company to have an endorsement attached to the standard policy permitting transportation of property in the company's own trucks voided the insurance when the goods were thus transported. (*Insurance Company v. Frolics Company*, 65 F.(2d) 928.)

Case 2. The Walsh Construction Company procured a depository bond protecting it against loss of deposits that were made in a designated bank. The Walsh Company believed that it was fully protected. The policy, however, contained a clause that read: "It is agreed that this bond does not cover certificates of deposit or any other indebtedness . . . not subject at all times to immediate withdrawal by the Walsh Construction Company." The Court held that this clause restricted the coverage of the policy to demand deposits, and that, therefore, the Walsh Company could not recover any part of \$200,000 which was deposited in a savings

account when the bank failed. (*Construction Company v. Insurance Company*, 67 F.(2d) 679.)

Case 3. The insured, a lumber dealer, purchased a fire insurance policy that contained a so-called "clear-space clause," whereby the assured agreed not to place any lumber within one hundred feet of any manufacturing establishment or dry kiln. The insured, unaware of the clear space provision contained in the contract, did not remove certain lumber from the prohibited area. A loss was incurred, and the insurance company refused to indemnify on the ground that the policy was void at the time of the fire, inasmuch as the assured had violated the clear-space provision. The Court upheld the contention of the insurance company, and stated that ignorance that the policy contained the clear-space clause did not excuse a violation thereof, even though the agent who had sold the policy knew of the violation. (*Insurance Company v. Post*, 62 S.W. 140.)

In each of the above cases the insured suffered a loss through failure to take the elementary precaution of reading his policy. Such cases are not infrequent and point to the fact that the time required to read your policy is time well spent.

Budgeting insurance premiums; purchase of long-term policies. Insurance contracts, other than life, are ordinarily issued for a single year. Upon request, however, such policies may be issued for longer than a single year. Such a procedure results in a considerable saving in gross premiums. For example, in fire insurance, if the original premium is the amount shown in the first column of the following table, the premium for other terms will be the amount shown in the respective columns.

TERM POLICY RATES

<i>One-year Premium</i>	<i>Three-year Premium</i>	<i>Five-year Premium</i>
.10	.25	.40
.25	.625	1.00
.50	1.25	2.00
1.00	2.50	4.00

The term that will be the most economical in any given instance can be said to depend upon the rate of interest that could be earned on the prepaid premiums if they were retained in the business.

The disadvantages of paying premiums for terms longer than one year may be largely eliminated by either of the following methods:

1. **Budgeting premiums.** By properly scheduling the time at which each policy is to come due, the same amount may be paid each year, yet each premium will represent a term longer than one year.

2. Finance companies will advance the portion of the premium applicable to the term beyond one year, at a charge that will still leave a worth-while saving. See your broker about this service.

Savings resulting from frequent appraisals. Frequent appraisals of insured property may result in considerable savings in premiums. Since, in the event of a loss, only the actual amount thereof is recoverable, it is folly to carry insurance for an amount in excess of the value of the property insured. But at the same time, coinsurance clauses (see page 694 for further explanation) generally compel the policyholder to carry insurance to at least 80 per cent of the value of the insured property, under penalty of reducing the amount recoverable in event of a partial loss. The problem is further intensified by the fact that values are constantly changing. For example, a prominent engineering concern has estimated that an average building which was worth \$150,000 in a certain year had increased in value to \$200,000 two years later, but was worth only \$194,000 the next year. Consequently, if the insured is to be fully covered, without at the same time paying for unneeded insurance, it is advisable that expert appraisements be made each year.

Reducing the cost of insurance by means of improvements reducing the risk. In many lines of insurance, rates are based on "schedules." From a basic rate certain sums are added for defects below the average, or subtracted for improvements above the average. A comparison of the amount that can be saved over a period of a few years with the cost of making the necessary improvements will often disclose that such improvements form a highly profitable investment.

One outstanding economic justification for agents' and brokers' commissions is the ability of these men to point out to the insured the ways and means by which he can reduce the cost of his insurance by improving the risk. The insured, therefore, should not hesitate to call upon his broker or agent for information pertaining to specific improvements that he can make, and the savings to be realized therefrom; brokers and agents are able and willing to offer this service to their clients.

Savings effected by application of the deductible principle. This principle, as indicated in the section on "self-insurance," is closely allied with assumption of risk and excess loss insurance (see page 694 for further explanation). Inasmuch as administrative expenses in connection with minor losses are very high, and since a greater moral hazard exists where an insurance company assumes responsibility for all losses, no matter how trivial, large savings can often be effected by the application of the deductible principle without sacrifice of any essential insurance protection.

The effect of a deductible clause is to limit the liability of the insurance company to large losses, and to render the insured liable for all small losses, as well as a small part of any large loss. For example, in automobile collision insurance, in the event of a loss of \$200 under a policy containing a \$50 deductible clause, the company will be liable for only \$150; while if the loss does not exceed \$50, the insured will have to assume all liability.

Persons carrying insurance other than fire should ask their broker about the savings that they may effect by application of the deductible principle.

When purchasing insurance under an experience rating plan, do not reveal the fact to persons covered. This principle can be best described by illustration. In the automobile field, many employers have found that salesmen who do not know that the employer has purchased public liability and property damage insurance present fewer claims for accidents occurring while they are engaged on the business of the employer than do salesmen of other firms (or even of the same firm) who possess such knowledge. Consequently, premiums can be kept lower by not revealing to employees the fact that third parties are protected against loss through negligence of the employee while he is engaged in the business of the employer.

Points to investigate in choosing an insurance company. Before insurance is placed with any particular company, the following points with regard to the company may be investigated.

1. *Financial stability of the company.* If the company is a stock company, obtain its most recent financial statement. In analyzing the financial statement, compare the income from premiums and investments with the disbursements. Also, study the kind and

quality of the securities composing the assets, the ratio of the total surplus and capital to the liabilities, and the ratio of the total assets to the total outstanding insurance.

If the company is a mutual company, follow the same procedure as that given for stock companies. In addition, ascertain whether or not you will be liable for assessments; whether the company charges a redundant premium, and operates on the reserve principle; or whether it charges a premium that is barely adequate to meet its ordinary losses, and depends on assessments to meet its extraordinary losses.

2. *Record of the company for paying losses promptly.* The amount of time required to investigate and settle a loss depends to a great extent upon the type of insurance involved, whether the loss is total or partial, and whether the insured kept adequate records. Reliable companies attempt to settle just claims as quickly as possible after presentation without quibbling over minor details.

3. *Services offered by the company that tend to reduce or eliminate the hazard.* Prevention is just as important (and in some lines more important) as reimbursement for loss. Some companies maintain adequate, well-trained, and well-equipped inspection staffs; others do little or no prevention work. Inspection services are particularly important in compensation insurance, and in the various lines under the general titles of liability and boiler insurance.

4. *Liberality of the contract.* Many clauses may be inserted or omitted that will change either the extent of the coverage granted by any policy, or the amount of reimbursement following any loss, or both. Such clauses naturally have a direct effect upon the cost of the insurance. Should two contracts, apparently the same, be offered at substantially different premiums, the insured should be sure to compare the contracts carefully in order to ascertain if there is any basic difference in the coverage offered.

5. *Cost of the contract.* In property and liability insurance, only the current premium need be considered. However, if the company is a mutual, the possibility of dividends or assessments should not be overlooked.

In life insurance, the usual contract extends over a much longer period than in property insurance. Consequently, the rate of return earned by the company on its investments, the amount of surplus, and the ratio of actual deaths to the number expected may

be more important than the quoted premiums for the first year, except in the case of nonparticipating "unchanging cost" contracts.

What types of insurance are most important? Although an answer to this question that will be applicable to every business cannot be given, the results of an "Insurance Buying Practices" survey conducted by the National Association of Credit Men indicate that the following lines of insurance, in the order named, are the most important to the average businessman.

INSURANCE BUYING PRACTICES

I Coverage	II Per Cent of Total Busi- nesses Which Need Coverage	III Per Cent of Those in Col. II Who Have Coverage
Fire	100	96
Compensation or Employer's Liability . . .	100	91
Automobile Public Liability and Property Damage	100	74
General Public Liability	100	71
Robbery, Burglary, or Hold-up	100	58
Auto Fire and Theft	100	52
Forgery or Check Alteration	100	50
Windstorm	100	41
Explosion	100	35
Automobile Collision	100	30
Riot, Strike, and Civil Commotion	100	29
Truck Shipment	91	18
Rail Shipment	87	12
Truck Public Liability and Property Damage	76	96
Truck Fire and Theft	76	86
Nonownership Public Liability	76	63
Parcel Post (private, not Government) . . .	76	40
Truck Collision	76	35
Schedule Fidelity Bonds	75	39
Power Plant Insurance	70	66
Salesmen's Samples	63	10
Sprinkler Leakage	58	64
Use and Occupancy	55	39
Individual Fidelity Bonds	48	63
Profits and Commissions	45	25
Rent and Rental Value	45	17

Self-insurance; its advantages and dangers. The term "self-insurance" is used in many senses by the insuring public. Depending upon the person applying the term, it may mean:

1. No insurance.
2. An attempt to build up certain reserves, which in turn may be either segregated from, or mixed with, the ordinary assets of the business.
3. The scientific application of insurance principles, the maintenance of an adequate segregated reserve, and constant effort to reduce losses.

In all cases self-insurance is distinguished from private insurance by the fact that the insured does not *transfer* the "risk" (that is, the chance of financial loss) to a professional risk-bearer, but assumes all risks himself. The advantages of self-insurance, of course, arise from alleged savings in administration expenses and the elimination of premiums.

The temptation to use self-insurance is often so great that many persons succumb to its lures and are only awakened when a loss occurs by the realization that they possess no insurance whatever. The very nature of insurance involves the distribution of risk and the application of the law of averages; unless some basis exists upon which to distribute the risk and to apply the law of averages, there can be no insurance in the proper sense of the word, regardless of the presence or absence of reserves.

Successful self-insurance. The only form of self-insurance that will prove successful is that of the third type; it must involve more than the mere assumption of risk. Consequently, its proper use is limited to large enterprises that have numerous units to insure. Furthermore, each unit should be located so that the respective units are not subject to the conflagration hazard (that is, loss of all units by a single occurrence of the event insured against). A third requisite of self-insurance is that all units be of approximately equal value. If self-insurance is applied where the units are not of equal value, private insurance should be obtained to cover the values in excess of the average; otherwise a single large loss may wipe out the whole insurance reserve. The fourth requirement for the successful operation of a self-insurance fund is that it be embarked upon slowly; the

principal should not attempt in any one year to cover by self-insurance more than 5 per cent to 8 per cent of the total value of the risk; complete assumption of the risk should not take place, therefore, in less than twelve to twenty years.

In general, there are those who feel that a business enterprise that owns a minimum of twenty-five widely separated units of approximately equal value has the minimum requirements to self-insure against the hazards involved in the destruction of the property itself. On the other hand, it is said that no attempt should be made to self-insure the compensation hazard unless a minimum of 300 employees are regularly employed, inasmuch as a wide divergence exists between the possible minimum and maximum losses that may result from an accident.

Points to consider in deciding whether to self-insure. In deciding whether or not to transfer any risk from private carriers to a self-insurance fund, the insured should consider the following factors:

1. The maximum possible loss as compared with the amount of loss that the company is prepared to meet readily.

2. Possible legal expenses for the defense of suits that the insurance companies promise to defend under practically all liability (and some property) insurance covers.

3. Whether or not inspection, collection, and other services that the insurance company guarantees under some forms of contracts will be curtailed, extended, or remain unchanged under the self-insurance program. Remember that a curtailment of such services often results in a material increase in losses.

4. The potential cost of:

- (a) Setting up the fund on a secure and satisfactory basis, which will probably require the services of an insurance expert.

- (b) Administration expenses.

5. The amount that can be earned by the self-insurance fund if invested in conservative securities that are readily marketable in case of a loss.

6. The nature of the risk and the property to be insured. For example, no greater loss can occur from the collision or theft of an automobile than is involved in the value of the motor vehicle, but the possible loss through liability to third parties for destruction of life and property by the automobile extends into at least six figures.

7. The number of losses that are likely to be incurred within a relatively short period (such as a year).

Very often a business may safely self-insure the common, ordinary losses that may be expected in the normal course of business, and purchase so-called *excess loss insurance* to protect itself against the extraordinary losses. Under such policies the insurance company does not become liable until a loss exceeds a specified amount, and then for the excess only. Application of the same principle is also made under *deductible policies*, of which the automobile deductible collision clause is probably the best example.

2. LAW GOVERNING INSURANCE POLICIES

Conflicts between printed provisions and endorsements. Since standard insurance policies are general contracts, endorsements are frequently added to such policies in order to adapt them to the specific needs of the insured. Very often such endorsements are in conflict with other provisions of the same policy. Where such a difference in meaning exists, the superimposed or endorsed portions of the contract (whether written in longhand, typewritten, stamped, or printed on a separate sheet and attached) control the standard provisions of the contract, and on the theory that they represent the most recent agreement between the parties, only such endorsements are considered in interpreting the policy.

Interpretation of an insurance policy where ambiguities exist. When the wording of any clause or phrase of an insurance contract, whether such clause or phrase is contained in an endorsement or a provision of the contract, lends itself to more than one interpretation, the courts have generally tended to give the benefit of the doubt to the insured, and reject that construction which limits the liability of the insurance company. Moreover, when a literal construction will lead to manifest injustice to the insured, and a liberal but nevertheless reasonable interpretation will prevent injustice by not requiring an impossibility, the courts will adopt the latter construction because the parties are presumed, when the language used by them permits, to have intended a reasonable and not an unreasonable result. And in any event, if the language of an insurance policy is not as clear and unequivocal as it might be, and therefore fairly

susceptible of two meanings, one of which is contended for by the insured, such language generally will be construed against the insurance company, and in favor of the policyholder.

If an ambiguity exists because of two clauses of an insurance policy being so repugnant that they cannot stand together (both clauses being provisions, and neither one constituting an endorsement), the courts usually interpret the policy as though the first of such clauses (that is, the one that will normally be read first by a person reading the contract from beginning to end) were the only one appearing therein, and as though the second did not exist.

Violation of a policy; is policy again valid when violation ceases? The answer to this question depends upon the construction given to insurance contracts by the courts of the state wherein the insured property is located (or, in some cases, in the state wherein the policyholder is domiciled). In general, the courts hold that if, after a violation, the conditions of the policy are again complied with, the policy revives, and is in full force and effect, even though the insurance company never consented to the violation. Thus the courts of New York and Pennsylvania have held that if a policyholder vacates his building for a period exceeding that permitted by the policy, and without the consent of the insurance company, the policy is void during the period of vacancy, but if afterwards the building is again occupied and a loss occurs, the insurance company would be liable. In a few states, however, a policy once voided remains so until the insurance company consents to its restoration.

If any provision of an insurance policy is violated, the policyholder should consult with his broker or agent as to the advisability of obtaining appropriate endorsements from the insurance company.

Legal status of brokers. A broker is considered the agent of the policyholder, and not of the insurance company. Consequently, knowledge on the part of the broker does not constitute knowledge on the part of the insurance company until transmitted by the broker to the company. Likewise, should the broker neglect to turn over a premium to the insurance company, the policy may be void. In many states, however, including New York, the broker is considered the representative of the company for the purpose of premium collections, and receipt of payment by the broker is considered receipt by the company.

Opinion of agent not binding on insurance company. Insured persons often inquire of the agent as to the meaning of particular clauses of the insurance policy. The courts have generally held that the opinion of the agent as to the legal effect of any provision of a policy is not binding on the insurance company, on the theory that a mere opinion does not change old nor create new obligations. Consequently, the insured should consult his agent carefully when in doubt as to the meaning of any provision, and thereafter have the insurance company add a clarifying clause to the contract, if necessary.

Oral waiver of policy provisions by agent is not binding. Notwithstanding that the standard fire contract, and many other insurance covers, specifically state that "no one shall have power to waive any provision or condition of this policy except as by the terms of this policy may be the subject of agreement added hereto, nor shall any such provision or condition be held to be waived unless such waiver shall be in writing added hereto," many courts have held that an oral waiver by the agent of the insurance company is valid and binding on the company. The courts have been particularly prone to uphold such oral waivers where the agent was more than just a soliciting or collecting agent. However, the United States Supreme Court has departed from the rulings formerly so generally accepted by the state courts, and repudiated the doctrine as fundamentally unsound. Many of the states have now repudiated the doctrine, and refuse to recognize a waiver unless endorsed on the policy in writing. Consequently, the insured should protect himself by sending the policies involved to the agent of the insurance company for proper endorsement.

Warranties and representations by the insured. A warranty is a statement which, if subsequently proved false, will void the policy regardless of importance. On the other hand, a representation is a statement that need only be substantially correct, and to avoid the payment of a claim, the insurance company must prove that the statement was both false and material. A statement is ordinarily considered as material if, had the insurance company been aware of the facts involved, the company would not have issued the policy, or would not have issued it in the existing form or at the existing premium.

Most of the states have now enacted laws that declare warranties to be illegal in insurance policies and class all statements made by the insured as representations.

Assignment of an insurance policy. Inasmuch as a policy of insurance is a personal contract, the courts have upheld the insurance companies in their demand that the consent of the company must be obtained to the transfer by assignment, before a loss, of a property insurance contract. Consequently, where the insured assigns his interest in a policy prior to a loss without the consent of the insurer, the policy becomes null and void. However, this does not preclude the insured from assigning his right to the *proceeds* of a policy of insurance *after* a loss has been incurred, since the right to such proceeds is considered as a chose in action.

Territorial limits on property insurance policies. Practically all insurance contracts written on property which is subject to loss outside of the territorial limits of the United States and Canada contain a clause that the company is not liable, in the absence of a provision to the contrary, for a loss occurring outside of the United States and Canada. For example, the usual automobile policy does not protect the insured without special endorsement while he is driving his car in Mexico.

"Other insurance" on the same property. The standard fire-insurance policy, and many other forms of property insurance, state that unless otherwise provided by an agreement in writing added to the policy, the insurance company will not be liable while any other insurance (that is, another policy protecting the same interest, in the same property, against the same hazard), whether or not valid, is carried on the same property and interest. This clause has been declared reasonable and valid by the courts. It is not designed to prevent the policyholder from obtaining sufficient insurance, or to prevent him from obtaining insurance with another company, but only to lessen the moral hazard by making it more difficult to obtain insurance for a greater amount than the insured property is worth.

The insured may protect himself against the operation of the "other insurance" clause by either:

1. Obtaining the consent of the insurance company each time that he wishes to take out additional insurance.

2. Securing from the insurance company an endorsement to the standard policy permitting additional insurance at will. Such endorsements are issued without extra charge.

Each policy is an independent contract. Every policy of insurance is regarded as a new and independent contract, the construction of which is not dependent upon the terms of any policy that preceded it, unless the policyholder and the insurance company have expressly agreed to the contrary. Where a contract is "renewed," however, the general rule is that such renewal constitutes a continuation of all terms and conditions of the original contract, unless otherwise specifically provided.

Doctrine of entirety of contract. Frequently several items of property, such as several buildings, or the building and contents, or several automobiles, are insured under one policy, and the premium paid in one sum. In such cases the courts of a majority of the states have usually held that the contract is to be considered as one and inseparable, and therefore, if violated as to one item, the entire contract will be void. Thus, where the building and contents were covered under one policy, and a provision of the policy in regard to encumbrances was violated as to the building, the court held that the insured could recover for neither the building nor the contents, for the contract was a unit and, if violated as to one item, it was also violated as to all others. Conversely, where two buildings were insured under one policy, and the insurance on one became void because of violation of the vacancy permit, the court held that if the insurance company admitted liability as to one building, it was also liable for loss on the other.

However, the courts generally consider the nature of the risk in applying the doctrine of entirety of the contract. If the several items covered are widely separated and not related to one another so as to be destroyed by a single disaster, and a breach as to one part of the contract cannot affect the other parts, the courts of many of the states have usually considered the contract as divisible. Under this interpretation a breach of a condition affecting only one class of property will not void the policy as to the rest of the property.

Doctrine of insurable interest. Under American law, for a contract of insurance to be valid, the insured must have an "insurable

interest" in the subject matter covered. Otherwise, the policy is classed as a "wagering policy," and no action can be taken under it in any court of the United States, or in any court of the several states. However, it is usually not necessary for such interest to exist at the time that the policy is issued; if an insurable interest subsists for a time during the life of the policy, and again at the time of the loss, it is sufficient. In life insurance, however, the general rule is that an insurable interest need exist only at the time that the insurance is taken out.

Briefly, a person has an insurable interest in the subject matter insured whenever he will directly suffer financial loss by damage thereto, or destruction thereof. Insurable interest in the matter of life and health exists to any amount in the insured's own life, and in the lives of others where a relationship arises by reason of ties of marriage, blood, or affinity, and the policyholder expects some benefit from the continuance of the life of the insured. A creditor has an insurable interest to the amount of the debt in the life of a debtor.

Insurable interest may assume hundreds of forms and may exist under varying conditions. While such an interest must be neither illegal nor immoral, it may be either legal or equitable. Title to the property insured is not necessary. The interest may be either conditional or contingent; insurable interest does not imply ownership of property, or even a present or future right to its possession. The only requisite is that some expectation of profit or benefit must arise from the interest insured and be present at the time of the loss. Thus an owner or part-owner, one who is in possession of property, custodians of property entrusted to their care, creditors in the property of the debtor, debtors in property seized for debt, consignees and consignors of goods, stockholders in corporate property, and tenants for life, have an insurable interest in such property to the extent of the monetary damages that they may sustain by reason of its destruction.

The standard fire policy, and many other forms of insurance policies, specify that the interest of the insured must be that of "unconditional and sole ownership." Unless otherwise provided by agreement in writing added to the contract, the insured should disclose the exact nature of his interest to his broker or agent at the time that he applies for the insurance in order that such broker or agent may

attach the proper endorsements to the policy contract. Similarly, if any change takes place in the nature of the policyholder's interest during the life of the policy, the broker or agent should be immediately notified.

Protection of beneficiaries of life insurance from claims of creditors. Practically all of the states, either by statute or by court decision, exempt the proceeds of life insurance payable to a specifically named beneficiary, including the cash-surrender value of the policy, from the claims of creditors of the insured. In addition, most of the states have now enacted a provision exempting all or part of the proceeds of life insurance held by an insurance company (and in some instances by a trustee) from the claims of creditors of the beneficiary, where the insured has provided that such proceeds are not to be available to creditors of the beneficiary.

For example, the law of Pennsylvania states as follows:

Whenever under the terms of an annuity or policy of life insurance, or under any written agreement supplemental thereto . . . the proceeds are retained by such company at maturity or otherwise, no person entitled to any part of such proceeds, or any installment or interest due or to become due thereon, shall be permitted to commute, anticipate, encumber, alienate, or assign the same, or any part thereof, if such permission is expressly withheld by the terms of such policy or supplemental agreement; and if such policy or supplemental agreement so provides, no payments of interest or of principal shall be in any way subject to such person's debts, contracts, or engagements, nor to any judicial processes to levy upon or attach the same for payment thereof. . . .

Under such laws as that quoted above, it is possible for the insured to protect his beneficiaries from levy by their creditors against the proceeds of or income from the insurance. In short, by proper provision, the insured may insure his insurance. An attorney might be consulted as to the law of any particular jurisdiction, and as to the type of provision that will comply with the terms of the law.

3. TYPES OF INSURANCE POLICIES

Insurance division. Generally speaking, there are two types of insurance:

1. Insurance that pays the person insured money because of some loss which the insured has suffered.

2. Insurance that prevents the person insured from suffering a financial loss because of some circumstance or event, by stepping in and paying such money for and in behalf of the insured to a third party.

The first is usually known as property insurance, and the second as liability, or third-party, insurance.

Some general forms that property insurance may take are discussed below. For a detailed discussion of liability insurance and the specific forms that it may take, see page 702.

Adaptability of insurance. Insurance may be adapted to the needs of any particular individual, firm, or corporation by means of:

1. Purchase of the basic policy in a *form* that is advantageous to the insured.
2. Endorsements attached to a basic policy.

Endorsements usually limit or extend the risk otherwise assumed by the insurance company. The form of the policy detracts or adds to the ease with which the insured may:

1. Secure coverage on additional property purchased after the original policy was issued.
2. Cancel insurance on property that the insured no longer owns.
3. Adjust the amount of insurance to the value of the property.
4. Transfer property from one location to another without affecting the insurance coverage.

Specific policies. Property insured under a specific policy must be:

1. Described in the policy in such a manner as to be identifiable from all other property.
2. Located at a definite, fixed location.
3. Insured for a specified sum.

A change cannot be made in any of these three fundamental requirements without the consent of the insurance company. Furthermore, if the policy covers more than one article, each article is insured for a specified sum. For example, under a specific fire insurance policy applying to the building, stock, and fixtures of a retail merchant, the building might be insured for \$50,000, the stock

for \$20,000, and the fixtures for \$5,000. The total insurance would therefore be \$75,000. Yet, if the actual value of the stock was \$30,000 at the time of a loss, and such stock was totally destroyed, if the fixtures were damaged to the extent of \$3,000, and the building to \$30,000 (total damage, \$63,000), the insured could recover a total of only \$53,000 (\$30,000 on the building, \$20,000 on the stock, and \$3,000 on the fixtures). Furthermore, such recoverable loss might be further reduced as the result of the operation of a coinsurance clause (for explanation of coinsurance clause, see page 694).

Blanket policies. A blanket policy may cover:

1. The building and its contents, without any definite amount of insurance being assigned to either kind of property. Thus, if in the example given in the preceding paragraph the insured had placed \$75,000 of insurance on "building and contents, blanket" and had suffered the same loss, he could have recovered in full, or \$63,000.
2. Two or more buildings at definite locations (together with the contents of such buildings), without any definite proportion of the insurance being assigned to any particular location.

General cover contract, or reporting insurance. Essentially, a general cover contract (often called reporting insurance) is not a policy of insurance, but rather an agreement on the part of the insurance company to furnish insurance in such amounts as the insured may need on a month-to-month—sometimes week-to-week or day-to-day basis. The contract is usually an automatic reporting interim binder and provides a convenient method for obtaining adequate protection on fluctuating stocks of goods in stores and warehouses. Most often the contract is issued to cover risks involving more than one location. A limit is usually specified in the policy as to the maximum amount for which the insurance company will be liable at any one location.

The general cover contract is designed to prevent underinsurance or overinsurance by automatically increasing or decreasing the amount of insurance applying at any given location—within the limits specified in the policy—to correspond with fluctuations in the value of the property insured. The premium is computed at the end of each specified period by ascertaining the average amount at risk during the period and applying the standard rate to such

amount. Short-rate cancellations, and a great deal of detail work that would otherwise be encountered if specific insurance were to be increased or decreased, are thus entirely avoided.

Excess loss insurance. Ordinarily insurance is concurrent—that is, in case of other insurance on the same property, losses are prorated among the various carriers. Excess loss insurance, however, does not apply until all other insurance is exhausted and the loss exceeds a specified sum. If there is no primary insurance, excess loss insurance applies only after the loss exceeds the specified deductible sum. This form of insurance is designed to cover only unusual, catastrophic losses, and the premium per \$1,000 of insurance is therefore much lower than that on the ordinary primary forms.

Coinurance clauses. The insurance companies have added so-called coinurance clauses to most property-insurance contracts affecting business risks. Such clauses are also sometimes referred to as “average clauses,” “reduced-rate average clauses,” “percentage-value clauses,” “reduced-rate coinurance clauses,” “contribution clauses,” and so forth. Regardless of the name applied to it, or the exact reading of the clause, coinurance provisions have the same general effect.

Coinurance is a basic principle of fairness in business. Too often it is misunderstood. Without it no equitable distribution of risks and losses by the insurance companies could exist; schedule rating would be impossible; and underwriting would be guesswork. If no coinurance existed, buyers of insurance, knowing that most losses are partial losses, would always buy only a smaller amount of insurance to take care of these and thus pay a smaller premium. This practice would result in the company paying all the small losses and taking the entire risk of any fire (or other event), small or large, while receiving a premium only for the losses that happen most frequently. The result would be either failure of the companies or tremendous increases in the cost of insurance.

Coinurance is a mutual agreement between the insured and the insurance company that, in consideration for the company's action in assuming the risk at the premium named, the insured will secure and maintain insurance in an amount at least equal to a specified percentage of the property's total value. Assuming an 80 per cent coinurance requirement, for instance, the coinurance clause be-

comes an agreement between the company and the insured that the insured, on his \$10,000 building, will secure and maintain at least \$8,000 worth of insurance.

If this requirement is completed by the insured, there is no limitation within the coinsurance clause as to the loss collectible.

If, however, the insured does not maintain enough insurance to equal the percentage of total value named in the clause, the wording of the clause expresses a penalty on the insured for this failure. The penalty is this: the insured is considered to have assumed the risk to the extent of the deficit and, in case of loss, shall bear that proportion of the loss himself.

For example, assume that a building worth \$100,000 is insured under a policy bearing an 80 per cent coinsurance clause. If the owner carries at least \$80,000 of insurance (under one or more policies), he has satisfied the coinsurance requirements and will be paid the full amount of any loss (up to a limit of the amount of insurance, of course). Suppose, however, that he carries only \$50,000 of insurance. He has not lived up to the coinsurance requirement; he must suffer the penalty and become an insurer in effect for his portion of the deficit. The company's payment is determined as the proportion of the amount he is carrying (\$50,000) to the amount he should have carried to satisfy the coinsurance requirement (\$80,000) or five eighths of any loss. His deficit, then, is three eighths, and that is the proportion of every loss which he must suffer himself. The following table shows the operation of the 80 per cent coinsurance clause where less than the required insurance is carried and loss occurs.

LIABILITY OF COMPANY UNDER 80 PER CENT COINSURANCE CLAUSE

<i>Value of Property</i>	<i>Amount of Insurance Carried</i>	<i>Amount Re- quired under Coinsurance</i>	<i>% of Any Loss Co. Will Pay</i>	<i>Loss</i>	<i>Amount Company Pays</i>
\$100,000	\$40,000	\$80,000	50%	\$6,000	\$3,000
100,000	40,000	80,000	50	40,000	20,000
100,000	80,000	80,000	100	2,000	2,000
100,000	80,000	80,000	100	90,000	80,000*
100,000	90,000	80,000	100	90,000	90,000
100,000	60,000	80,000	75	10,000	7,500
100,000	40,000	80,000	50	80,000	40,000
100,000	40,000	80,000	50	85,000	40,000*

* Cannot be more than the amount of insurance in any case.

Floater policies. This type of policy is designed to protect property that is frequently moved about from one location to another. The insurance applies no matter where the property described in the policy may be (except as to places that may be specifically excluded). The wide variety of such property has brought forth a correspondingly wide selection of insurance coverages in floater form.

For instance, in the commercial field, a firm may insure the samples carried by its force of salesmen against loss by burglary and theft wherever the samples may be—in the salesman's car while he is at lunch, in a customer's showroom, in a hotel room, while being shipped to the salesmen en route, and so forth.

Another example of this type of insurance is a floater policy that protects merchandise owned by a firm while it may be in the hands of a processor (and while in transit to and from that place), then while it is sent to a dyer, then while it goes to a dresser, and finally, while on the way to the owner's premises. All the possibilities of loss during the time it is being processed and worked upon are eliminated by means of the policy coverage.

4. FIRE INSURANCE

Protection afforded by the standard fire insurance policy. The insuring clause of the standard fire insurance policy of New York (which has been adopted without substantial change by nearly all the states) reads as follows:

The Insurance Company, in consideration of the provisions and stipulations herein named or added hereto and of \$_____ Dollars premium, does insure Richard Roe and legal representatives, to the extent of the actual cash value of the property at the time of loss, but not exceeding the amount which it would cost to repair or replace the property, . . . against all direct loss by fire, lightning and by removal from premises endangered by the perils insured against, except as herein provided, . . . to the described property while located or contained as described herein, or pro rata for five days at each proper place to which any of the property shall necessarily be removed for preservation from the perils insured against. . . .

Meaning of clauses in the standard fire insurance policy. Practically every word of the standard fire insurance policy has, at one time or another, been before the courts for interpretation. As a result, it has obtained a definite and exact meaning.

1. "*Direct loss by fire.*" The courts have given a very liberal interpretation to the phrase "direct loss by fire." Practically any loss is covered where fire is the motivating or primary cause. The fire need not be the cause closest in point of time but it must be possible to trace an unbroken connection between the fire that is alleged to be the cause of the loss, and the event that caused the loss, without the intervention of some new and independent cause. Thus, damage by water, or by the falling wall of an adjoining building, where fire caused such wall to fall, are covered, even though the fire itself never came in contact with the insured premises. Again, a midwestern lumber concern owned a small locomotive that it used to haul timber from the forest. A forest fire burned out a bridge and left the locomotive stranded in the mountains. Although the fire did not injure the locomotive, the court held that inasmuch as the cost of constructing a new bridge would be greater than the value of the locomotive, the locomotive was a total loss, the value of which had been proximately destroyed by fire.

To constitute "fire" within the meaning of the policy, there must be actual ignition and flame. Damage from mere heat and smoke without a flame is not covered. Furthermore, the fire must be a hostile fire; that is, not a friendly fire, which is defined as one that has not left the place intended for it, such as a stove or lamp. The company is liable for the smoke damage done by a hostile fire and damage caused by water or other means of extinguishing the fire.

Property "removed from premises endangered by fire" is covered "pro rata for five days" at any location to which the property is removed for preservation from fire. After the expiration of five days from the time that the property was removed from the premises described in the policy, however, it must be reinsured at its new location. Such coverage includes loss from mishandling during removal but not from theft (the latter being specifically excluded).

Direct loss from fire is further construed to mean only the damage to the property itself. Contingent and indirect losses are not covered. Thus a slight fire may cause a business to close down, with a resulting loss in profits many times the value of the property actually destroyed. However, unless an endorsement to the contrary is entered on the policy, only the damage to the tangible property actually destroyed may be recovered. (For covering loss of profits, see "Contingent use and occupancy insurance," page 736.)

2. *“Actual cash value of the property destroyed.”* The fire-insurance policy is a contract of indemnity; it is not intended that the assured should recover more than he has lost, but that he shall be placed, economically, in the same position as he occupied prior to the fire. To this end, the policy specifies that, regardless of the face value of the policy, and irrespective of whether the loss is total or partial, the assured may recover only to “the extent of the actual cash value (ascertained with proper deductions for depreciation) of the property at the time of loss or damage,” but in any event, “not exceeding the amount which it would cost to repair or replace the same with material of like kind or quality within a reasonable time after such loss or damage, without allowance for any increased cost of repair by reason of any ordinance or law regulating construction.” Furthermore, the company reserves the option to “repair, rebuild, or replace the property lost or damaged with other of like kind and quality.” The assured, however, may not surrender his proprietary rights to property that has been partially destroyed, and claim a total loss, inasmuch as the policy provides that “there can be no abandonment to this company of the property described.”

Since it would be impracticable for insurance companies to make accurate valuations of property at the time that a risk is assumed, and since values fluctuate from year to year, the above provisions of the policy represent a sound application of the true doctrine of insurance. Nevertheless, a number of states, particularly those in the west and south, have passed “valued-policy laws.” Generally, such laws provide that in the absence of intentional fraud, the amount recoverable under the policy in case of a total loss is the face value of the policy.

The “actual cash value” of the property destroyed is a question of fact to be determined by appraisal and agreement with the insurance company. As a general rule, the actual cash value is not the cost of the property, nor the cost less depreciation, but the cost of replacement (without allowance for any increased cost by reason of any ordinance or law), less the depreciation. Thus, if a building erected in 1938 at a cost of \$75,000 was completely destroyed in 1953, and if, at the time of the loss, the cost of replacing the building (the law regulating construction not having been changed) was \$100,000, and the rate of depreciation was 2 per cent per year, the actual cash value of the property destroyed would be \$100,000, less depreciation

of \$30,000 (2 per cent of \$100,000 equals \$2,000 per year, times 15 years), or approximately \$70,000.

In the case of manufactured goods, it has been stated that the actual cash value is the "wholesale price, less unincurred expenses and unearned profits."

Fire insurance policy is a personal contract. The fire insurance contract states that it "does insure and legal representatives." It does not "insure the property." It follows, therefore, that the fire insurance policy is a personal contract, agreeing to indemnify the insured against loss through destruction of the described property. The insurance does not follow the property in event of a change in ownership unless the company gives its consent. Such a rule is necessary since, otherwise, a given property would remain insured even though it passed from an honest and careful owner to a dishonest and careless one, although it is apparent that such a change would increase the risk tremendously. Consequently, the insurance company, in fairness to itself and other insureds, requires that its consent be obtained to any assignment of interest under the policy, or to any change of interest, title, or possession of the subject of the insurance. Violation of these requirements voids the policy. As a rule, the company's consent to any change is readily given whenever requested.

Risks excluded in fire insurance policy. The insuring clause of the fire insurance policy states that it protects against direct loss by fire, "except as herein provided." The exceptions are set out in another section of the policy as follows:

1. The company is not liable for loss or damage caused directly or indirectly by invasion, insurrection, riot, civil war or commotion, military or usurped power, theft, and neglect of the insured to use all reasonable means to save and preserve the property at and after a fire or when the property is endangered by fire in neighboring premises.

All except the last of these exceptions—neglect of the insured—can be covered by other forms of insurance. See "Riot, and riot attending a strike," page 735.

2. Unless otherwise provided by agreement in writing added to

the policy, the insurance company is not liable for loss or damage occurring under the following circumstances:

(a) The insurance company is not liable while the hazard is increased by any means within the control or knowledge of the assured. This clause forbids the assured to change the physical structure of the insured building, or to alter the uses for which it was employed at the time that the policy was written, in any manner that would increase the hazard of fire, without securing a permit to do so from the insurance company and paying any extra premium that may be required. An increase in hazard also occurs if any tenant, within the knowledge of the insured, commences to carry on any more hazardous activity after the policy is issued than he was engaged in at the time of such issuance.

If the insured is in doubt as to whether any particular incident or activity constitutes an increase in hazard, he should consult with his broker or agent.

(b) The insurance company is not liable while a described building is vacant or unoccupied beyond a period of 60 days. Unoccupied buildings are considered poor risks. However, in some instances, an endorsement may be obtained permitting the building to remain vacant. Such endorsements are readily issued for periods of short duration.

(c) The insurance company is not liable for damage caused by explosion or lightning, unless fire ensue, and then for the loss or damage done by fire only. This provision, at times, presents difficult cases for adjustment, since where a fire follows an explosion, it is frequently impossible to ascertain the amount of damaged caused by the explosion, as separate from the loss caused by the fire.

(d) The insurance company is not liable for damage to described property while such property is encumbered by a chattel mortgage. However, property not encumbered by a chattel mortgage is not affected. By special agreement with the insurance company, this restriction may be removed.

3. If a building, or any material part thereof, falls, except as the result of fire, all insurance on such building and its contents ceases at once. This provision is inserted on the theory that when the insured building has fallen in part or in whole, it is no longer the original building that burns, but simply the debris. The two most

common causes of falling buildings are windstorms and earthquakes. Both of these risks may be covered by separate insurance.

Kinds of property excluded in fire insurance policy. In addition to excluding losses due to the risks described in the preceding paragraphs, the standard fire-insurance policy excludes certain kinds of property from coverage.

1. Accounts, bills, currency, deeds, evidences of debt, money, notes, or securities are not covered. Such property is considered to be uninsurable, partly because it affords opportunity for fraud, being subject to easy concealment, and partly because the determination of the value of such articles is difficult, the company being obliged, in most cases, to depend upon the statement of the assured. See, however, "Accounts receivable insurance," page 739.

2. Bullion and manuscripts are not covered unless an endorsement is added to the policy.

Endorsements to fire insurance policy. The standard fire insurance policy was necessarily designed to meet a general situation. It applies to circumstances common to most property owners. However, it often fails to meet the exact needs of the individual policyholder.

Endorsements have been designed to meet practically any situation imaginable, in order to adapt the standard policy to the specific needs of each policyholder. Such endorsements may:

1. Extend the insurance coverage by providing that risks otherwise excluded are to be assumed by the insurance company.

2. Limit or distribute the indemnity otherwise provided by the contract. Practically all policies covering mercantile or manufacturing risks, in order to establish equity among the various policyholders, are endorsed with 80 per cent—sometimes 90 per cent and 100 per cent—coinsurance clauses (for explanation of coinsurance clauses, see page 694). If the property is situated in different localities, a so-called "distribution" or "pro-rata" clause may be used to limit the amount of insurance applicable to any one location (see "Blanket policies," page 693).

3. Warrant that the insured, in consideration of a reduced premium, will take certain steps to reduce the hazard. Such an endorsement might provide for the proper maintenance of fire-protective

devices, or limit vacancy of a mercantile or manufacturing risk to only one third of the establishment.

4. Permit an increase in the hazard that is not contemplated by the standard policy.

5. LIABILITY INSURANCE

Purpose of liability insurance. The law imposes upon everyone the duty of taking reasonable care and precaution to avoid damaging the property, or injuring the person, of others. When the negligence of one party is responsible for a loss suffered by another, the injured party is entitled to recover damages from the negligent person, firm, or corporation. Since such damages may amount to many thousands of dollars for a single accident, business concerns are greatly in need of some form of protection against such unforeseen financial losses. Such protection may be obtained through liability insurance (sometimes called third-party insurance).

As a general rule (the exact definition differs from state to state), negligence is the failure to do something that a reasonable and prudent man would do under like conditions, or the commission of an act that a reasonable and prudent man would not do under like circumstances. The question of "what a reasonable and prudent man would do" is usually one for the jury.

The following case illustrates the application of the doctrine. A customer was standing at a counter in a large New York store about eight feet away from a large plate-glass window when the window crashed without warning. The customer was not struck by the flying glass, but, in the excitement, she was pushed down by the crowd and trampled on. The court held that the storekeeper was negligent in allowing a "condition to exist which caused the window to fall," and was therefore liable to the customer for damages, inasmuch as "the rush or stampede was a normal response to the fear or emotional disturbance which the defendant's [storekeeper's] negligent conduct was a substantial factor in creating."

Types of liability. Under the general title of liability insurance a variety of policies are written to protect the policyholder against direct or indirect losses arising out of claims or suits based upon the law of negligence. The most prominent forms of liability insurance are:

1. *Workmen's compensation insurance.* Workmen's compensation insurance covers the employer's liability to his employees under workmen's compensation laws. All of the states have enacted such laws. (For detailed discussion see page 706.)

2. *Employer's liability insurance.* Employer's liability insurance is designed to protect the employer from liability under the common law and statutes to employees not covered by workmen's compensation laws. (For further discussion, see page 709.)

3. *Automobile public liability and automobile property damage liability insurance.* These policies are designed to protect the owner and operator of an automobile against financial loss from claims for damages arising out of the ownership, maintenance, or operation of such automobile. (For further discussion, see page 709.)

4. *Manufacturer's public liability insurance.* This policy protects manufacturers against financial loss from claims for damages brought under the law of negligence, for injuries sustained by any person other than an employee as the result of the alleged negligence of either the manufacturer, his agent, or any of his employees in the conduct of the business.

5. *Contractor's public liability insurance.* This policy is similar to that issued to manufacturers, except that it applies to contractors.

6. *Owners', landlords', and tenants' public liability insurance.* All persons other than manufacturers and contractors may secure protection against damages resulting from legal liability under the law of negligence by purchasing this policy. The policy is similar to that issued to manufacturers.

7. *Elevator public liability insurance.* This policy protects the owner of a building from financial loss as the result of suits brought to obtain damages for injuries suffered in any elevator accident.

8. *Product public liability insurance.* This policy protects manufacturers from loss as the result of their legal liability for damages suffered by the public through the use of their product.

9. *Teams public liability insurance.* This policy protects the owner of teams from loss resulting from suit for damages caused by careless drivers, careless loading or unloading, or frightened and uncontrollable horses.

10. *Theater public liability insurance.* This is a specialized policy for theater owners protecting against financial loss that may arise as

the result of suits brought by the public for injury or alleged injury occurring in the theater.

11. *Garage public liability insurance.* Like the theater policy, this is a specialized policy designed to meet the many needs of the public garage operator and owner. (For further discussion, see page 716.)

Standard provisions of liability insurance policies. The following provisions are common to all liability insurance contracts:

1. A promise on the part of the insurance company to pay all judgments assessed against the policyholder.

2. A promise by the insurance company to serve the policyholder by investigating all claims, negotiating for settlements, defending all suits within the scope of the policy and paying all expenses incurred in connection with such suits, and to reimburse the policyholder for the expense of necessary immediate surgical aid.

3. A promise by the policyholder to give immediate written notice to the company upon the occurrence of any accident covered by the policy, and to aid the company, when so requested, in securing information, evidence, attendance of witnesses, and to render to the company all the co-operation and assistance within his power.

4. A stipulation that the policyholder shall not voluntarily assume any liability and that the insurance company will not be liable for any settlements or expenditures voluntarily made by the policyholder.

5. A limit of liability that will be assumed by the insurance company of at least:

(a) \$5,000 for injuries (or death) to any one individual.

(b) \$10,000 for injuries (or death) as the result of any one accident, regardless of the number of persons so injured.

These limits may be increased, for an additional premium, to any figure desired. Thus, limits of \$10,000 and \$20,000, respectively, can be secured for a premium of 12 to 15 per cent more than the basic premium.

A few forms of property insurance that are primarily intended to cover only direct losses also contain a provision making the insurance applicable to indirect losses. For example, power plant insurance of all kinds includes a provision that protects the insured against loss as the result of suits brought against him after an accident, as well as reimbursement for loss to the power plant itself.

Contingent public liability insurance. Under certain conditions, a contractor may be liable for the negligence of his subcontractor, an owner for the negligence of a contractor employed on his premises, or a landlord for the negligence of his tenant. To protect themselves against such risks, contractors may procure contractor's protective public liability and property damage insurance; the owner of real estate may take out owner's protective liability insurance as a protection against his contingent liability for the acts of a contractor engaged on his premises, and landlord's protective liability to protect against loss arising from contingent liability for damages for which a tenant is primarily liable.

Fiduciaries' liability insurance. The law is well settled that executors, administrators, trustees, guardians, and other fiduciaries are personally liable for negligence that results in a loss to the fiduciary's principle, or to the trust estate. In some cases fiduciaries have even been held liable for losses that occurred without fault on their part. Until recently insurance was not available to protect the fiduciary against his personal liability for loss to the trust estate, but casualty companies are now offering such protection.

Comprehensive public liability and property damage insurance. In more recent years the insurance companies have developed a form of policy that seeks to provide a new approach to the problem of insuring against financial loss through liabilities imposed by law. The previous descriptions of the various liability policies available exemplify the concept of this form of insurance as it has existed: one policy for each hazard or type of hazard, with that policy excluding coverage for all other forms of loss through legal liability.

The comprehensive liability policy, however, insures the policyholder against all liability losses that occur during the policy term, whether or not such liabilities were existent or apparent at the time the policy was issued. The premium is determined at the end of each policy year by making a charge for the determinable avenues of liability.

This form of all-inclusive insurance should be looked into seriously by every business firm. It represents the most important advance in available protection in many years and provides the first means of protecting against unknown hazards that may appear at any time.

6. WORKMEN'S COMPENSATION INSURANCE

Why workmen's compensation insurance is necessary. Under the common law an employer is liable, subject to certain defenses, for injuries sustained by his employees through his negligence. By statute, however, every state has abridged or replaced the common-law rule with workmen's compensation laws. Generally these laws provide that every employee is entitled to recover from his employer certain prescribed amounts for injury sustained in the course of his employment. Since the amount of payments that an employer may be required to make within any one year is subject to wide fluctuations, most employers prefer to transfer to an insurance company the obligation to compensate injured employees. Such a transfer is effected by the purchase of workmen's compensation insurance.

Methods of meeting the liabilities imposed by workmen's compensation laws. The methods that the employer may use to meet the liabilities imposed by the various workmen's compensation insurance laws depend upon the law of the state in which the employer conducts his business. In a majority of the states, however, the employer has a free choice from among several methods; he may choose one of the following:

1. Insurance in a State fund.
2. Insurance with a private insurance company.
3. Self-insurance.
4. Partial self-insurance.

1. *Insurance in a State fund.* A number of states provide a State fund. In some of these states the fund is monopolistic; that is, it operates to the exclusion of private insurance companies. In a few states, certain approved risks may be self-insured, but on condition that they contribute to the maintenance of the State-fund system. In the other states, insurance in the State fund is voluntary.

Where insurance in a State fund is optional, the employer should carefully investigate the economy and efficiency of such insurance in comparison with insurance with a private insurance company or self-insurance. In several states the experience of some employers has been that insurance in the State fund has not provided prompt claim service, proper treatment of injured workmen, effective acci-

dent-prevention service, or an equitable distribution of costs between different industries and the employers included therein; in short, employers insured in some of the State funds have felt that they did not receive everything for which they paid. However, the economy and efficiency of insurance in a State fund naturally varies from state to state. Accordingly, an employer who is contemplating insurance in a State fund should make inquiry among other concerns within the state as to their experience.

2. *Insurance with a private insurance company.* In a majority of the states the employer may insure with a private insurance company. The standard workmen's compensation policy provides that the insurance company will:

(a) Pay promptly to any person entitled thereto the benefits provided by the workmen's compensation law of the state.

(b) Indemnify the employer for loss arising from suits for damages in instances where the employee alleges that the compensation act is not applicable.

(c) Protect the worker against loss of benefits resulting from the bankruptcy of the employer.

(d) Pay for the benefit of the injured employee the proper cost of medical, surgical, nurse or hospital services, apparatus, appliances, and medicines; and funeral expenses in the event of death resulting from injury.

(e) Make necessary inspections of the places of work in order to reduce accidents.

(f) Investigate all reported claims.

(g) Defend, and pay the costs therefor, all suits brought against the employer-policyholder for damages as a result of injuries to employees, even though such suits are fraudulent.

3. *Self-insurance of the workmen's compensation risk.* Self-insurance, on proof of solvency, is permitted in most of the states. The requirements of the law vary. In some instances the employer need only demonstrate that he is financially solvent, while in others he must put up a bond or place a specified amount of cash with the state as security to meet all losses.

In estimating the savings to be derived from adoption of a self-insurance plan for workmen's compensation, the employer should not overlook:

- (a) The cost of defending his own lawsuits.
- (b) First aid, hospitalization, and other medical costs.
- (c) The cost of investigating and adjusting claims.
- (d) The cost involved in either maintaining, or failing to maintain, an adequate accident-prevention program.
- (e) The stigma that will attach to him personally should he later become bankrupt and be unable to pay just compensation claims.

4. *Partial self-insurance of the workmen's compensation risk.* Partial self-insurance is permitted, of course, in all states that permit self-insurance. Under this system the employer assumes the liability for all losses under a specified amount (the limit may be either per accident or per employee), and the excess risk is placed with a private insurance company. This system has many advantages for the financially responsible employer; it enables him to carry his own normal loss risk without becoming subject to staggering losses that would impair the financial stability of the business.

Safety devices and employee education. Experience has demonstrated that a conscious effort to minimize the number and severity of accidents has worth-while results in the form of savings in premiums. Accident prevention may take either or both of two forms:

1. Installation of safety devices.
2. Education of the worker, including observation to discover dangerous practices or habits.

At present, the general consensus is that while safety devices are invaluable, a logical program of education will result in greater savings than are to be gained from the mere installation of safety devices.

As an outstanding example of what may be accomplished by means of efficient and scientific safety work, the record of the Western Clock Company of LaSalle, Illinois, has been cited. Not a single lost-time accident occurred during the three years and 14 days when the record was reported. When it is considered that during this period, 10,029,681 man-hours of labor were involved, and that hazardous devices, such as power presses, screw machines, and tool-making machines, were constantly used, the record is remarkable.

Another outstanding example is illustrated in a year's accident

safety report of General Motors Corporation. For every million hours worked, there were but 3.43 lost-time accidents among the more than 200,000 hourly rated workers during that year. In addition to this record, the Fisher Body Division plant at Janesville, Wisconsin, has gone three years without a lost-time accident, and four other of their plants have gone two years without a lost-time accident.

Most private insurance companies maintain an experienced and trained staff to make inspections of risks. The insurance company reserves the right to make inspections or investigations whenever it deems them desirable.

Employer's liability insurance. Although all states have workmen's compensation laws, all employees are not covered by those laws. Employers may protect themselves from loss arising from their legal liability to injured employees not covered by workmen's compensation insurance by the purchase of employer's liability insurance. Under the common law rule, which still prevails except as modified by statute, employers are not responsible for injury to their employees unless negligence is shown, but the legal definition and interpretation of negligence are extremely broad.

Employer's liability insurance also forms a part of every contract of workmen's compensation insurance. This provision protects the employer in the event an employee is injured while in the course of employment, but is not covered under the regular compensation contract. Such liability may arise as the result of an accident that occurs while an employee is engaged in interstate commerce, or as the result of an employee's election (in a few states in which he is permitted to choose) to forego the benefits of the compensation statute and to sue the employer under the common law.

7. AUTOMOBILE INSURANCE .

Types of automobile coverage. The term "automobile insurance" may refer to protection against:

1. Losses resulting from legal liability for injury (or death) to another person. (No coverage for injury sustained by the insured himself, since this is covered by life and accident insurance.)

2. Losses resulting from legal liability for damage to the property of another.

3. Losses resulting by reason of damage to the insured's car through collision or upset.

4. Losses caused by theft.

5. Direct damage to the insured's car caused by fire, lightning, tornado, cyclone, windstorm, hail, earthquake, explosion, and other happenings.

6. Legal liability of an employer for losses for which an employee is primarily responsible.

7. Legal liability of garage keepers, service stations, and automobile mechanics for negligence resulting in losses to customers.

The first five of the above risks may be covered under separate policies or under a single contract. Generally, the buyer may freely choose which risks he desires to insure.

Automobile public liability insurance. A business firm, as the owner of an automobile, or as the employer of a person operating an automobile, is legally liable to third parties who may be injured by reason of the operation or maintenance of such automobile. The only limit to a loss of this nature is the aggregate value of all the assets of the business.

The standard automobile public liability policy will indemnify the insured for all loss sustained by reason of legal liability for bodily injury (or death) incurred by any person other than the insured accidentally resulting from the ownership, operation, or maintenance of the described automobile within the United States and Canada. The insurance company also agrees to defend the insured in all suits for damages within the scope of the policy, and to investigate all claims. The basic minimum limit of liability assumed in the standard policy, however, is \$5,000 for injury or death to one person, and \$10,000 for damages arising from one accident for injury or death to any number of persons. Inasmuch as jury awards are often substantially in excess of these figures, every business should secure an endorsement increasing substantially the limits of liability for injury to a single person, and also for loss from one accident; the cost of such increased limits is only slightly higher than the charge made for the standard limits. For example, limits of \$10,000 and \$20,000, respectively, cost only 20 per cent more than the basic limits

of \$5,000 and \$10,000, while the premium for limits of \$25,000 and \$50,000 is only 36 per cent higher than basic limits, and the premium for \$50,000 and \$100,000 of limits costs 45 per cent more.

The coverage granted by the liability policy is very broad. In a court case the Supreme Court of Pennsylvania made the following remarks in commenting on the protection afforded by a public liability insurance policy:

The policy of insurance was unquestionably intended to indemnify the assured against liability resulting from an accident due to the use or operation of the car. It does not matter under what circumstances the liability might arise. The assured may even be protected against the acts of the driver or his own that may involve a criminal statute; generally accidents are due to the violation of some law legislatively declared as of criminal aspect, as, for illustration, fast or reckless driving, but insurance policies have always been treated as effective and valid under those circumstances.

Automobile property damage liability insurance. Similarly to liability for bodily injuries to third parties caused by automobile accidents, a business firm may also be financially responsible for damage to the property of third parties arising from the operation of a motor vehicle.

The protection and services offered under this policy are identical with that of the public liability contract, described above, except that the limit of liability assumed by the insurance company under the standard policy is \$5,000 per accident.

Automobile collision insurance. A business firm may incur a substantial loss as the result of accidental collision damage to its own motor vehicles. The collision contract protects against direct loss caused by contact of the insured car with another object.

The cost of full coverage collision insurance has always been high. Consequently, so-called deductible forms are widely used. Under such forms the insured agrees to assume liability for an agreed amount, such as the first \$25, \$50, \$100, of any loss. For example, if a \$100 deductible clause was inserted in a policy, and the insured car was damaged to the extent of \$500, only \$400 would be paid by the insurance company.

The following rates for a new Chrysler sedan in a certain territory bring out the difference in cost for the different coverages:

Full Coverage	\$170
\$25 deductible	68
\$50 deductible	46
\$100 deductible	29
\$250 deductible	18

By the use of a deductible provision, a business may economically protect itself against the more serious losses; the minor losses, which to a great extent may be anticipated, can be assumed by the business by means of an accounting reserve.

The collision policy should be examined to ascertain whether or not "upset" is specifically covered. At the present time most of the companies agree to indemnify for loss caused "solely by accidental collision with another object or by upset." Whether or not "upset" is covered in the absence of a policy provision depends upon the interpretation given to the word "collision" by the courts of the particular state.

Automobile theft insurance. Full-coverage theft insurance protects the insured against loss or damage arising from the theft, robbery, or pilferage of the described automobile. Under the standard policy, theft by an employee, however, is excluded. In addition, theft of accessories and tools is not covered unless the entire car is stolen.

Automobile, fire, lightning, and transportation insurance. The standard automobile fire policy protects against direct loss caused by damage to, or destruction of, the body, machinery, or equipment of the automobile, arising from fire or lightning, or, while the insured motor vehicle is being conveyed by another vehicle or vessel, against the perils of transportation. In general, however, the usual exclusions incident to ordinary fire policies, such as loss attributable to use of the insured car, and loss attributable to personal effects left in the car, are not covered.

Comprehensive damage coverage. The theft and fire insurance coverage for automobiles may be combined in one policy form that provides an even broader coverage than the specified perils of theft, fire, lightning, and transportation. Called "comprehensive," this coverage protects against loss or damage to the automobile insured from any source. Collision coverage is either included or excluded

from the policy, at the choice of the buyer. This policy form has become extremely popular in those states in which it is in existence.

Nonownership automobile liability insurance (contingent liability insurance). The law of agency renders the principal responsible for the acts of his agent. Consequently, in those instances where salesmen, or other employees engaged in the business of the employer, drive their own cars, the employer may be liable to third parties for damages inflicted as a result of the operation of such cars.

While the rules established by the courts of the different states vary somewhat in their application to particular circumstances, in general, the employer is liable for the acts of his employee (provided such employee is not an "independent contractor"), if an accident occurs within the scope of, and in the course of, his employment. Whether the employer had knowledge of the use of an automobile by an employee, whether the employee had been forbidden to drive an automobile in the course of his employment, and whether the employee was paid by salary or commission, have been held, by various courts, to be unimportant.

Where the employee-owner carries ample public liability insurance containing the so-called "omnibus clause" (see below), the employer may be protected jointly with the employee. However, even where such insurance is carried by employees, the employer cannot always obtain adequate information as to its validity and sufficiency. A need, therefore, exists for a form of insurance that will protect the nonowner-employer regardless of the circumstances surrounding the use of the automobile by the employee. Such protection is offered by nonownership automobile liability insurance, sometimes called contingent liability insurance. A common form of this policy automatically covers all employees, regardless of their usual duties. Another form covers only employees who are named in the policy.

As indicated above, an employer is not liable for the acts of his employee if such employee is an "independent contractor." Advice of counsel should be obtained, however, as to whether or not a particular set of facts constitute an employee an "independent contractor."

If, after consultation with an attorney, the employer is advised that a court "would" or "might possibly" hold him liable for the acts of his employee-drivers, nonownership liability insurance should

be immediately taken out. On the other hand, if in the attorney's opinion such "employee-drivers" are "independent contractors," the employer is fairly safe without nonownership liability insurance. He should remember, however, that although it is unlikely that he will be held liable for the acts of his employees, where such employees are independent contractors, he may, nevertheless, be sued for such damages, and will be liable for court costs. Many employers find that the defense services of the insurance company fully warrant the cost of the insurance.

Omnibus clause in automobile insurance. The standard automobile policy contains a provision, known as the "omnibus clause," which in effect makes the insurance follow the car, with certain exceptions.

Under this clause, the terms of the policy are extended to cover:

1. The legal liability of any other person using the insured automobile, or riding in such automobile, with the permission of the named insured. "Permission" for a given purpose, however, does not imply permission for all purposes; the permission must have been granted or implied for the use of the car in the manner in which it was employed at the time of the accident.

2. Any firm or corporation legally responsible for the operation of such automobile. This provision extends the protection of the policy to an employer, where an employee operates such automobile with the permission of the named insured.

Under no circumstances, however, is the protection granted by the policy available to "a public automobile garage, automobile repair shop, automobile sales agency, automobile service station and the agents or employees thereof." The Supreme Court of Pennsylvania has held that this exception extends to a mechanic or person engaged in the business of repairing automobiles, even if the repair work is done at the home of such mechanic.

Automobile fleet insurance. Business firms owning five or more automobiles of any type may insure them under a single policy on the "fleet plan," which gives them a more flexible form of insurance than individual specific policies.

The advantages of the fleet plan are:

1. Premiums are based on the actual time each car was in use. Reports are made to the company of suspension, disposal, and acquisition of automobiles, and a proper premium is retained by the company.

2. Automatic coverage for newly acquired car is provided.

3. Fleet discounts in the premium are available. Depending on the number of cars, the discount ranges from 5 per cent upwards.

Experience rating of large automobile fleets. If the insured desires, he may submit his fleet for special rating, provided at least ten automobiles have been insured on a full-time basis for a minimum period of twenty-one consecutive months, or at least five automobiles involving an annual basic premium of \$1,000 or more have been insured for twenty-one months immediately preceding the application for special rating.

Where the previous experience of the company with the policyholder has been satisfactory, a reduction in premium from that specified in the manual rates may be obtained from the insurance company by application for special rating. On the other hand, if the policyholder has had a large number of accidents, and if the experience of the company with the policyholder has been generally adverse, a special rating may result in rates higher than would otherwise be payable.

The policyholder should consult his broker or agent as to the advantages and disadvantages of applying for experience rating.

Which automobile covering is most important? A survey conducted in New Jersey by Yale University and the United States Department of Commerce disclosed that unsatisfied judgments arising out of automobile accidents were either a major or a contributing cause of bankruptcy in at least 4 per cent of all cases. The judgments ranged from \$60 to \$25,000, and averaged \$5,230. In 10 per cent of the cases, practically the only liability of the business was the judgment; in 50 per cent of the cases, the judgment amounted to 75 per cent or more of all liabilities. In addition, a number of other cases were discovered in which payment of an automobile judgment had precipitated the firm into bankruptcy.

When this bankruptcy record is considered in conjunction with the fact that over twice as many persons are killed by the automobile each year as meet death through industrial accidents, the outstand-

ing need for automobile liability insurance is self-evident. If workmen's compensation insurance is a necessity, certainly insurance against a far greater hazard should be considered as indispensable. It therefore follows that the liability lines (that is, automobile public liability, non-ownership liability, and property damage liability) are the most important automobile coverages from the standpoint of any business.

Self-insurance of automobiles. Under no circumstances should self-insurance of the so-called liability lines (see above) be attempted. The outstanding reason for insuring such risks with a reliable company arises, of course, from the fact that no limit exists to the possible loss that may be incurred. Furthermore, insurance companies are usually better prepared to defend fraudulent suits than are small individual business concerns.

On the other hand, the collision and theft hazards offer almost an ideal situation for the application of the principles of self-insurance where a large number of units are involved. The value of each unit is almost identical; the chance of loss of all units at the same time is practically nil; the amount of any individual loss is limited to the value of the automobile or truck, representing a small part of the business assets.

Self-insurance of the fire hazard is not quite so satisfactory, inasmuch as one of the greatest risks is the conflagration hazard—the chance that all machines stored in a single or adjoining building will be destroyed by a single catastrophe.

Garage-keeper's insurance. The ordinary automobile insurance contracts are not suitable, by reason of their exclusions, for automobile dealers, automobile manufacturers, service stations, and garage-keepers. Consequently, a number of special policies have been designed to cover the hazards encountered by such concerns.

Garage liability insurance may be obtained under any one of the following plans:

1. Payroll basis, under which the premium is based on the total garage payroll. This form is the most liberal, covering both inside and outside hazards, and extending to all automobiles owned or operated at any time by the garage-keeper or any of his employees. Experience rating is available to large risks under this plan.

2. Named-driver basis, covering only accidents occurring while any automobile is being driven by the driver named in the policy.

3. Specified-car basis, covering each automobile described in the policy. The coverage afforded by this policy is very limited.

Garage collision insurance may be purchased either under a blanket contract or on the specified car plan.

Various methods have been devised to insure the fire and theft hazards, including specified-car basis, blanket policies, and reporting policies. The most advantageous form depends upon the circumstances of each individual case, such as the number of cars owned and the volume of business transacted.

In considering the desirability of taking out insurance, garage-keepers should remember that the rule relative to proof of negligence is reversed in most jurisdictions, and that where a customer of a public garage charges negligence, the burden of proof is upon the garage-keeper to show that he was not negligent. Thus, the Supreme Court of Minnesota, in a case involving an automobile that had been stolen from a public garage where it had been stored for pay, said:

Where a loss occurs under such circumstances as are here disclosed the burden is upon the bailee [garage-keeper] to show that he was free from the negligence; that is, that he exercised such care to keep the property safely as a prudent man would ordinarily exercise under such or similar circumstances.

Nor will a sign placed upon the floor disclaiming liability for fire or other losses (or such a provision placed in a storage or other contract) relieve the garage-keeper of liability where he or his employees were negligent. For example, in a suit against a warehouse man for recovery of the value of goods destroyed by fire, the court held that failure to supply sufficient hose to reach to all parts of the building constituted negligence which was the proximate cause of the destruction of goods by fire, and that the warehouseman was liable for damages, regardless of the fact that the contract under which the goods were received "expressly provided against liability for loss from such cause." Signs and clauses of such a nature are "effective to exempt from liability only in the event the loss by fire was not caused or contributed to by the negligence of the storer."

Comprehensive liability and property damage insurance. Along with the comprehensive form of public liability and property damage insurance, a comprehensive liability policy for automobile hazards has been introduced. This policy protects the insured against any and every liability loss that may occur in connection with automobiles during the policy period. It makes available a single policy by which a business firm can protect itself not only against accidents involving cars that the firm or its employees may own or hire with or without notice to the firm but also against any unknown or unthought-of possibilities of loss that may, and do, crop up unexpectedly. Every business firm should carefully discuss this all-inclusive form with its broker or agent.

8. BURGLARY, THEFT, AND ROBBERY INSURANCE

Standard definitions of burglary, theft, and robbery. Under the general designation of burglary, theft, and robbery insurance, a variety of policies are issued.

The insurance companies have adopted, and the courts have upheld, standard definitions for the offenses against which protection is offered. The insured should carefully read all such definitions, inasmuch as they differ from both the commonly accepted meaning of the terms and sometimes from the statutory definitions. However, most policies define the crimes of burglary, theft, and robbery as follows:

Standard definition of "burglary." Burglary losses are indemnifiable when "occasioned by any person making felonious entry into the premises by actual force or violence of which there shall be visible marks made upon the premises at the place of such entry by tools, explosives, electricity, or chemicals." Burglary, therefore, as far as insurance is concerned, does not include loss attributed to sneak thieves or persons who have access to the property.

Standard definition of "theft." Theft and larceny are both used to denote the stealing of property of another where visible marks of illegal entry are not made upon the premises, and the insured is unaware of the theft at the time of the loss; for instance, losses caused by tradesmen, servants, and mechanics working on the premises.

Standard definition of "robbery." Robbery is generally defined as

meaning "a felonious and forcible taking of property: (a) by violence inflicted upon the person or persons in the actual care and custody of the property at the time; (b) by putting such person or persons in fear of violence; (c) by any other overt felonious act committed in the presence of such person or persons, and of which they were actually cognizant at the time; or (d) from the person or direct care of a custodian who, while conveying property insured under the policy, has been killed or rendered unconscious by injuries inflicted maliciously or sustained accidentally."

Types of burglary, theft, and robbery insurance. The principal burglary, theft, and robbery policies commonly used by business concerns are:

1. Mercantile open-stock burglary insurance.
2. Interior robbery insurance.
3. Outside messenger robbery insurance.
4. Payroll insurance.
5. Mercantile safe burglary insurance.
6. Money and securities insurance.
7. Merchants' protective bonds.
8. Safe deposit box (securities) insurance.

Mercantile open-stock burglary insurance. Huge losses are suffered each year by retailers, wholesalers, jobbers, and manufacturers as the result of burglary of merchandise from storerooms, show windows, lofts, and warehouses. In addition, the ruthless procedure of the thieves, forcible entry to the premises and display cases, and their haste to "get away" is responsible for the infliction of much damage to goods which are not removed, to the premises, and to the fixtures. To meet these risks, the mercantile open-stock burglary policy is available.

The policy promises to indemnify the insured for direct loss or damage to furniture, equipment, merchandise, and goods usual to the business, caused by "felonious entry into such premises by actual force and violence when the premises are not open for business." The protection does not apply, however:

1. If the insured, any associate in interest, servant, or employee is implicated in the burglary.

2. Unless books of account are kept in such manner that the exact amount of loss can be accurately determined.

3. If the loss is caused, or contributed to, by fire.

Certain other less important conditions must also be complied with before the company is liable. Unless an extra premium is paid, the company is not liable for loss in "an amount in excess of \$50.00 on account of any one article of jewelry," nor for the burglary of furs from within any show window after the glass therein has been broken from the outside.

Interior robbery. Business organizations that have property (either money or merchandise) of value within their premises that is exposed during the hours the business is open are in need of protection against holdup occurring within the business premises.

The interior robbery policy covers loss of money, securities, and loss of or damage to merchandise, and damage to the furniture, fixtures, and other such property in the premises. It insures against such loss occasioned by robbery, or an attempt at robbery, committed at any time during the day or night. The insured is also protected in case any custodian, after the business has been closed, is compelled under threat: (1) to return to the premises and admit the thieves, or (2) forcibly detained and made to furnish others with information or the means of entering the premises.

The stealing of the insured property from within a show window in the premises while open for business, through the glass having been broken from the outside, is also covered.

Outside messenger robbery insurance. Banks, hotels, investment houses, theaters, jewelry stores, furriers, and other business concerns that frequently send valuable property other than payrolls outside of the premises need suitable insurance coverage. To meet this need, the outside messenger policy has been designed. As the name implies, it is applicable only to the property of the insured that is in transit outside of the insured's premises. Robbery occurring on the premises is not covered; in this particular the policy is narrower than the payroll policy, which applies at all times while the payroll is in the hands of the paymaster.

The contract agrees to indemnify the policyholder for all loss or damage by robbery committed at any hour to any property carried

by a custodian, including payrolls, provided such robbery occurs outside of the insured's premises.

Discounts from the regular premium are allowed:

1. If the custodian travels in a private car, and an additional allowance is made if such car is armored.
2. If the funds are carried in an approved safe, chest, satchel, or wallet.
3. If the custodian is accompanied by a guard at all times.

Payroll insurance. The hazard of loss of payroll by robbery may be transferred to an insurance company by means of payroll insurance. This type of insurance makes good the insured's loss of payroll money or checks (and the receptacle in which the money is carried), if the loss is occasioned by robbery, or an attempted robbery, from a custodian of the payroll while engaged in any of his regular duties in connection with such payroll outside or inside the premises. Notice that this policy covers the payroll money whether it is away from or inside of the business premises, whereas the robbery insurance discussed in the two previous headings above is limited to coverage either outside or inside the premises.

The policy may also have its coverage extended to include loss of the payroll money from *any* source. This valuable extension costs very little additional. It arranges protection in case of the disappearance or destruction or pure loss of the money. Money blowing out of a window, for instance, would be covered under this extension.

The stealing of such money or checks by compelling the custodian, while outside the premises, to admit someone to the premises or furnish him with the means of entrance is also included in the policy coverage.

Mercantile safe burglary insurance. By purchasing mercantile safe burglary insurance, merchants, manufacturers, lawyers, doctors, and private individuals may protect themselves against loss occasioned by the felonious abstraction of money, jewelry, securities, or merchandise from any vault or safe (or part thereof) described in the policy, after entry into such safe or vault has been effected by force or violence.

The company is not liable:

1. Unless books are accurately kept by the insured so that the amount of any loss can be readily determined.
2. If the insured or any employee was implicated in the burglary.
3. For the loss of negotiable securities unless the insured attempts to prevent their negotiation, payment, or retirement.
4. For loss effected by the opening of any safe or vault by the use of any key, or by the manipulation of any lock.

In addition to loss by burglary, this policy form covers the damage caused to the safe or vault itself, equipment, merchandise, and fixtures in the premises but not in the safe or vault, and damage to the building if the insured is the owner or is liable for it. Of course, this protection applies only when a burglary, or attempted burglary, is committed on the safe insured.

Discounts are allowed from the regular premium for:

1. Prepayment of a three-year premium.
2. Employment of watchmen.
3. Excluding money from coverage.
4. Use of underwriter's approved safes, locks, and alarm equipment.
5. Approved tear-gas systems.
6. Division of insurance, where the same policy covers more than one safe.

Money and securities insurance. An all-inclusive form of policy insuring against a whole group of losses that may be caused by non-employees is called "money and securities" policy. Two divisions of coverage are included. As to money and securities, the insurance is for loss caused by destruction, disappearance, or wrongful abstraction. As to property other than cash and securities, the insurance is for loss by safe burglary and robbery inside or outside the place of business.

Thus, this type of coverage gives comprehensive protection to cash, checks, securities, stamps, and those articles of value generally excluded from the coverage of specific direct damage policies. Remember that the fire insurance policy excludes securities and money. This type of policy gives protection against sneak thieves who leave no evidence of their crime.

Destruction is considered in this form to include any kind of occur-

rence: explosion, windstorm, fire, and so on that results in the physical loss of the insured money or securities. Disappearance refers to any loss concerning which there is no physical evidence of burglary, robbery, or theft.

Combining the coverages of inside and outside robbery, safe burglary, and comprehensive loss, this form is attractive to a large number of business firms.

Merchants' protective bonds. Merchants' protective bonds are a combination of burglary insurance, robbery insurance, and fidelity bonds, designed to protect for limited amounts the smaller merchant against loss arising from most of the miscellaneous hazards to which he is subject. A typical "bond" may protect against:

1. Larceny or embezzlement of property or money by any employee.
2. Loss of money or personal property through holdup during business hours.
3. Loss of money or personal property through robbery while such money is being transported within a given radius by either the owner or any employee.
4. Loss resulting from burglary of safe contents.
5. Loss through damage to doors, windows, locks, and premises caused by forcible and felonious entry.
6. Loss or damage to stock or fixtures occasioned by the use of explosives to force entry to a safe.
7. Loss resulting from forgery or alteration of checks.
8. Loss by reason of acceptance of counterfeit money.
9. Loss or damage to cash register, caused by forcible entry.

In addition, the contract agrees to pay a reward of \$100 to any person giving information leading to the arrest and conviction of a person committing burglary, robbery, or murder upon the premises.

Another such grouped policy is known as the "storekeeper's burglary-and-robbery policy" and insures, up to \$250 on each item, against:

1. Inside robbery.
2. Outside robbery.
3. Kidnapping custodian and forcing opening of the premises.
4. Safe burglary.

5. Burglary from the home of the custodian of funds held overnight, or from the night depository of a bank.

6. Mercantile open-stock burglary.

7. Damage to property merchandise, and so forth, in connection with any of above.

Securities insurance. An individual business concern that customarily keeps a large amount of valuable securities in a safe-deposit box may desire insurance for two reasons:

1. Usually a bank will not reimburse its customers for losses unless it possesses adequate insurance or is legally liable. As a general rule, a bank is not liable for losses resulting from burglary or theft of safe-deposit boxes unless the customer can prove that the bank was negligent. The circumstances that constitute negligence vary from state to state, but ordinarily it must be shown that a lesser degree of care was used by the bank in protecting the property of its boxholders than in protecting its own property, or that the other banks located in the same city commonly exercised greater care than was exercised by the burglarized bank. Consequently, it is impossible for a boxholder to determine in advance whether or not the bank will be legally liable for any loss.

2. Even if the bank has purchased a blanket safe-deposit box burglary and robbery policy, the individual boxholder cannot be certain of the security that it grants to him, since losses sustained by the bank itself through burglary or robbery of its own securities are reimbursed first; recovery for loss arising from any one box is limited to 10 per cent of the face of the banker's blanket policy; and, as a rule, the amount of valid insurance carried by the bank cannot be ascertained.

The bank policy protects only against loss resulting from:

1. Burglary of the contents of the safe-deposit box (burglary is defined as a forcible entry by the use of tools, and so forth).

2. Robbery of the property of the insured from within:

(a) The vault containing such safe-deposit box.

(b) That part of the bank's premises reserved for the use of customers in its safe-deposit-box department.

(c) The banking enclosure reserved for the use of employees

of the bank, while at least two such persons are regularly at work therein.

(d) The bank's premises while the insured or any person authorized by him is conveying the property between the said vault and the entrance to the bank's premises at any time while two or more of the bank's officers or office employees are regularly at work on the premises.

The individual policy, however, protects against *all loss* of securities except infidelity and the voluntary giving over of possession or title by the insured (whether through fraud or otherwise).

Securities in safe-deposit vaults are subject to the hazards of burglary, robbery, mysterious disappearance, explosion, fire, entry by misrepresentation, and so forth.

9. FIDELITY AND SURETY BONDS

Use of bonds. A bond is a written promise to pay a sum of money under one or more specified conditions. In this sense it is like a contract of insurance or indemnity. But, more formally, a bond is a guaranty to the party named in it as the "obligee" (who corresponds to the "insured" named in an insurance policy) that the person or persons named in the bond as the "principal" will perform a certain duty or task, and that, if the principal fails in this, the insurance company, the "surety," will make good the money or other damages suffered by the obligee because of this failure of performance.

The bond is given to facilitate business; its purpose is to guarantee the responsibility of the principal. The premium charged for the bond, unlike an insurance premium, is not entirely a charge for the risk assumed by the company, but is for the service performed by the company in issuing its bond. In most cases, for instance, the company will not issue its bond until it is completely satisfied as to the responsibility of the principal through investigation and often through the deposit with it of collateral equal to the financial risk assumed by the company.

In practice, if the principal fails to perform as expected, the surety company immediately pays to the obligee the sum involved, and then proceeds against the principal for reimbursement.

A bond usually provides in substance that:

John Doe , as Principal, and the Guaranty Company , as Surety, are held and firmly bound unto . . . Richard Roe as Oblige in the penal sum of . . . ten thousand dollars (\$10,000) the condition of the bond being that John Doe, as Principal, shall faithfully perform an obligation herein described, and that if he does perform such obligation, this bond shall be considered void and fully discharged; otherwise it shall remain in full force and effect.

Fidelity bonds. Fidelity bonds cover employees in positions of trust, and in substance guarantee the employer against loss should the person bonded prove to be dishonest. Some bonds also cover negligence and incompetency, but such forms are rare.

Four forms of fidelity bonds are in common use:

1. Individual bonds, covering only a specified person in a specified position.

2. Individual bonds, covering a specified position in the firm, regardless of who may occupy this position.

3. Schedule bonds, covering all employees or positions named in an attached schedule. New employees or positions must be added by endorsement. Some forms, however, automatically cover new employees or positions for a period of ninety days. Discovery forms give back protection from date of issue.

4. Blanket bonds, covering all employees at all times, including employees hired after the bond is issued.

5. Blanket bonds or comprehensive policies giving blanket fidelity covering in combination with other coverages such as robbery, burglary, forgery, etc.

Surety bonds. Surety bonds differ from fidelity bonds in that under the fidelity bond the surety company guarantees that the principal will *not* do a dishonest or other specified act, while the surety bond guarantees that the principal *will* faithfully perform certain duties or obligations. Surety bonds are issued to cover only persons of excellent reputation. As a rule, they may not be cancelled, and consequently are written only after thorough investigation.

As a condition of the issuance of a surety bond, if the surety company has any doubt as to the ability of the principal to perform his obligations, the principal is usually required to place with the surety company securities or other collateral from which the surety company may reimburse itself for any loss that it may suffer under the contract.

Contract bonds. Municipalities, states, and private concerns often require as a condition for letting a contract that the contractor be bonded for the faithful performance and completion of his contract. Bonds guaranteeing such performance are known as contract bonds. Surety companies usually issue such bonds with little delay to reliable and experienced contractors.

Court or judiciary bonds. Litigants at law are required many times to file a bond or other security guaranteeing that they will pay to the other party, if unsuccessful in the litigation, the monetary damages awarded by the court. Such bonds are known as court or judiciary bonds. They are essentially a guaranty of financial strength, and hence surety companies often require that ample security be deposited as a condition for the issuance of the bond. Another class of court bonds are known as probate bonds. Such bonds are issued to executors, administrators, and other fiduciaries to guarantee the faithful performance of their legal duties.

Miscellaneous indemnity bonds. Bonds are used to give "obligees" all sorts of guaranties involving proper performance of certain obligations and protection against financial loss by the obligee. Some typical bonds may be:

1. Bonds covering the issuance of a duplicate certificate of stock, or other security, where the original has been lost.
2. Bonds required by railroads guaranteeing the payment of freight charges.
3. Bonds to indemnify railroads against loss for delivery of freight without first requiring the surrender of the bill of lading.

10. CREDIT INSURANCE

Need for credit insurance. Accounts receivable represent a prime asset of any firm. This asset can depreciate in value without warning and should be protected to the same extent as the investment in inventory, work-in-process, finished merchandise, and other assets that become accounts receivable. Credit insurance offers such protection.

Credit insurance is a guarantee to manufacturers, wholesalers, advertising agencies, and certain service organizations that they will be

paid for merchandise shipped or for services rendered. It is protection against the inability of the debtor to pay his obligations.

Basic forms of credit insurance policies. Two basic forms of credit insurance policies are available:

1. *Policies of indemnity.* Under this type of coverage the policyholder is indemnified against losses occurring within the term of the policy.

2. *Policies of insurance.* These policies provide protection on sales, shipments, and deliveries of merchandise made within the term of the policy. The coverage continues after the sales period has expired and follows the account to a conclusion. If the account is not paid by the customer, it is filed with the insurance company as a loss. Therefore, while the sales period is usually twelve months, the policy terms may run as long as eighteen months to follow the accounts to a definite conclusion.

Losses covered. A credit insurance policy promises indemnity against "loss due to insolvency." Insolvency under the policy has a much broader meaning than insolvency under the Federal and state laws relating to insolvent debtors. It, in fact, is so broad that the policyholder has a definite control for proving all covered accounts as losses, thus guaranteeing a definite value to the entire asset of accounts receivable.

Insolvency is defined in two ways:

1. Any account filed with the insurance company for collection within the time specified in the policy is automatically proved as a loss, whether or not insolvency has occurred.

2. Insolvency is deemed to have occurred when:

- (a) A debtor absconds.
- (b) A sole debtor dies.
- (c) A sole debtor is adjudged insane.
- (d) A receiver is appointed for a debtor.
- (e) A debtor transfers or sells his stock in trade in bulk.

(f) A writ of attachment or execution is levied on a debtor's stock in trade and said stock sold thereunder, or the writ returned unsatisfied.

(g) A debtor makes a general offer of compromise to his creditors for less than his indebtedness

(h) There is a recording of or taking possession under a chattel mortgage given by the debtor on his stock in trade.

(i) A debtor's business is assigned to or taken over by a committee, appointed by a majority in number as well as of his creditors, in amount of the debts owing to them.

(j) There is a recording of or taking possession under an assignment or a deed of trust made by a debtor for the benefit of his creditors.

(k) A voluntary or involuntary proceeding is instituted to adjudge a debtor bankrupt.

(l) A proceeding for the relief of a debtor is instituted in a court of bankruptcy.

Deductions in blanket policy. Under all blankets policies there are two deductions:

1. *Coinurance deduction.* Blanket policies can be written to cover each account for 80 or 90 per cent of the invoiced price of merchandise shipped and delivered to the customer.

2. *Primary loss deduction.* In addition to the coinsurance deduction, the policyholder assumes a primary loss. This is usually a small fraction of one per cent of annual sales volume, with a minimum amount expressed in the policy. This figure represents the *usual* or *expected losses* for the line of business being covered.

To the extent of the deductions, the policyholder is a self-insurer. The credit insurance company reimburses for covered losses in excess of the policyholder's participation.

Underwriting basis of credit insurance. Credit insurance policies can be written to cover all risks assumed by the policyholder. Coverage applies on the basis of ratings assigned by a specified mercantile agency. The best known mercantile agency is Dun & Bradstreet, Inc., although several other agencies, in specialty lines, are also recognized. The assured may select the credit agency that he desires to be used to govern his coverage under the policy. The credit insurance policy includes a table that shows the maximum amount of coverage on individual accounts in each of the various ratings in the rating table of the selected mercantile agency. (The mercantile rating tables are explained at page 983.)

There is one form of policy issued where coverage is not governed

by mercantile agency ratings. This policy provides a single limit of coverage applying to each debtor and is the broadest form of coverage offered. Because of the nature of the coverage provided, credit insurance companies are more selective in issuing this type of policy. Also, the policyholder shares in each account to the extent of 25 per cent, the insurance company assuming 75 per cent of the risk.

In addition to the blanket policies, the insurance companies cover individual accounts by separate policies. These are designed to provide coverage on accounts where large amounts of money are involved. The standard for the coverage is quite high. Consequently, the insuring company is somewhat selective for this type of policy.

Limit of coverage in credit insurance. Every credit insurance policy contains a maximum credit limit for each customer of the policyholder. For the most part these limits are established on the basis of mercantile agency ratings. In addition, most policies contain coverage on so-called "inferior ratings." This type of coverage is on a limited basis with a maximum liability for losses occurring with debtors whose rating at date of shipment was the so-called "inferior" rating."

Loss adjustments. Within twenty days after acquiring knowledge of the insolvency as that term was explained at page 728, the insured must file a notification of claim with the insurance company, on a form furnished by the company. The filing of the claim places the whole account against the debtor with the insurance company for collection. Certain information about the account must be filed along with the notification of claim, such as the dates of shipment, terms of sale, and the like.

Within sixty days after the claim for excess loss is filed, the insurance company pays the amount it owes under the policy to the insured. This amount, in general, is equal to the covered loss less (1) the coinsurance deduction and (2) the primary loss.

The insured assigns to the insurance company all claims on which there has been an adjustment, except those for which a deduction was made in the settlement for agreed salvage. On these, the insured keeps whatever he can recover on the account from the debtor or his estate. On the assigned claims, the insurance company tries to collect from each debtor or his estate as much as it can. The insured retains an interest in this salvage equal to the amount of

coinsurance deducted on each account entering into the adjustment, plus its portion of the salvage attributable to the uninsured part of the claim.

Example of loss adjustment. The following are the assumed facts:

1. The primary loss is \$5,000.
2. The coinsurance is 10 per cent.
3. The insured files its first claim under the policy. This claim is on a default by a customer with an Aa-1 rating, amounting to \$25,000.
4. The limit of coverage under the policy for this class of risk is \$20,000.
5. The face coverage of the policy is \$75,000.
6. The insurance company collects 30 per cent *after* the adjustment. The adjustment would be calculated as follows:

Gross loss proved	\$25,000
Single account limit	20,000
Allowable loss	20,000
Coinsurance deduction of 10%	2,000
Net allowance	\$18,000
Primary loss deduction	5,000
Payment of adjustment	\$13,000

Since the face of the policy exceeds the \$13,000, the full adjustment is payable. Any subsequent loss will have only deduction for coinsurance, as the primary loss is deducted only once on losses during the policy period.

The 30 per cent salvage collected by the insurance company after adjustment amounts to \$7,500 ($30\% \times \$25,000$). Of this sum, the insured's interest amounts to \$2,100, determined as follows:

Insured's interest in excess over single limit ($30\% \times \$5,000$)	\$1,500
Insured's interest in covered amount is equal to percentage of coinsurance ($30\% \times \$20,000 \times 10\%$) . .	600
Total	\$2,100

Endorsements on credit insurance policy. Any basic credit policy may be modified by riders or attachments to cover situations

peculiar to the insured, or more nearly to fit the policy to the needs of the insured. Some of the more common endorsements are:

1. *Inferior rating rider.* Attachable to an ordinary policy in order to protect the insured from loss through insolvency of concerns that are rated lower than first or second by the rating agency specified in the policy.

2. *Antedating rider.* If the insured desires to be protected on credits extended previous to the date on which the policy was issued, an antedating rider may be added to the policy at the time that it is taken out. The policy then applies, with certain exceptions set out in the rider, as though it had been written at the earlier date.

3. *Back sales rider.* A "conditional" back sales rider is usually attached to policies of indemnity in order to include in the policy those accounts shipped prior to the beginning of the policy term. Thus, if losses occur on these prior shipments, such losses are included in the coverage provided by the policy.

4. *Concurrent agency rider.* It is, at times, desirable to have more than one agency govern coverage. Where the primary agency does not list, or does not rate an account, coverage will still apply if the concurrent agency selected does provide an insurable rating.

5. *Specially purchased and/or processed merchandise rider.* Such a rider renders the insurance company liable for loss sustained through insolvency of a firm that had previously placed an order for goods "entailing the purchase of special material, and the manufacture of goods not usually kept in stock," where such insolvency occurs while the goods are "in process," or before title has been passed by shipment and delivery.

6. *Freight rider.* The credit policy does not cover freight charges. Where the freight charges appear on the customer's account, such charges may be added to the amount recoverable under the policy through addition of the "freight rider."

7. *Excluded or included sales rider.* Certain classes of risks or types of sales, such as cash transactions, or to a specified company, may be excluded from the policy, thereby reducing the premium, by an "excluded" sales rider. Sales of a subsidiary concern, or sales made by a manufacturer who operates under several trade names, may be covered under the regular credit insurance policy by the insertion of an "included" sales rider.

8. *Interim adjustment rider.* Generally, claims are paid only at the end of the policy year. If the insured desires more frequent settlements, an "interim adjustment rider" may be added to the credit insurance contract. An additional premium is charged for such an endorsement.

9. *Consignment rider.* Ordinarily only completed sales are covered by the credit insurance policy. Losses arising from sales made "on consignment" may be included within the scope of the policy by the insertion of such a rider.

Collection service of the insurance company. In addition to the protection furnished the policyholder through the indemnification for unusual credit losses, the credit insurance company renders an important service, that of investigation and collection. Such collection services are fully as important to the insured as are the reimbursement-for-loss provisions of the policy. The benefits that accrue to the policyholder as the result of such services include:

1. A lower loss ratio, and therefore, over a period of years, a lower premium charge.
2. Inexpensive and capable collection of past-due accounts.
3. Elimination of waste through duplication of effort.
4. Quick payment of collected accounts to the policyholder.
5. The additional profits that normally flow from increased turnover of working capital.

How to reduce the cost of adequate credit insurance. To reduce the cost of adequate credit insurance, it is necessary for the policyholder carefully to define his needs to his insurance broker in order that the policy may conform precisely to the requirements of the insured. Premiums paid for unneeded protection are wasted. On the other hand, the policyholder should be certain that he is fully protected.

A consideration of some of the elements that are considered by the insurance company in computing the premium will disclose several points at which the cost of credit insurance may be safely reduced.

1. *Single account limits.* The single account limits of coverage required on the different ratings are one of the principal factors entering into the computation of the premium. The limits should be high enough to cover fully all the *ordinary* sales. If an occasional

account is larger than the ordinary, it might be excluded from the regular policy (see "excluded sales rider," page 732) and insured under a "specific" credit insurance policy.

2. *Type of policy.* To a considerable extent, the type of policy that the needs of the policyholder require controls the premium. A policy covering debtors with inferior ratings costs more than one covering only debtors rated in first and second credits. An approved credit risk policy may possibly be less expensive than a regular policy.

3. *Special endorsements.* Special endorsements and riders may either increase or decrease the premium. Endorsements tending to decrease the premium include (see page 732 for definitions):

(a) Concurrent agency rider.

(b) Excluded sales rider.

(c) Guarantor rider (whereby the rating of a guarantor is substituted for that of the debtor).

4. *Primary loss.* The credit insurance policy is designed to cover unusual, unpredictable losses. Consequently, the primary loss, or predictable loss, is deducted from the net loss. Inasmuch as the cost of the insurance constitutes total losses plus underwriting expenses, it is to the advantage of the insured to assume all loss that may be covered by an accounting reserve.

5. *Coinsurance limits.* Under the ordinary policy, the insured is made coinsurer for 10 per cent of all losses. Where this percentage is increased, the liability of the insurance company will be decreased, making it possible to insure the weaker risks where the policyholder has a greater interest in these inferior rated accounts.

6. *Past experience of applicant.* Credit insurance makes provision for merit rating. Hence, if the policyholder carefully investigates all risks before extending credit, over a period of years he may be able substantially to reduce the cost of his insurance.

7. *Reputation and practices of the policyholder.* Each credit insurance risk is considered on its own basis, and the premium rate computed in accordance with the individual circumstances. As a result, a conference with a reputable insurance expert may disclose other means by which total credit insurance premiums may be reduced.

11. MISCELLANEOUS INSURANCE COVERAGES

Fire and Allied Coverages

Supplemental contract. The fire insurance policy may be endorsed with the "supplemental contract" at an additional premium to cover losses due to windstorm; cyclone, tornado, and hail; explosion; riot; riot attending a strike; smoke; motor vehicles; and aircraft. The cost of adding these grouped coverages is low and has been widely accepted as a step forward in broadening the protection easily and inexpensively available to business. Each of the coverages is practically self-explanatory. The "contract" becomes part of the fire policy.

Explosion. This coverage may be purchased separately, and it is usually advisable to do so if the "supplemental coverages" must be purchased in too great an amount because of the coinsurance requirements of the fire policy. Explosion insurance written separately in a specific policy can be bought on varying coinsurances.

Riot, and riot attending a strike. Direct loss and damage from pillage and looting is covered here, when the loss occurs during and at the place of riot or strike. This coverage can also, in conjunction with explosion insurance, be bought under a separate policy.

Business interruption (use and occupancy). Fire—and other insurable hazards, such as lightning, sprinkler leakage, or explosion—often causes a greater indirect loss through the resulting cessation of business operations than arises from the direct loss to the property actually destroyed. To reimburse the insured for such losses, use and occupancy insurance (properly called business interruption insurance) has been designed. Various forms are in use, but the usual contract promises to indemnify the insured for all loss caused by the forced stoppage of business that results from destruction of, or damage to, the premises, machinery, raw materials, stock, or instruments necessary for the transaction of business. Such indemnifiable loss includes estimated net profits, fixed charges, and expenses that continue during enforced idleness (such as interest and salaries paid under contract), and expenses necessarily incurred for the purpose of reducing the loss (for example, cost of moving to a new location until the destroyed premises can be replaced or repaired).

The common items of continuing expense, which are paid under this policy, may include:

1. Rent.
2. Taxes.
3. Telephone charges.
4. Light, heat, power.
5. Advertising previously contracted.
6. Payroll of office staff, important shop employees, and others.
7. Officers' salaries.

The net profits that would have been earned if there had been no interruption in the business are also collectible. This policy has become recognized as a primary form of business insurance.

Contingent use and occupancy insurance. The ordinary use and occupancy policy does not reimburse the insured for loss occasioned by a cessation of business resulting from an interruption to the continuous supply of an article that is absolutely necessary for the operation of the business. Contingent use and occupancy insurance may be purchased to cover this risk. The usual policy promises to indemnify the insured for loss of profits, and expenses incurred, arising out of damage to or destruction of another business unit upon which the insured is dependent for essential raw materials or parts. The coverage is applicable for the length of time it would take to place the damaged plant in a condition where deliveries could be resumed.

Profits and commissions insurance. One of the indirect losses arising from fire (tornado, riot, explosion, water damage, or other hazard) that is not covered by the standard policy is deprivation of profits or commissions on stocks of finished goods where delivery is prevented through damage to such goods by the hazard against which insurance is taken. Profits and commissions insurance is available for manufacturers, jobbers, and wholesalers, and for retailers.

Rent insurance. Owners of real property are subject to huge losses through the loss of rent or rental value as the result of the destruction of, or damage to, their property by fire, lightning, wind-storm, riot, explosion, earthquake, and so forth. To cover such losses, rent and rental value insurance have been designed. In most states the coverage can be effected by merely attaching to any basic direct loss policy a rent insurance endorsement.

Generally, the rent insurance policy promises to indemnify the insured for loss of rent or rental value for the period of time that the insured's property is damaged to the extent that it becomes untenable. The cover may be issued to owners, lessors, or sublessors receiving rental income from a residence or other type of building; to owners of such property which, although not rented, is apt to be rented at any time; to fiduciaries receiving income from rents; and to owners who occupy their own premises.

Two standard forms are available:

1. Indemnity based upon the rental income or rental value for the period estimated to be required to restore the building to a tenantable condition. This form is generally the most suitable for small buildings.

2. Indemnity based upon the annual income or rental value of the property. This form allows a longer period for restoration and is therefore more suitable for large buildings requiring a long period for replacement.

Under either form, the entire building, whether occupied or vacant, or only the actual rented or occupied portions of the building, may be covered.

Leasehold insurance. Leasehold insurance, as distinguished from rent insurance, is designed to cover the interest of the tenant or lessee. All rights under a lease are usually cancelled when the leased premises are destroyed or rendered unfit for use. The termination of an advantageous lease may result in loss to the holder thereof, arising from numerous circumstances, including:

1. Should the premises be leased at a figure below current full-rental value, or for less than the lessee would have to pay for other similar property, a loss amounting to such difference would follow termination of the lease.

2. If the original lessee subleased the premises at a profit, such profit would be lost.

3. A sublessee may have paid a cash bonus to purchase a valuable long-term lease from the original lessee. Cancellation of the lease would result in a loss of all or part of such bonus.

4. The lessee may have made certain improvements, the value of which he would lose by cancellation of the lease. This interest, how-

ever, is usually covered by improvements and betterments insurance, for which see below.

In addition to the interest represented, leasehold insurance is distinguished from rent insurance by the manner in which the loss is calculated. Under rent insurance indemnity is paid for such period as is actually required (subject to policy limitations) to restore the building to tenantable condition. Under leasehold insurance, however, a definite calculable loss* takes place immediately upon termination of the lease. For example, if a building were leased for a period of ten years at a yearly rental of \$15,000, and exactly two years later a fire resulted in the termination of the lease, and forced the lessee to rent other premises at a yearly rental of \$25,000, the lessee would have incurred a loss equal to the difference in the yearly rentals (\$10,000), times the number of years the lease had to run (8), or \$80,000. But since the whole of such loss is not incurred until the end of the lease-period, the actual loss is the present value of such sum, or in this instance, if the policy specified that the present value was to be obtained by discounting at 4 per cent, the amount payable would be approximately \$58,448 (the sum which at 4 per cent compound interest will equal \$80,000 in eight years; see "How to calculate the compound present value," page 1311).

Rates for leasehold insurance are based upon the fire building rate, modified for the provisions of the fire-cancellation clause of the lease, or, in the absence of such a clause, the statutory provisions of the state wherein the property is located.

Leasehold insurance does not cover loss that arises through other than a specific contingency insured against, such as fire or earthquake. Loss resulting from the commission or omission of any act by the policyholder, or by exercise of an option to terminate the lease, is not covered.

Improvements and betterments insurance. The interest of a lessee in improvements, additions, betterments, alterations, and repairs installed as a permanent part of a building, or its fixtures, by the lessee at his expense under the terms of a lease, may be protected against all direct loss or damage, arising from fire or other specified contingency, by the purchase of improvements and betterments insurance. The form is not standardized, and care should be taken to ascertain that the exact coverage desired is secured.

Accounts receivable insurance. Reputable firms may obtain insurance to cover loss by reason of destruction by fire or any other cause of books of accounts. A usual condition is that the accounts be stored in a fireproof safe. The basic fire policy specifically excludes losses from destruction of accounts and evidences of indebtedness. (For credit insurance, see pages 727-734.)

Other Property Insurance

Sprinkler leakage insurance. The installation of sprinkler systems gives rise to a new hazard arising out of the danger of accidental release of water from the pipes of the sprinkler system that are placed on the ceiling and fitted at intervals with sprinkler heads containing valves held in place by a fusible link. The valves open at a certain degree of heat whether or not such heat is caused by fire, and sometimes as the result of freezing or jarring. The ordinary fire policy covers water damage only when caused by fire; loss from water released by other causes may be covered by the sprinkler leakage policy.

Power plant insurance. Power plant insurance refers to a number of miscellaneous covers that are designed to indemnify the policyholder for all direct damage or loss resulting from the accidental explosion or breakdown of boilers, wheels, engines, pressure vessels, steam and water turbines, electrical apparatus, and other machinery used in connection with the generation, distribution, control, or storage of energy for power purposes. In addition, endorsements may be added to cover indirect damages and consequential loss.

While the forms differ somewhat as to definitions of "explosion," "breakdown," and so forth, for the different subjects of power plant insurance, the standard policy provides indemnity for:

1. Damage to the insured boiler, engine, turbine, machinery, or other described property, caused by internal explosion, or accidental breakdown of such property.
2. Damage to other property of the insured, caused by the explosion or breakdown of the insured property.
3. Damage to property of others for which the insured is liable, caused by the hazard or hazards insured against.
4. Liability of the insured arising out of a hazard covered by the policy for loss of life or injury to members of the public.
5. Defense of suits, even though groundless or fraudulent, brought

against the policyholder because of the occurrence of an accident insured against, including payment of expenses of such defense, interest on any judgment within the limits of the policy, and court costs assessed against the insured in such a case.

Among the indirect damage covers which are often added to such contracts by endorsement is that for business interruption (see page 735).

Power plant inspection service. An important part of all types of power plant insurance is the inspection service that is rendered with the insurance. The insurance company does not promise to make any designated number of inspections, but usually attempts to make, in the case of steam-boiler insurance, for example, two external and one internal inspection each year.

Experience of insurance companies conducting such inspections indicates that losses caused by inspected boilers and machinery are 80 to 90 per cent less than similar losses arising from uninspected boilers and machinery. As a result, rates are not only reduced, but many policyholders regard the inspection service as more valuable than the payment of a loss in the event of an explosion or breakdown.

Exclusions in power plant insurance policy. The following are the principal exclusions under most plant insurance:

1. Loss or damage caused by fire, or by explosion resulting from fire, is not covered, inasmuch as this is a risk assumed under the standard fire insurance policy.

2. Damage occurring while any safety device, or regulator of pressure or speed, is altered, taken out, made ineffective, or set in a manner to provide a pressure or speed in excess of that approved by the insurance company.

3. Business-interruption losses, unless covered by an endorsement.

4. The cost of any repairs necessitated by wear and tear, or depreciation.

5. Boiler insurance usually excludes damage caused by "mere cracking or fracturing of a cast iron boiler hereby insured unless standard cracking endorsement is attached to the policy."

6. Some forms of power plant insurance exclude damage for breakdown of machinery caused by riot, strike, or civil commotion.

Earthquake insurance. Geologists have determined that no section of the United States is entirely free of the earthquake hazard. Earthquake insurance, therefore, is needed in sections other than on the Pacific Coast.

The standard earthquake policy covers against all direct loss or damage resulting from earthquake or volcanic eruption, including damage by fire where the fire insurance has been voided by the earthquake (that is, after a material part of the building has fallen). The cover may be issued either separately or in conjunction with the fire policy. Some companies, however, consider it as an accommodation line and issue earthquake policies only when an equivalent amount of fire insurance has been purchased.

Windstorm and tornado insurance. Windstorm and tornado insurance promises to indemnify the insured for direct loss or damage resulting from the action of windstorm, cyclone, or tornado. Care should be taken to ascertain whether or not losses arising from fire after a material part of the building has fallen (thereby voiding the fire policy) are covered.

Plate glass insurance. This form indemnifies the insured against loss by reason of breakage of glass. The cost of lettering and ornamentation on the glass involved may also be insured. The service performed by the insurance companies in this field of insurance is the prompt replacement of broken glass. A store window which is broken is of no value to the merchant. Speedy replacement so that the window may be used for its proper show purposes is important. Thus, more important than the cost of the glass many times is the prompt replacement service of the insurance company.

Floater Policies

Transportation insurance. Merchandise shipped by business concerns may suffer loss or damage from many unforeseen causes before it reaches its destination, regardless of the type of carrier used to transport the merchandise. To protect firms against loss by reason of these unforeseen events, transportation insurance has come strongly to the fore as an important insurance coverage.

Many forms of this policy are written, but all basically insure the merchandise involved from the time it leaves the premises of the owner until it arrives at and is actually delivered to the destination.

Thus it is insured, for example, while in transit to the freight station, while there awaiting shipment, while en route, while at the unloading shed at the consignee's city, and while in transit to the offices of the consignee.

This insurance may be purchased to cover single shipments or on an annual basis to cover all shipments made during the year. A separate policy is available if the firm uses its own trucks to ship and carry goods. Still another form is designed to protect the independent motor truckman for loss involving damage to merchandise of his customers while in his trucks during shipment.

Parcel post insurance. Insurance companies issue a liberal "all-risk" policy providing indemnity for loss or damage to packages or contents while in the custody of the post-office department, or for loss in case of failure to arrive at destination.

Retailers, jobbers, and manufacturers who ship 100 or more packages per year will generally find that private parcel post insurance is cheaper, more convenient, and entails less clerical detail than Government parcel post insurance.

Registered mail insurance. Banks, trust companies, investment houses, and other concerns making numerous shipments of currency, securities, and other valuables by registered mail (including air mail), may protect themselves against loss or damage from practically all risks, except the perils of war and the hazard of theft by employees of either the insured or the addressee. Policies may be issued to cover only a single large shipment, but concerns making numerous shipments during the year will find it advantageous to procure a reporting form (see page 693 for description), under which all shipments made during the policy period are automatically covered. This policy may also be endorsed to cover shipments by express.

Garment contractor's insurance. A floater type of policy is used by manufacturers who do not complete all the work in their own plant that is necessary to turn out completed garments. The articles, during their manufacture, may be sent to various types of contractors who will perform some work on them and then return them to the owner. The insurance protects the owner while the goods involved are away from his plant and while they are in transit.

Bailee's customer's insurance. Businesses that are in the position of bailee, such as public storers, dyers, cleaners, laundries, warehouses, and the like, are ordinarily responsible for the articles entrusted to their care. This form of insurance indemnifies them for damage or loss to those articles and not only gives protection to the bailee and to the owner of the goods, but also serves as a goodwill policy by attracting customers to the obviously responsible bailee and, in times of loss, preventing costly and troublesome arrangements between the bailee and his customers.

Salesmen's samples insurance. Business concerns that send out with salesmen valuable merchandise for use as samples may secure protection with salesmen's samples insurance. The policy is a liberal "all-risk" contract. However, the contract should be carefully read before purchase, inasmuch as the line is not standardized; a few companies issue contracts covering only specified hazards.

Jewelers' block insurance. Manufacturers, wholesalers, and retailers may protect themselves against practically all types of loss or damage to jewelry stocks by purchasing a jeweler's block policy. The coverage is very broad; only a few specified risks are excluded.

Miscellaneous Coverages

Title insurance. As contrasted with all other forms of insurance, title insurance does not protect against hazards occurring in the future; the policy covers only against loss arising from titles that may have been rendered defective in the past. A large part of every premium is for the service of searching. The usual policy guarantees that, except as otherwise specified, the title is perfect at the time that the insured bought or sold the property to which it attaches.

Rain insurance. Indemnity for loss of income, or reimbursement for expenses incurred where rain, hail, snow, or sleet cause the abandonment of an enterprise, may be secured through rain insurance. Some contracts specify that $\frac{1}{10}$ or $\frac{2}{10}$ inch of rain must fall before the insured will be entitled to recover for any damage, while under others the company assumes liability if any rain, no matter how little, falls. The premium, of course, is higher on the latter form.

Rain insurance does not cover damage to tangible or real property.

Check alteration and forgery insurance. Although the general principle of law holds the depository bank responsible for forgery, it does not hold the bank responsible for alteration in the body of the check. Furthermore, many exceptions to this rule exist, and there are cases on record where the bank has not been held liable for forgery or alteration. Thus, in addition to the doubt that may exist as to the liability of the bank in any particular transaction, the depositor will have to pay the costs of a legal prosecution and may lose the interest on his money, which is tied up in the meantime. Consequently, there is a genuine need for check alteration and forgery insurance.

Two forms of check alteration and forgery insurance are in common use by business concerns other than banks:

1. *Depositors' forgery policy.* This policy may be written to protect the checking account of any individual, firm, or corporation other than a bank. The contract promises to protect the insured, as well as any bank or banks in which he carries a checking account, from any direct loss, up to the limit of the contract, resulting from forgery or alteration of checks or other standard negotiable paper (notes, drafts, bills of exchange, trade acceptances) issued or ostensibly issued by the insured. The policy does not cover instruments drawn in lead pencil, unless indelible, or loss encountered by reason of the insured's acceptance of forged or altered checks in the course of his business.

2. *Commercial forgery policy.* This policy may also be sold to any individual, firm, or corporation other than a bank, but it is peculiarly appropriate for retail concerns and others who daily accept checks from strangers in payment for merchandise sold.

The agreement is divided into two sections. Section "A" is identical with the coverage offered by the depositors' forgery policy.

Section "B" protects the insured against all loss resulting from alteration or forgery of incoming bank drafts and checks that the policyholder may take in good faith in the course of his business. The agreement, however, does not cover loss arising from instruments drawn in lead pencil, unless indelible, or upon checks returned and marked "no account" or "not sufficient funds."

12. BUSINESS LIFE INSURANCE

Types of organizations that should be interested in business life insurance. Business life insurance is regular life insurance applied to the needs of a business. It protects the business of the insured in the same manner that personal life insurance protects his family.

Although life insurance can be applied to the needs of virtually every form of business organization, it is of particular value to:

1. Sole proprietorships.
2. Partnerships—general and limited.
3. Close corporation.

Uses to which business life insurance can be profitably applied. The various uses to which business life insurance may be profitably applied include:

1. To reimburse the business for loss resulting from the death of a person who has contracted to do some particular or unusual work, or who has undertaken a program of expansion, the fulfillment of which depends upon the personal performance of such person.

2. To protect the business against loss at the death of an employee by:

- (a) Compensating for the loss of unusual services.

- (b) Indemnifying for the loss of goodwill attached to the person of an employee or official.

- (c) Protecting the credit of the business where the extension of credit is dependent upon the business connections or services of an employee or official.

- (d) Providing a fund to train a successor.

3. To protect the business at the death of a sole or part-owner by:

- (a) Providing funds for the transfer of the decedent's interest in the business to his heirs in a predetermined manner so that the business itself is not disturbed financially, business-wise, or management-wise.

- (b) Protecting the credit of the business.

- (c) Providing a fund to act as a "shock absorber" to tide the business over the difficult period that always follows a sudden change in management.

4. To protect the business against unusual exigencies by:

(a) Providing a sinking fund (the cash value of the insurance) that may be used in case of emergency.

(b) Hedging an ordinary sinking fund designed to retire bonds of the corporation where sale of the bonds is predicated upon the services of certain officers.

Business life insurance trusts. A free choice may ordinarily be made as to whether the proceeds of business life insurance are to be paid to:

1. The partnership or corporation.
2. The proprietor's estate, a creditor, or a named beneficiary.
3. The surviving partners or stockholders.
4. A trustee.

Whenever any policy of business life insurance is placed with a trust company under an agreement whereby the trustee will collect and distribute the proceeds, a business life insurance trust exists.

When the services of a trustee are necessary. Where any part of the proceeds of a policy is to be used for the purchase of the decedent's interest in a partnership, or for the retirement of stock interests in a corporation, it is desirable to arrange for payment of the proceeds to a trustee, preferably a corporate fiduciary. This is true for a number of reasons, chief among which is the difficulty of placing a fair valuation upon the interest of the decedent after his death.

When the services of a trustee are unnecessary. In general, the services of a trustee will represent an unwarranted expense where the only purpose of the insurance is to act as a shock-absorber, to compensate for loss of goodwill, or to reimburse any party for loss suffered through the death of an employee, part-owner or contractor.

Determining factors where use of a trustee's services is optional. Where no part of the insurance is designed for the retirement of business interests, the advantages of having the insurance proceeds paid through a trustee should be compared with the charges made by the trustee.

The outstanding advantages of the insurance trust are:

1. If the trustee is given certain discretionary powers, a single policy may sometimes serve several purposes, thus decreasing the net cost of the business-insurance program.

2. In business-liquidation plans, the trust agreement interposes between the legal representatives of the deceased and the survivors the disinterested services of a fiduciary whose sole aim is to fulfill faithfully the terms of the trust for the benefit of all the parties concerned.

3. In drafting the various agreements involved, the experience of a corporate fiduciary is often invaluable in suggesting the best ways and means of carrying out the desires of the owners of the business.

4. Where insurance is taken out to strengthen or enhance the credit of the enterprise, the services of a trustee render the creditor more secure than if the proceeds were paid directly to the business (since in that event they would be available to all creditors), and protect the interests of the business to a greater extent than if the proceeds were paid to the creditor, himself, in trust.

Charges made by corporate fiduciaries. The charges made by corporate fiduciaries vary in different parts of the country, and sometimes as between different trust companies in the same city. The fees for handling business insurance trusts are quite reasonable and depend upon the duties and responsibilities involved.

Methods used to evaluate the interests of a decedent in a stock-transfer or partnership-liquidation agreement. The following methods are now in general use for the valuation both of stock in a close corporation and of the interest of a decedent in a partnership:

1. *Arbitrary valuation.* A definite price may be specified by agreement between the owners of the business. Inasmuch as values are subject to substantial change within a relatively short period, however, this method, although simple, is highly unsatisfactory, and is usually unjust either to the decedent's estate or to the surviving owners.

2. *Book value.* Another simple method is to specify by agreement that the book value of the decedent's interest as of the date of death shall be used. Although this is an improvement over the first method, injustice still results, since book value seldom represents actual fair market value.

3. *Arbitrary valuation revised at regular intervals.* The parties may specify the value of the interest of each owner at the time that the agreement is entered into, and provide for revision from time to time to conform with changes in value of the various interests. If carefully carried out, and if revisions are made at intervals of approximately six months, this is one of the most desirable and satisfactory methods. In practice, however, the owners frequently fail to certify the proper value of the specified times, with the result that when a death occurs, the last revision in value will be either higher or lower than the fair market value of the decedent's interest in the business.

4. *Arbitration.* Another possible method of valuation is to provide by agreement for arbitration between representatives of the decedent owner and the surviving owners. Provision is also made in most cases for selection of a third, and supposedly neutral, party to represent both interests. If the agreement provides that the determination of the arbitrators is to be binding upon all parties, the only objection that can be raised is the possible delay that may be encountered, and the ill-feeling that may be engendered.

5. *Valuation supervised by the trustee.* The trustee may be directed to conduct an audit of the books of the enterprise as soon as convenient after the death of any owner, and fully to inform all parties in interest as to the results of the audit. If the surviving owners and the decedent's estate can then agree upon a satisfactory valuation for the interest of the decedent, such value will be final. If, after a reasonable time, the parties in interest fail to agree among themselves, the trustee is directed to employ one or more experts to ascertain the fair market value of the decedent's interest. Such experts, after investigation, certify to the trustee the fair market value of the decedent's interest. The certified value is then binding on all parties. The objections to this method arise from the unwillingness of most trustees to assume the added responsibility, and the additional service charges where the responsibility is assumed.

6. *Suggested method.* As indicated above, the third method, if correctly applied, is probably the most satisfactory. Therefore, in order to overcome the objections to this method, it is suggested that the transfer agreement provide:

(a) For valuation by the respective owners of their interest in the business at intervals of six months.

(b) That if a valuation has been certified to the trustee within seven months of the death of any owner, such valuation is to be final.

(c) That in case no certification of value has been made within seven months of the death of an owner, the trustee shall conduct an audit to ascertain the book value of the decedent's interest as of the date of death.

(d) That all parties in interest shall be fully informed by the trustee as to the results of the audit.

(e) That if the surviving owners and the decedent's executors are then able to agree upon a fair market value for the decedent's interest in the business, such value shall be final and binding on all parties.

(f) That if the parties in interest are unable to agree upon a fair value, the trustee shall designate one or more persons who are thoroughly familiar with conditions in the particular industry and locality to make an investigation, and upon the basis of such investigation, to ascertain the fair market value of the decedent's interest, and to certify the same to the trustee.

(g) That in such event, the price certified to the trustee shall be final and binding upon all parties.

SECTION 7

Employee Benefit Plans

1. EMPLOYEE BENEFITS AND EMPLOYEE MORALE	Methods of determining amount of insurance	769
What are employee benefits? . . .	Factors that affect the cost	771
The objectives of employee bene- fits		
Desires uppermost in employees' minds	4. GROUP HEALTH INSURANCE	
The attributes of employee benefit plans	Need for group health insurance .	771
Employee benefit plans to be dis- cussed	What is a hospitalization plan? .	772
	What is a medical care plan? .	774
	Underwriting group health insur- ance plans	774
	Shall dependents be allowed to participate?	775
	What amount of benefits shall be offered?	775
	How should the plan be financed? .	775
	Factors that affect cost	778
2. GROUP INSURANCE	Features of hospitalization plans compared	779
Nature of group insurance	Features of medical care plans compared	779
Advantages to employer		
What employees shall be eligible? .	5. GROUP ACCIDENT AND SICKNESS INSURANCE (TEMPORARY DISABILITY)	
Shall plans be noncontributory or contributory?	What are temporary disability benefits?	779
Extent of insurance program	Need for temporary disability benefits	779
Selecting an insurer	Benefits	780
Getting proposals from insurers . .	Recurrent illnesses	781
Placing the contract	Disabilities not covered	781
Employer's application	How are claims handled?	781
Selling the employee on a new plan	Factors that affect cost	782
Keeping the employee sold on the plan		
Selling the new employee	6. PENSION PLANS	
Taxes	Informal and formal pension plans	782
	Advantages of a pension plan . .	783
	The value of pension plans to small businesses	784
3. GROUP LIFE INSURANCE		
Types of group life insurance poli- cies		
Nature of group term life insur- ance		
Nature of a group paid-up plan . .		
Nature of a group level premium permanent insurance plan		
Termination of employment		

The income tax benefit to the employer	784
Income tax benefits for the employee	784
Income tax benefits for the trust	785
Requirements for qualification under Sec. 165 (a)	785
Pension advisers	786

Types of Pension Plans—Method of Funding

Methods of funding pension plans	787
Group annuity plans	788
Individual policy plans	789
Group permanent plans	789
Uninsured, security-invested, or self-administered pension plans	790
Deposit administration plan	791
Combination of self-administered and insured plans	792

Business and Cost Considerations

Matters to be considered	792
Contributory versus noncontributory plans	793
Eligibility requirements	793
Retirement age	794
Retirement benefits	795
Pension benefit formulae	796
Past service benefits	798
Benefits on termination of employment—vesting	798
Death benefits	799
Disability benefits	800
Discounting for mortality	800
Discounting for severance	801
Interest rates and costs	801
Some non-cost considerations	802

7. PROFIT-SHARING PLANS WITH DEFERRED BENEFITS

Type of profit-sharing plan to be discussed	802
Advantages of a deferred profit-sharing plan	803
Features of deferred profit-sharing and pension plans compared	804
Income tax benefits for the employer and employee	805

Illustration of tax advantages	805
Example of tax advantages to a corporation	806
Example of tax advantages to an executive	807
Requirements for qualification under Sec. 165 (a)	809

Considerations in Creating a Profit-Sharing Plan

Matters to be considered in setting up a profit-sharing plan	809
Eligibility requirements	809
Percentage of profits to be shared	810
Allocation of contributions	810
Vesting and forfeiture provisions	811
Distribution of participants' shares	811
Informing participants of value of interest	811
Advisory committee	812
Investment of the profit-sharing fund	812
Telling employees about the profit-sharing plan	812

8. PROFIT-SHARING PLANS WITH CURRENT BENEFITS

Current and deferred profit-sharing distinguished	812
Types of current profit-sharing plans	813
Objectives of current profit-sharing plans	813
Prerequisites of a sound current profit-sharing plan	814
The process of drawing up the plan	814
Drawing up the provisions	814
Contribution formula	815
Allocation formula	815
Eligibility	815
Termination rights	816
Time and form of payment	816
Administration	816
Presenting the plan to employees	816

Cash Plans

Distinguishing feature of cash profit-sharing plans	817
---	-----

Guides in the installation of a cash plan	817
Examples of successful cash-payment plans	818
Whiting Corporation cash-payment plan	819
Wage-Dividend Plans	
Distinguishing feature of wage-dividend plans	819
Some well-known wage-dividend plans	820
Eastman Kodak Company plan	820

Production-Sharing Plans	
Nature of production-sharing plans	821
The Scanlon plan	821
Example of operation of Scanlon plan	822
Rucker Share-of-Production plan	823
Basis of the Rucker plan	824
Other Current Profit-Sharing Plans	
Non-classifiable plans	825

SECTION 7

Employee Benefit Plans

1. EMPLOYEE BENEFITS AND EMPLOYEE MORALE

What are employee benefits? From the employer's viewpoint, employee benefits are management's attempts to give substance to the desires that are uppermost in the employee's mind. They help to create a common ground of understanding on which employer and employee can meet peacefully and cooperatively. Through the achievement of labor-management harmony, and hence greater employee morale, they help to make greater productivity possible.

From the employee's viewpoint, employee benefits represent those steps beyond the pay envelope that management takes to insure that its company will be the best of all possible places to work. In a sense, they implement the promise that management often makes of finer opportunities and better living to be realized from working for the concern.

The objectives of employee benefits. It could be said quite simply that the objective of employee benefit plans is to secure greater employee morale. Generally, that statement is correct. But specifically, the goal of employee benefits is to get to the roots of employee morale and to insure the presence of the factors that raise its level.

In addition to morale factors, there are other important objectives of employee benefits. Increasingly, individual collective bargaining contracts call for the installation of one or more benefits, such as pensions, insurance, and health provisions. Repeatedly, interest in public-sponsored security measures is stirred up by "planners" within and without the government. Hence, more and more companies are establishing benefit programs to forestall union demands and additional government welfare measures.

As employee benefit plans become "musts," those companies that fail to install them will not only place themselves at a disadvantage in the labor market, but must eventually face a deterioration in public relations.

In a recent study of 50 companies, the following aims were mentioned as the reasons for instituting benefits plans:

STATED OBJECTIVES OF COMPANY BENEFIT PLANS *

	<i>Number of Companies</i>
<i>Reduce turnover:</i> to have satisfied, permanent employees; to promote stability	12
<i>Build a sense of security:</i> a sense of security on the part of employees is desirable	12
<i>Build up morale and loyalty:</i> want our employees to be happy; want them to feel this is not just another job (without reference to security or efficiency) . .	10
<i>Protection for employees:</i> help employees to help themselves; protect employees against loss from sickness and accident	8
<i>Increase efficiency and productivity:</i> to build a happy, efficient working force; better morale increases productivity	5
<i>To attract better class of workers:</i> you can't get men in key jobs without pensions	4
<i>Other answers</i>	4

Desires uppermost in employees' minds. Various attitude surveys have uncovered many facets of worker opinion, but they are in agreement that most things that employees desire are wanted *in addition* to good wages—that is, wages at least equal to those paid in the same industry or area for a similar job. For industry as a whole, the five fundamental desires of the *average* worker toward which employee benefits should be directed are:

1. Security.
2. The opportunity to "belong."
3. The chance to get ahead.
4. Good supervision.
5. A satisfactory type of work.

The attributes of employee benefit plans. To qualify as an employee benefit all of the following five characteristics should be present in the plan that creates the employees' rights to benefits:

* "Making Employee Benefit Dollars Work Harder," *Public Opinion Index*, May, 1950, page 28.

1. It should be sponsored by management, or by employees with the acquiescence of management. Ideally, the planning should be a joint undertaking of management and employees whenever possible.
2. It should offer a tangible or intangible benefit that would not have accrued to employees without that planned effort.
3. It should cover and appeal to a large number of employees and not to a selected few.
4. Part, if not all, of the cost should be met by the employer.
5. It should be aimed at satisfying the five fundamental "employee wants" listed above.

On the basis of these attributes, executive bonus arrangements or special sales incentive plans are not employee benefits, nor are such wage incentive plans as piecework systems.

Employee benefit plans to be discussed. The following employee benefit plans are explained in the succeeding sections: *

1. Group insurance plans:
 - (a) Group life—term, paid-up, and level premium.
 - (b) Group health—hospitalization and medical care.
 - (c) Group accident and sickness—temporary disability.
2. Pension plans.
3. Deferred profit-sharing plans.
4. Current profit-sharing plans—cash, wage dividend, production-sharing.

2. GROUP INSURANCE

Nature of group insurance. Group insurance may be defined as the insurance of a changing group of individuals by means of a single or blanket insurance contract. By its very nature, it lends itself to use by employers who wish to make available to their employees benefits that offer security through insurance. Group insurance includes (1) life insurance of various types, (2) death and dismember-

* For other employee benefit plans (employee stock plans, education and self-improvement plans, suggestion systems, employee food services, industrial recreation, credit unions, home financing plans, split-dollar insurance, counseling, medical and other services), see *Successful Employee Benefit Plans*. New York: Prentice-Hall, Inc., 1952.

ment, (3) hospital expense, (4) medical or surgical expense, and (5) temporary nonoccupational accident and sickness disability.

These features are common to all forms of group insurance:

1. The premiums are collected and the details handled through some central agency, usually the employer.

2. A general policy is issued to the employer, and a certificate evidencing the insurance is issued to each employee.

3. The policy is for one year, except for the comparatively new permanent life policies.

4. Usually one must be employed a certain length of time before he is eligible for the insurance, except in those states having compulsory disability insurance laws. This waiting period, or length of service requirement, varies with the employer and with the type of insurance.

5. The premiums may be paid jointly by the employer and employee under a contributory plan, or paid entirely by the employer under a noncontributory plan.

6. Rates are based partly on the experience of the particular risk, except for hospital and medical and surgical expense insurance that is underwritten by carriers other than regular insurance companies.

7. The policy must cover a minimum number of lives, and, in contributory plans, does not become effective until 75 per cent of the eligible employees have subscribed. In noncontributory plans, all of the employees must enroll unless they sign a waiver card. The minimum number varies with the type of insurance and with the state.

8. The policy is issued on a basis which precludes selection of the employees to be covered.

Advantages to employer. Although each type of group insurance has advantages peculiar to it, certain general advantages are common to group insurance as a whole. Generally, the employer derives the following benefits from a group insurance program:

1. A group insurance program satisfies the employer's sociological urge to arrange protection against his workers' adversities.

2. Standardization provided under a group insurance contract permits consistency of treatment of hardship cases. Each case is de-

cided on a formula instead of in accordance with bias of superiors or changing management.

3. The traditional "passing of the hat," to which the employer is expected to contribute generously, is no longer necessary when adversity strikes a fellow-employee or his family.

4. A group insurance program attracts efficient labor and reduces employee turnover. An employee hesitates to sacrifice protection offered by insurance by terminating his employment and taking a job that does not offer equal insurance security.

5. A group insurance program gives the employer desirable publicity and prestige in the community.

As group insurance programs become more and more general, the last two advantages become less and less important.

What employees shall be eligible? In working out the details of a plan, an employer must consider the conditions of eligibility for participation that he wishes to impose, as well as those imposed by the insurance carrier.

When the employer pays the entire cost of the insurance, all employees, or all employees of a particular class, must be allowed to participate after the required waiting period. "Class of employees" means a group of employees having one or more common characteristics, such as salaried employees, clerical employees, employees in a particular wage bracket, or employees in a particular plant or division. If the employee contributes to the plan, the minimum percentage required by statutes and the insurance carrier must join. The percentage may be based on the number of employees in a particular class, instead of the total number of employees.

Other factors to consider in determining eligibility are these:

1. *Service.* Under almost all group insurance plans all full-time employees at the time the plan is inaugurated are eligible. New employees usually become eligible after they have completed a certain period of continuous employment. The usual requirement is three months. The waiting period eliminates the paper work that would be involved if floaters were included in the coverage. Companies usually set definite dates at about three-month intervals for bringing into the plan new employees who have become eligible. The length

of service requirement of plans that offer permanent insurance (see page 764) is usually longer.

2. *Union membership.* Some plans, particularly those administered by the union, or jointly by the union and employer, require union membership as a condition of participation.

3. *Income.* Some insurance underwriters impose an income limit as a condition of eligibility for hospitalization and medical plans.

Shall plans be noncontributory or contributory? Group insurance may be written under the noncontributory or contributory plan.

1. *Noncontributory plan.* Under a noncontributory plan, the employer pays all premiums, and the employees in the classes eligible for the insurance are automatically insured upon completion of the probationary period. The advantages claimed for noncontributory plans are:

(a) Maximum flexibility as to details of plan. The employer is in a position to modify the plan at any time.

(b) Certainty that all employees will come under the plan. Unless employee contributions are compulsory, 100 per cent coverage is seldom obtained except under noncontributory plans.

(c) Avoidance of appearance of dictation or direction by employer in regard to employee's savings.

(d) Avoidance of administrative and clerical expense arising from payroll deductions.

2. *Contributory plan.* Under a contributory plan, premiums are paid by the employer and employees jointly. New employees, otherwise eligible, are not covered until they have signified their intention of joining the group and have given the employer permission to make the necessary payroll deductions. The principal advantages of contributory plans are usually held to be:

(a) More liberal coverage is possible if the cost is shared by the employer and the employees.

(b) Employees are encouraged in systematic habits of thrift.

Extent of insurance program. Once an employer has decided that an insurance program is desirable, he must determine how extensive the program shall be. Perhaps it is not practical to adopt a complete insurance program immediately. If not, what coverages

shall the insurance package include? Each employer must answer this question in the light of his own circumstances, tempered by the needs and demands of his employees. The extent of the financial burden on the employee is particularly important if the plan is to be contributory. Detailed examination of the various group coverages, the costs, and the comparable benefits offered by each assists the employer in reaching a decision.

Selecting an insurer. After making a tentative decision about the extent of the insurance program, the employer might select several prospective insurers. Many employers prefer to deal through their broker in the initiation of an insurance plan. He will place the insurance with any carrier chosen by the employer, and his services are also helpful in the subsequent administration of the plan. But some employers prefer to deal directly with the insurer or through the insurer's agent. A carrier should be selected only after careful scrutiny, especially with reference to (1) low net cost, (2) underwriting service, and (3) claims service. The employer can find out from the prospective carrier's clients what kind of service the carrier gives and its attitude about paying claims.

Getting proposals from insurers. When a few carriers have been selected as having met satisfactorily the required qualifications, the next step is to obtain from each a proposal, based on a given set of requirements. For proposal purposes, an employer should ask each insurer to bid on the same types of coverages and the same basic amounts and conditions. The information given at pages 764 *et seq.* for each kind of group insurance will be of value in laying out requirements.

To bid intelligently, each insurer will need and request certain facts, in the nature of an employee census. These items of information vary with the type of coverage on which the insurer is bidding, but they usually include the following: (1) date of birth and sex of each employee, (2) date of employment of each employee, (3) percentage of female employees, (4) percentage of married male employees (also female employees with dependent children), and (5) current earnings of each employee.

Placing the contract. When proposals have been received, a careful comparison will indicate the carrier best qualified to provide cov

erage. It often simplifies administration for the employer to place his entire insurance program with the same carrier. The normal procedure is to have separate master policies for each type of group insurance, but to issue only one certificate to the employee. From a practical standpoint, an unfavorable experience under one contract does not affect a favorable experience under another contract. Suppose an employer's experience under a group life contract has been extra favorable, whereas his experience under group accident and sickness was not good. The carrier would then ask the employer if he wanted the accounts rated separately or together. It is generally to the advantage of the employer for the carrier to average the experience under all accounts.

Employer's application. After an employer selects an insurance carrier, he submits a preliminary formal application to the company, on a standard form. The application is all inclusive for every type of insurance coverage, containing an insurance schedule that is filled out for the coverages desired. It also contains other provisions that are later incorporated in the master policy.

Selling the employee on a new plan. After an employer works out all the details of an insurance plan and decides to adopt it, his first task is to sell the employee on it, whether the plan is contributory or noncontributory. He announces the plan to the employees through the media of letters over the president's signature, employee meetings, envelope stuffers, booklets, house organs, reports to employees, and the public address system. Material sent to the employees' homes is particularly effective. These announcements explain the terms and conditions of the plan and the benefits to be derived from it. Underwriters will furnish envelope stuffers, booklets, and posters to the employer free of charge. In fact, all carriers require that material announcing the plan be approved by them. Otherwise, the material might mislead the employee with respect to his rights and privileges, or it might even commit the insurance carrier to the payment of benefits that it did not contemplate.

Selling an employee on a contributory plan means more than arousing his enthusiasm for it: it means selling him on the idea of joining the plan and contributing to it. This frequently requires personal interviewing and solicitation of enrollments. The personal

solicitation may be done by representatives of the insurance company, by a team of employees, or by key personnel.

The insurance carrier will send representatives to canvass the employees or to address employee gatherings, show movies, or make talks over a public address system. The objection to this method is that the insurance plan loses some of its significance as an employer program and takes on the aspects of a carrier-promoted plan.

Several employees who have been briefed thoroughly on the plan may circulate throughout the organization, explaining the plan and enrolling employees. These employees are usually from the personnel department. The employer should also designate a representative to answer questions about the plan after it is installed. In the average-sized company, this person is usually a junior executive in the personnel department.

Perhaps the most effective selling can be done by key personnel, that is, department heads, foremen, and supervisors. The customary procedure is to call a meeting of key personnel and have a company official, preferably the president, explain the plan to them. The key personnel, in turn, talk to their groups and take applications for the insurance. It is essential that the key personnel be completely sold on the program.

Keeping the employee sold on the plan. Not only is it necessary to sell employees on a group insurance plan, but it is desirable to keep them fully aware of the benefits afforded by it, if the employer is to gain the greatest advantage from the plan. Employees must be kept sold on a contributory plan in order to keep the percentage of employees participating in the plan at or above the desired minimum.

Selling the new employee. It is particularly important that a new employee be given an explanation of the insurance plan and an opportunity to make application for the insurance before he becomes eligible, whether the plan is contributory or noncontributory. If he has not made application for the insurance by the time he becomes eligible, or within the grace period usually allowed, the carrier may require him to submit evidence of insurability to join the plan, especially if the plan has an element of permanent insurance. Should he be uninsurable when he makes his late application, he will not be covered by the group policy.

Although getting a new employee's application for admission to

a noncontributory plan is practically a routine matter, selling him on a contributory plan is not so simple. Every effort should be made to impress upon him the advantages to be derived from the plan. In many companies, the personnel department "sells" each new employee and secures his application for coverage as soon as he joins the company, although he may not be eligible for participation for some time. Booklets and other material are also sent to his home.

Taxes. Generally speaking, premiums paid by employers for employee group insurance constitute proper deductions under the head of ordinary and necessary business expenses in computing the net income of an employer, whether an individual or a corporation. The premiums are not taxable income to employees and, therefore, are not subject to the Federal withholding tax. But under the provisions of some plans, especially life insurance plans having a feature of permanent life insurance, the premiums might constitute additional income to the employee.

3. GROUP LIFE INSURANCE

Types of group life insurance policies. Until comparatively recently, only term, or temporary, life insurance was written under a group policy. Two types of group policies that offer permanent insurance are now available: (1) term insurance, combined with single-premium or unit-purchase paid-up insurance, referred to as *paid-up plans*, and (2) permanent insurance on a level premium basis, referred to as *level premium plans*. Group term and the two types of permanent insurance are described below.

Nature of group term life insurance. Group term life insurance is similar to individual term life insurance in that it is temporary, covering only a specified period, without any paid-up or cash surrender value. Group policies are written on a year-to-year basis. They are usually renewable at the option of the employer (the policyholder). The fact that the death risk is assumed on a year-to-year basis means (1) that the amount of risk on each life is a specified amount throughout a given year, and (2) that in each succeeding year the premium cost per \$1,000 coverage on a specific life will

increase because the employee is a year older and the probability of death is, therefore, greater. At termination of employment, through retirement or otherwise, the employee may convert his group term insurance to an individual life insurance policy at rates applicable to his age at the time, without furnishing evidence of insurability.

Almost all state laws limit to \$20,000 the maximum that can be placed on a life under a group policy. The insurance carriers also limit the amount of insurance that they will issue to any one employee. Two factors affect the maximum amount: (1) the total amount of insurance issued for the group at the inception of the coverage; (2) the amounts of insurance on the lives of the 50 employees insured for the highest amount. The maximum amount is then determined from a table.

Nature of a group paid-up plan. Group paid-up life insurance makes use of the single premium life insurance principle and of the eligibility, coverage, and administrative features of group term life. Each year, a single premium buys for a specific employee a stated unit of life insurance that remains in force during the lifetime of the employee, without payment of further premium. Like an individual paid-up policy, paid-up insurance purchased under a group policy has a cash surrender value, but the employee is not permitted to cash the policy until his employment terminates.

Under a paid-up plan, the employee is eligible for an aggregate amount of group life insurance, part of which is paid-up and part term. From year to year, an increasing part of the employee's group life insurance becomes paid-up insurance, whereas the amount of term insurance decreases. The proportion that the paid-up insurance bears to the total amount of group life insurance depends upon the percentage fixed in the plan and upon the age of the employee at the time he becomes a member of the plan.

"Money-purchase" and stated value units. The amount of each single unit of paid-up life insurance to be purchased for an employee may be regulated by either of two methods: (1) A predetermined amount is applied to the purchase of as much paid-up insurance as that amount will buy. The contribution remains the same, but the money purchases a smaller unit of paid-up insurance with the advancing age of the employee. (2) Units of paid-up insurance with the same value may be purchased each year. By this method, the

ACCUMULATED AMOUNTS OF PAID-UP INSURANCE PURCHASED *

Years Since Entry	By Employee Contributions of \$1.00 Monthly					By Employee Contributions of \$1.30 Monthly				
	Age at Entry					Age at Entry				
	20	30	40	50	60	20	30	40	50	60
1	\$35.04	\$28.68	\$23.52	\$19.68	\$16.80	\$45.55	\$37.28	\$30.58	\$25.58	\$21.84
2	69.36	56.76	46.68	39.00	33.36	90.17	73.79	60.68	50.70	43.37
3	102.96	84.24	69.36	58.08	49.68	133.85	109.51	90.17	75.50	64.58
4	135.96	111.24	91.68	76.80	65.76	176.75	144.61	119.18	99.84	85.49
5	168.24	137.76	113.52	95.28	81.72	218.71	179.09	147.58	123.86	106.24
10	320.28	262.56	217.32	183.24		416.36	341.33	282.52	238.21	
15	458.04	376.08	312.60	264.96		595.45	488.90	406.38	344.45	
20	582.84	479.88	400.56			757.69	623.84	520.73		
25	696.36	575.16	482.28			905.27	747.71	626.96		
30	800.16	663.12				1,040.21	862.06			
35	895.44	744.84				1,164.07	968.29			
40	983.40					1,278.42				
45	1,065.12					1,384.66				

* This table is based upon the assumption that no change will be made in the premium rates at which employee contributions are applied to purchase paid-up insurance. The Insurance Company reserves the right to change such premium rates for employee contributions made after the first five policy years.

amount applied to the purchase of paid-up insurance increases each year with the employee's advancing age.

The former method is considered more practical both from the employee's standpoint and from the standpoint of administration.

Termination of employment. Upon termination of employment, the employee will receive a certificate showing the amount of paid-up insurance that has been purchased for him. The terminating employee may retain the paid-up insurance or surrender it at any time for its cash surrender value. The cash surrender value will at least equal the employee's contributions.

The table opposite shows typical amounts of paid-up insurance that can be purchased for \$1.00 and \$1.30 monthly.

Nature of a group level premium permanent insurance plan.

Like all group insurance, group level premium insurance is issued under a contract between the insurance company and the employer, for the benefit of the employee and his beneficiary. The contract of insurance is called a "group permanent contract." It combines the eligibility, coverage, and administrative features of group term life with the level premium feature of individual life insurance, plus special provisions. Level premium merely means that, instead of the premium's increasing with advancing age, the premium on each employee's life is the same every year, fixed at a level based on his attained age at the time the insurance is issued.

A level premium plan answers the demands for a group contract that offers life insurance fully paid up by retirement age and, also, with values available upon termination. The plan may call for whole life or limited payment insurance. A group permanent contract can also be used to fund a pension plan (see page 789).

Whole life and limited payment plans. Under the whole life plan, each employee is insured until death, even if it occurs after retirement, with level premiums payable each year the employee lives. Cash or paid-up values accumulate beginning with the first year and may be made available to the employee upon termination of employment.

Under a limited payment plan (also called life paid-up at a certain age), each employee is insured until death, but premium payments cease at a given age, usually retirement age.

EMPLOYEE BENEFIT PLANS

FULL TERMINATION (CASH) VALUES PER \$1,000
OF INSURANCE

End of Year	Whole Life		
	Age on Effective Date of Insurance		
	25	40	55
1	\$5	\$14	\$25
5	54	96	148
10	123	203	295
20	277	414	543
End of Year	Life Paid-up at Age 65 (Limited Payment)		
	Age on Effective Date of Insurance		
	25	40	55
1	\$7	\$19	\$60
5	62	124	343
10	140	265	757
20	317	574	842

REDUCED PAID-UP INSURANCE PER \$1,000
OF INSURANCE

End of Year	Whole Life		
	Age on Effective Date of Insurance		
	25	40	55
1	\$15	\$28	\$38
5	132	175	209
10	271	338	390
20	503	585	645
End of Year	Life Paid-up at Age 65 (Limited Payment)		
	Age on Effective Date of Insurance		
	25	40	55
1	\$19	\$38	\$91
5	151	226	485
10	309	440	1000
20	577	811	

Termination of employment. Level premium plans fall into three classifications in respect to terminating employees: (1) non-contributory plans with no vesting; (2) noncontributory plans with some vesting in employees; (3) contributory plans with employee cash values. Under (1), values accumulating from the premium belong to the employer; the terminating employee is generally given a conversion privilege similar to that under group term insurance. Under (2), part of the accumulated values belong to the employer and are treated like values released under (1); part of the values vest in the employee for the purchase of reduced paid-up insurance. Under (3), values arising from the employer's payments sometimes vest in the employee, but under some plans the values are treated as in (1); values arising from the employee's contribution are available to him.

The tables opposite show the cash values and the amount of paid-up insurance that accumulate per \$1,000 of insurance under a whole life plan and under a life paid-up at age 65 plan. The amounts vary slightly with the insurance company, and are based on present rates.

Methods of determining amount of insurance. The amount of coverage offered under a group life insurance plan may be a level amount for all employees, or related to salary or wages, occupation, or length of service. Occasionally the amount of insurance varies according to the employee's age when he joins the plan, the older employees being eligible for less insurance than the younger employees. This plan of coverage is rare.

Level amounts. When employees are covered by level amounts, each employee receives the same unit of insurance. This is the most common coverage in union-negotiated plans, particularly when compensation is not stable and when the plan is noncontributory. This is the simplest coverage plan and the easiest to administer. It involves no changing of certificates or records when an employee's status changes. It produces less fluctuation in total premium and no change in the employee's share.

Salary or wage basis. A predominant factor in the development of group life insurance has been the employer's desire to be relieved of the moral obligation of continuing the payment of wages or salary to the family of a deceased employee. This attitude has brought about

a trend toward tying coverage to salary and wages, particularly in contributory plans. There appears to be no criterion for the relation that amount of coverage should bear to earnings. For the purpose of arriving at a schedule of coverage, wage earners are classified according to the standard hourly wage rate or hourly base rate, and salaried employees are classified according to weekly, monthly, or annual earnings exclusive of bonuses and overtime.

The total premium fluctuates with the economic trend. The amount of the insurance automatically goes upward when earnings are high and, theoretically, downward when they are low. Many plans provide that an employee's insurance shall not be decreased if he has a reduction in his basic earnings, but new employees who are hired at the lower scale receive the lower amount of insurance. By tying coverage to earnings, the employer avoids the necessity of amending his plan to keep it in line with economic conditions.

Occupational plan. In plans covering wage earners whose compensation is not stable, coverage is frequently on an occupational basis, with a level amount of insurance to employees in a given class. For example, executives might be allowed \$2,500; foremen and salesmen, \$2,000; all other employees, \$1,000. Occupational classification does not affect the total premium unfavorably, nor does it cause the premium to fluctuate, because the average age and salary in each classification remain within fairly definite brackets. In some cases, it might be difficult to determine in which personnel category a borderline case belongs.

Length-of-service plan. Under length-of-service plans, the amount of coverage available to each employee increases with the years of employment until it reaches a stipulated maximum. For example, an employee's coverage starts at \$1,000 and is increased \$100 each year until it reaches the maximum. Or the amount of coverage might increase every five years of employment. Some plans call for variable amounts of insurance according to length of service at the time the plan is adopted, with increases for future years of service. Any coverage plan that is tied to length of service results in a relatively large volume of insurance being placed on the lives of older employees, with a corresponding increase in premium. Many employers who have noncontributory plans adopt the length-of-service classification, or a variation of it, as a reward for service and as an additional brake on turnover. Coverage based on length of service is not desirable in

a contributory plan, because it does not differentiate between the needs of high-paid and low-paid employees and their ability to pay. This disadvantage, however, may be overcome by insuring different salary groups on different schedules.

Factors that affect the cost. The following factors affect the premium on group life insurance:

1. Amount of insurance.
2. Plan of coverage. (See types of coverage at page 764.) Level amount and occupational plans of coverage result in the lowest total premium. Coverage tied to wages or salaries has an adverse effect on the cost because the higher-paid employees have a higher age average. Coverage based on length of service increases the premium more than any other type of coverage.
3. The conversion privilege. This factor may increase the rate because it increases selectivity against the carrier.
4. Ages of the employees.
5. Hazards of occupation and unfavorable climatic conditions.
6. Physical condition of employees. No medical examination is required for group life insurance, but a carrier will either reject a substandard group or load the premium.
7. Experience rating. Both dividends and rate credits depend on (a) the amount of income received from the account, (b) the actual death claim experience of the employee group, and (c) the length of time the policy has been in force.

In addition to the above, the following factors also affect the cost of a level premium plan:

1. Kind of insurance—whether whole life or limited payment life.
2. Vesting feature.

4. GROUP HEALTH INSURANCE

Need for group health insurance. In the United States, the term “health insurance” generally applies only to hospitalization and medical and surgical costs, whereas disability insurance applies to the cash payments made to an insured for loss of income as a result of accident or illness. In foreign countries, health insurance covers both medical care and disability payments.

The rapid technical advances in medical science, with the accompanying rise in the cost of medical training, necessary equipment, and expensive drugs, have placed adequate medical care beyond the financial means of the average employee. Many families find it difficult to meet routine medical expenses; many more find it impossible to meet the expenses of a prolonged or severe illness. Voluntary hospitalization and medical care insurance, plus disability insurance, is designed to meet this need of the employee. The logical medium for promotion of voluntary health insurance plans is the employer, individually and as a group.

What is a hospitalization plan? A hospitalization plan offers employees protection against expenses incurred by reason of hospitalization as a result of nonoccupational accident or illness. This protection is a vital part of the effort business is making to discourage a compulsory health program. As in other group insurance, insurance companies will insure a changing group of individuals against hospital expense by means of a single or blanket policy. Although policies and contracts may be written to provide unlimited benefits, the benefits are usually limited and the employee is responsible for costs in excess of the stipulated maximum benefits.

The cost of group hospitalization insurance, whether underwritten by insurance companies or by Blue Cross or a similar plan (see page 778), is not great for the benefits derived from it, but it is too great for the low-income worker. As part of an employee benefit program, the employer's responsibility is to inaugurate a hospitalization plan and to pay at least part of the cost.

Hospitalization plans may be classified according to the manner in which benefits are received, as follows:

1. *Cash indemnity plans*, which provide benefits by paying cash or making allowances toward the total amount of the hospital bill. Plans underwritten by insurance companies are of this type.

2. *Service plans*, which provide benefits in terms of services rendered by the hospital. The hospital bill is paid by the plan to the extent provided by the plan. The Blue Cross offers this type of benefit.

(See page 773 for a comparison of the features of these types of plans.)

COMPARISON OF FEATURES OF HOSPITALIZATION PLANS

	<i>Cash Indemnity Plans</i>	<i>Service Plans</i>
<i>Daily Benefits</i>	Flat daily rate for stipulated number of days.	Semi-private room for stipulated number of days, with partial benefits for additional period. Daily allowance toward charges for private room.
<i>Special Hospital Services</i>	Specific reimbursement for additional hospital charges, usually based upon daily benefit.	Specified extra hospital services, without limit on cost, but only services specified in the contract are allowed.
<i>Choice of hospitals</i>	Any legally recognized hospital in United States or Canada.	Member hospital. Almost all legally recognized hospitals are member hospitals.
<i>Waiting period</i>	No waiting period except for maternity cases and removal of tonsils or adenoids.	No waiting period except for maternity cases, removal of tonsils or adenoids, and pre-existing conditions.
<i>Maternity benefits</i>	Daily benefit payments usually limited to 10, 12, or 14 days.	Number of days for which service is available is reduced.
<i>Tonsils and adenoids</i>	Number of days for which benefits payable limited.	Number of days for which service is available limited.
<i>Out patient service</i>	Excluded, except for an allowance for emergency care after accident or an operation in the hospital.	Excluded, except for an allowance for emergency care after accident or an operation in the hospital.
<i>Exclusions</i>	Workmen's compensation cases, military service-connected disabilities, and plastic operations for cosmetic or beautifying purposes.	Workmen's compensation cases, mental or nervous disorders, hospitalization furnished under Federal or state laws; rest cures, admission primarily for diagnosis or physical therapy.
<i>Female employees</i>	Same benefits as male employees at same rate, but large percentage increases employer's premium.	Same benefits as male employees at same rate.
<i>Dependents</i>	Daily benefit frequently less than for the employee.	Same as for employee.
<i>Termination of employment</i>	Insurance automatically ceases.	Subscriber may continue his membership by paying slightly higher rate direct.

What is a medical care plan? Medical care plans provide benefits for surgical expense, medical (nonsurgical) expense, or surgical and nonsurgical expense, arising from nonoccupational accident or illness. Medical care plans may be classified as follows:

1. *Cash indemnity plans*, which provide benefits in cash in accordance with a "schedule of indemnities." Plans underwritten by insurance companies are of this type.

2. *Service plans*, which provide benefits in terms of physicians' services when needed, without additional cost to the employee. The National Health Insurance Plan of Greater New York (HIP) is of this type.

3. *Combination service and cash indemnity plans*, which provide the combination of both cash and service benefits in a single contract. Usually the service feature applies only to a specified income group. Blue Shield plans are of this type.

(See pages 776-777 for a comparison of the features of these types of plans.)

Underwriting group health insurance plans. Group hospitalization plans are generally underwritten by insurance companies and by associations similar to Blue Cross. Blue Cross plans are group hospitalization plans sponsored by hospital associations throughout the United States, Puerto Rico, and Canada. The term "Blue Cross" rarely appears in the names of the plans, which vary from locality to locality, but is used colloquially to refer to a plan having the approval of the Blue Cross Commission of the American Hospital Association.

Medical care plans are underwritten by insurance companies; Blue Shield, which is a counterpart of Blue Cross; and organizations that are a liaison between employee groups and medical groups. The last organization is exemplified by Health Insurance Plan of Greater New York, a nonprofit membership organization founded under the Insurance Law of New York State. HIP solicits membership through employers. It contracts with medical groups to provide comprehensive medical and surgical care for its subscribers. The association pays the medical group so much for each subscriber, rather than for the services performed for each member, thus providing complete care without additional cost to the subscriber. Privately owned medical

groups, such as Ross-Loos Medical Group, also furnish prepaid medical care on a per capita rather than fee-for-service basis.

There are also numerous plans sponsored by other organizations, for example, industrial plans, which underwrite both hospitalization and medical care plans, or either. Among the better known are the Consolidated Edison Company's Medical Care Plan, which was started in 1902, and the Endicott Johnson Corporation's Medical Care Program, established in 1918.

Shall dependents be allowed to participate? Under many plans financed entirely by the employer, dependents are not eligible. Under others, the employee may secure coverage for his dependents by paying the additional cost. If the employee contributes to the cost of the plan, coverage of dependents is usually optional with him. The current trend, in keeping with the social concept of adequate medical care for everyone, is to include dependents in the coverage, even when the employer pays the entire cost of the program.

What amount of benefits shall be offered? The benefits provided by hospitalization and medical care plans affect the cost materially. The employer must consider carefully the benefits to be derived in relation to the cost of the plan, both to himself and to his employee.

As there is only one Blue Cross plan available for each area, the employer has no decision to make if he decides that the local Blue Cross plan offers more than a group insurance policy. On the other hand, under a group hospital expense insurance policy, premiums are in direct ratio to benefits. If the employer decides that an insurance company offers more than Blue Cross, he must then determine the minimum amount of benefits that are adequate to insure the success of the hospitalization program for his employees.

With reference to a medical care plan, the employer must first decide whether he wants a surgical expense plan only, or a surgical and nonsurgical expense plan. He must then determine whether the nonsurgical care shall cover a physician's visits to the insured's home and visits by the patient to a physician's office, or be limited to in-hospital cases. Of course, the greater the scope of care, the higher the premium.

How should the plan be financed? Group hospitalization and medical care plans are financed entirely by the employer, entirely by

COMPARISON OF FEATURES OF MEDICAL CARE PLANS

	Cash Indemnity Medical Care Plans	Combination Service and Cash Indemnity Medical Care Plans	Service Medical Care Plans
<i>Income limit</i>	None	Cash benefits applied as credit to total charges for professional services if income exceeds stated amount.	Premium higher for those earning over a stated amount.
<i>Benefits</i>	Reimbursed for surgical fee up to amount listed in a schedule of operations, but not in excess of actual fee. Reimbursed for stated amount for a certain number of visits. Number per week also limited. First two or three visits usually excluded. Limited reimbursement for additional costs, such as X-rays.	Amount listed in schedule of operations allowed. Limits the allowance per daily visit. First two or three visits usually excluded. Patients whose income exceeds certain amount are responsible for higher fees. Participating physicians agree not to charge patients whose income is below a certain amount a higher fee than that specified in contract. Maximum allowance for X-ray, etc.	No limit to benefits. Medical groups participating in plan are paid on per capita basis.
<i>Exclusions</i>	Workmen's compensation cases, plastic surgical operations for beautifying purposes excluded. Otherwise all-inclusive, covering chronic conditions, alcoholism, heart conditions and nervous breakdown.	Workmen's compensation cases, dental or nursing services; plastic or cosmetic surgery for condition existing at enrollment; alcoholic or drug addiction; congenital anomalies; drugs, appliances, and eye glasses; functional disorders of the mind or nervous system; rest cures.	Workmen's compensation cases, treatment for drug addiction, acute alcoholism, chronic conditions requiring care in institution other than general hospital, prolonged psychiatric treatment, but not psychiatric advice.
<i>Choice of physician</i>	Any legally qualified physician or surgeon.	Any participating physician. Best physicians in community usually participate.	Subscriber selects a participating group of physicians.

<i>Waiting period</i>	For maternity cases, tonsils and adenoids, and known pre-existing conditions.	Usually a 10-month waiting period for maternity cases, 6 months for tonsils and adenoids; sometimes for elective operations and pre-existing conditions.	None.
<i>Maternity benefits</i>	Insured reimbursed up to amount listed in schedule of operations.	Schedule of operations includes obstetric delivery, Caesarean section, abdominal operation for ectopic pregnancy, and miscarriage.	Same complete care that any other medical condition is given.
<i>Tonsils and adenoids</i>	Insured reimbursed up to amount listed in schedule of operations.	Schedule of operations includes removal of tonsils and adenoids.	Complete surgical and medical care for treatment and removal of tonsils and adenoids.
<i>Female employees</i>	Same benefits as male. Cost is higher if employees are predominantly female.	Same benefits as male employees, for same premium.	Same benefits as male employees for same premium.
<i>Dependents</i>	Allowance frequently less than for employee.	Same as for employee.	Same as for employee.
<i>Termination of employment</i>	Insurance automatically ceases.	Subscriber may maintain membership by paying slightly higher rate direct.	Subscriber may convert to an individual policy.

the employees, or jointly by the employer and the employees to be covered. Many insurance companies will not write a policy for a company that does not contribute. Some organizations' underwriting plans require the employer to pay a certain percentage, usually 50 per cent. Otherwise, each company bases its contribution upon its ability and willingness to contribute and upon the need of its employees for assistance.

Under many contributory plans, the employer pays all the cost for the individual employee, and the employee pays the additional cost for dependents. Frequently the employer will pay all the cost of group medical insurance if the employee will first subscribe to the hospitalization plan.

Many hospitalization and medical care plans that result from collective bargaining are financed entirely by contributions paid by the employer into a union trust fund, the fund providing the benefits. The cost may be a flat weekly, monthly, or annual amount for each covered worker, a stipulated contribution for each hour worked by the employee, a lump sum, or a percentage of the employer's payroll.

Factors that affect cost. Blue Cross and Blue Shield plans in each locality have a definite subscription rate. There are no factors that affect the cost to a particular group. The same is true of other local plans underwritten by medical groups or associations other than insurance companies. The service benefits provided by these plans are based upon current charges. If those charges are increased or decreased, the benefits change, and the subscription rates fluctuate with the changes.

When an insurance company underwrites the plan, the benefits provided have a greater bearing on the cost than any other single factor. A high percentage of female employees may increase the premium. To a lesser extent, the average age of the employees also affects the premium. The premium rate rarely changes when hospitalization and medical charges decrease or increase, but the cash indemnity benefit constitutes a larger or smaller proportion of the bill. Each group covered by an insurance company is considered individually. If the claim experience in that group is favorable, the carrier returns part of the premium to the employer in the form of a dividend, or reduces the rate. Occasionally in plans negotiated by a union, the employer passes part of the dividend to the employee.

Insurance company premiums rarely increase from year to year, even if the claim experience in a particular group is unfavorable.

Features of hospitalization plans compared. The salient features of the two types of hospitalization plans—cash indemnity, exemplified by the policies written by insurance companies, and service hospitalization plans, exemplified by Blue Cross plans—are compared in the chart on page 773.

Features of medical care plans compared. The salient features of the three types of medical care plans—cash indemnity plans (exemplified by policies written by insurance companies), combination service and cash indemnity plans (exemplified by Blue Shield plans), and service plans (exemplified by Health Insurance Plan of Greater New York [HIP])—are compared in the chart on pages 776-777.

5. GROUP ACCIDENT AND SICKNESS INSURANCE (TEMPORARY DISABILITY)

What are temporary disability benefits? Benefits paid to workers incapacitated because of illness or nonoccupational injury are variously called “disability benefits,” “sick benefits,” “sickness and accident benefits,” or “health and nonoccupational accident benefits.” Temporary disability benefits, by whatever name they are called, are paid as *compensation for wages* to wage earners who are temporarily physically unable to perform their usual or most recent work without jeopardizing their recovery. Temporary disability implies that the worker will sooner or later be able to return to the labor market.

Need for temporary disability benefits. The need for sick benefits is not seriously disputed. The growing demands for disability protection made by unions in collective bargaining show the importance that the workers place on this phase of employee welfare. Accident and sickness insurance is often the first form of social insurance that companies offer their employees.

The need for sick benefits has appeared less urgent for office workers than for factory employees, because many companies have followed the practice of paying their office employees during short periods of illness. However, company sick leave policies vary widely. Few companies continue their sick leave payments for the full period

of a protracted illness. Small companies usually have flexible, informal plans that they adapt to the employee, the type of illness, and the length of absence from work. The plans, generally speaking, grow less liberal as the number of employees increases. Thus, office employees, as well as factory workers, need assurance that their incomes will not cease when they are disabled.

A few states have laws requiring disability protection for employees, and other states are considering the adoption of similar laws.

Benefits. The carefully planned temporary disability program provides a benefit too low to induce malingering and yet high enough to relieve the employee of excessive anxiety about loss of income during illness. Two other phases of disability benefits affect the benefits formula: (1) the payments are tax free and thus bear a higher ratio to the employee's income than is apparent, and (2) during illness an employee has medical expenses and needs a larger income than normally. If the plan is contributory, and most of them are, the benefits must be large enough to induce the employee to participate. Plans show the following trends:

1. Benefits are on a sliding scale, geared to wages and salary, with minimum and maximum benefits.
2. The maximum benefit is usually 50 per cent of the weekly wage or salary, not to exceed a stated amount.
3. Benefits are usually paid for 13 or 26 weeks for each disability. The standard maximum is 13 weeks during any one period of disability. Provision for longer periods of disability is not particularly important from a practical standpoint, because experience has shown that disabilities for more than 13 weeks and for more than one protracted disability during a year, are rare. Many employees feel, however, that they can "get by" during the shorter period and are in greater need of assistance during the protracted period.
4. The majority of plans provide that the benefits shall begin on the eighth consecutive day of disability caused by illness and on the first day of disability caused by accident.
5. Some plans pay full benefits for a specified period and lesser benefits for a longer period.
6. For employees over 60, benefits are normally limited to a total number of weeks during any consecutive 12 months, instead of for each disability.

Recurrent illnesses. Almost all group accident and sickness insurance policies limit the number of weeks for which benefits are payable for one continuous period of disability. The question of whether or not an illness is recurrent is sometimes troublesome, when more than two weeks elapse between illnesses. A definite interpretation of what is considered a recurrent illness should be had from the insurance carrier. If less than two weeks of work separate illnesses, the second illness is considered recurrent, unless it is entirely unrelated to the previous disability. If an illness is recurrent, the waiting period does not apply and benefits are available only for the weeks remaining unpaid from the last illness.

Disabilities not covered. Insured disability benefits plans do not cover absences resulting from sickness or injury compensable under workmen's compensation or occupational disease laws, but they sometimes supplement the benefits payable under those laws. Many plans exclude maternity cases and self-inflicted injuries. Although standard insurance policies are usually broader than plans underwritten by the employer, some insurance companies offer policies that contain many limitations for a cut-rate premium. The employer should examine the exclusions very carefully to avoid adopting a plan that does not offer his employees the protection he anticipated.

How are claims handled? The insurance company handles all claims. The employer's only obligation is cooperation with the carrier by promptly filling in required forms.

The insurance company requires that it be given written notice of injury or illness within a specified number of days. Forms furnished by the insurance company must be completed by the employee, the employer, and the attending physician. The attending physician is expected to file an initial statement of disability and, also, an interim statement if the employee is not able to return to work as soon as expected. The practice of private insurance companies is to pay the claim on the day it is received and each week thereafter during disability. The policies usually contain a clause giving the carrier the right to have a physician examine the employee while a claim is pending.

Not only is the employer relieved of the burden of handling claims, but, if any dissatisfaction arises from the manner in which a claim is handled, the employee cannot reasonably blame the employer.

Factors that affect cost. Factors that affect the cost of a disability insurance program are (1) the provisions of the group policy, (2) conditions peculiar to the insured group, and (3) the carrier's experience with the account.

Provisions of policy. These provisions of the policy have a direct bearing on the premium:

1. Amount of the weekly benefit.
2. Waiting period before benefits are payable.
3. Length of time for which benefits are payable.
4. Payment of benefits during pregnancy. (Careful study should be given to the advisability of including this provision.)

In states that have a disability benefits law, the employer has no choice of policy provisions, unless he adopts a more liberal plan than the law requires.

The insured group. The following conditions peculiar to the insured group materially affect the premium:

1. Number of employees.
2. Percentage of female employees.
3. Percentage of employees in the higher income brackets.
4. Age and racial groups.

Experience rating. Dividends or rate credits ultimately determine the cost of all group insurance, but there is no guarantee of dividends or rate credits. They are based on the carrier's experience with the account. Therefore, the employer who cuts down on his absentee rate cuts down his group health and accident premium.

6. PENSION PLANS

Informal and formal pension plans. Before the Federal income tax law made it possible for businesses to create pension plans at low cost because of tax deductions for contributions to them, pension plans were generally of the informal type. An employer gave to some of his employees, usually those on the supervisory staff and in other responsible positions, a pension based upon recommendations of some individual or board within the organization. Since the granting of the pensions was discretionary, there was usually an absence of guiding principles as to who should obtain a pension, how

large it should be, and how the funds required to pay the allowance should be accumulated.

The pension plan one thinks of today is a formal plan established and maintained by an employer primarily to provide systematically for the payment of definitely determinable benefits to his employees over a period of years, usually for life, after retirement. Retirement benefits generally are measured by, and based on, such factors as years of service and compensation received by the employees. The determination of the amount of retirement benefits and the contributions to provide such benefits are not dependent upon profits. The employer takes on a definite commitment to make payments to the retirement fund whether or not there are profits. The pension plans that most businesses establish today are qualified under Section 401(a) of the Internal Revenue Code. It is that kind of pension plan that is described in this section.

Advantages of a pension plan. A business gains the following advantages by installing a plan for retiring its employees when they reach a specified retirement age:

1. Superannuated employees are eliminated with resulting economies in operation.
2. Labor turnover is decreased.
3. A better class of workers is attracted.
4. Employee efficiency is increased through elimination of financial worries.
5. The social obligation of the employer is discharged.
6. Public goodwill is promoted.
7. Employer and employee are benefited taxwise.

The business advantages correlate with the advantages to the employee. Nevertheless, the latter may be enumerated separately as follows:

1. Fear of dependent or semi-dependent old age is eliminated.
2. A standard of living is provided for employees that will make retirement more attractive than it would be if the employee had to depend only on the subsistence standard afforded by the Social Security Act.
3. A fund is established that may be used as a "cushion" in the event of termination of employment.

4. In effect, additional compensation is given to the employee that may be taxed at a lower surtax rate because of deferment to a time when his income will be lower.

5. The death benefits provided by many pension plans increase the employee's estate and aid the employee's family.

6. Thrift among employees is encouraged (in contributory plans).

The value of pension plans to small businesses. The advantages previously mentioned apply to small corporations as well as large. For the reasons listed below, a pension plan may be even more desirable in the case of a small firm.

1. A small firm cannot absorb the inefficiency resulting from rapid labor turnover as well as the large business.

2. A pension plan will assist the small business to compete with the large corporation where the latter's very bigness may be considered as an advantage by the person seeking employment.

3. The financial resources of a large firm may enable it to absorb pension liabilities as they accrue. A plan permits the small firm to acquire the necessary reserve over a period of time.

4. The small firm frequently is passed from father to son. The pension liabilities that turn up because of the advancing age of employees who were hired as young men by the father may be an unexpected and unbearable burden to the successor. A pension plan avoids this.

The income tax benefit to the employer. An employer may deduct amounts contributed to a pension plan or trust *in the year the amounts are contributed*, within certain limitations, if the plan or trust satisfies the requirements of Sec. 401(a) of the Internal Revenue Code. Because of the current deduction that an employer may take, the cost of the plan is considerably reduced. For instance, at the 1956 rates, the cost of a plan to a corporation may be as little as 48 per cent of its contribution. This is a minimum net cost. State income taxes bring the actual cost of the contribution lower.

Income tax benefits for the employee. Employees also benefit if the plan or trust qualifies under Sec. 401(a). The employer's contributions to such a trust do not constitute taxable income to the employee until distributed or made available to him. At

that time, generally, the employee is in a lower surtax bracket with resulting tax savings. This tax-saving feature is particularly valuable to participating executives and key men of a corporation.

Income tax benefits for the trust. The income of a trust forming part of a pension plan for the exclusive benefit of employees or their beneficiaries is exempt from tax at all times if the qualifications or requirements prescribed by Sec. 401(a) are satisfied. This is an advantage to the corporation in that smaller contributions are required to accumulate the amount needed for the benefits to be paid under the plan and to the employees.

Requirements for qualification under Sec. 401(a).

The following is an outline of the general and specific requirements for qualification of a pension plan:

General Requirements

Qualification of Plan

1. Plan is for exclusive benefit of employees.
2. Sole purpose of plan is to offer employees (or their beneficiaries) either:
 - (a) share of the profits of the business, or
 - (b) an income after retirement.
3. Plan is written and permanent.
4. Plan is communicated to employees.

Qualification of Trust

1. Must be impossible under trust instrument for any of corpus or income to be used other than for exclusive benefit of employees (or their beneficiaries).
2. Contributions must be for the purpose of accumulating funds for distribution to employees (or their beneficiaries) according to plan qualified under Sec. 401(a).
3. Certain information to be filed annually.
4. Must be created or organized within the U. S.

Specific Requirements for Qualification

1. *Coverage requirements:*
 - (a) 70 per cent or more of all employees; or
 - (b) 80 per cent or more of all eligible employees, provided 70 per cent of all employees are eligible; or
 - (c) special classifications of employees, provided (1) classification does not result in discrimination in favor of officers, stockholders, supervisory or highly paid employees; and (2) Commissioner approves classification.

In meeting coverage requirements, eligibility requirements for participation must be set forth.

2. *Contribution and benefit requirements:*

- (a) Integration with social security is required if the plan (1) excludes persons earning \$4,200 or less, or (2) applies different rates of contributions or benefits to first \$4,200 of earnings than to amounts over \$4,200.
- (b) Other requirements affecting contributions and benefits touch the following subjects:
 - (1) ceiling on benefits; (2) employee contributions; (3) basic compensation; (4) increase and decrease in compensation; (5) benefits based on past service credits; (6) funding of past service benefits.

3. *Requirements as to other features touch the following subjects:*

- (a) Retirement age; (b) death and supplemental benefits; (c) vesting; (d) discretionary powers; (e) insurance contracts.

4. *Permanency requirement:*

Plan must be permanent, but employer may retain right to terminate plan at will without necessarily disqualifying it. Right to terminate appears to mean that plan may be withdrawn only for business necessity.

Commissioner has power to disallow deduction for all "open" tax years if he determines that abandoned or curtailed plan did not meet permanency requirement.

If employer terminates plan, trustee should notify Commissioner and await instructions before distributing trust assets.

5. *Limitations to prevent discrimination on early termination:*

Restrictions must be placed upon benefits payable to 25 top-salary employees (when plan is established) whose pensions exceed \$1,500. Apply if plan is terminated within ten years. Maximum contributions which can be used for such employees are greater than (1) \$20,000, or (2) 20 per cent of annual compensation, or \$10,000 whichever is less, times number of years since establishment of plan.

Pension advisers. A business executive may turn to the following institutions, organizations, or individuals for help in planning a pension program:

1. Life insurance companies.
2. Trust companies and banks doing a trust business.
3. Pension plan consultants.
4. Consulting actuaries.
5. Insurance agents.
6. Industrial relations consultants.

The business will call upon its attorney at some point in planning its pension program. The attorney drafts the necessary papers including the plan and the trust agreement, if any, and makes the application to the Treasury Department for approval of the plan. The pension adviser usually cooperates with the attorney in preparing these papers. The attorney also advises his client about the various Federal and state laws that must be considered in creating a pension plan.

Usually an executive who has to give serious thought to the pension problem of his firm will want to learn something about the subject generally before consulting an adviser. The explanation that follows will serve this purpose.

Types of Pension Plans—Methods of Funding

Methods of funding pension plans. When the employer thinks of a type of pension plan suitable for his purpose, he thinks in terms of the method of accumulating the funds from which the pension allowances will be paid. Which of the following methods he uses depends upon which best fits his needs:

1. Group annuities purchased from an insurance company.
2. Individual policies purchased from an insurance company.
3. Group life retirement on a "group permanent" form, purchased from an insurance company.
4. An uninsured or self-administered plan.
5. Deposit administration plan.
6. Combination of self-administered and insured plans.

A brief explanation is given below of how the funds are accumulated under each type of plan and the types of benefits usually offered under each. Additional information about insured and security-invested or self-administered plans is given in the discussion of cost and business factors to be considered in setting up a pension plan.

The advantages of one type of plan over another are not discussed here for they exist only in relation to the special circumstances and requirements of the employer. For example, a self-administered plan may be ideal for a corporation with 10,000 employees but entirely inappropriate for a firm with only 100 employees.

Group annuity plans. Under a pension plan funded through group annuities, the employer enters into a blanket agreement, by means of a master contract with an insurance company, whereby the contributions to the plan are paid over to the insurance company to purchase annuities representing the pension benefit. The participating employees under a group annuity plan receive a certificate merely outlining the arrangement and benefits. Most insurance companies, in compliance with state laws, will not issue group annuities unless 25 employees are covered, and they impose the additional requirement that a minimum percentage (usually 75 per cent) of eligible employees participate. Where the employer is unable to meet the minimum requirements, the group annuity plan cannot be used.

The employer purchases annually, for each employee participating in the plan, a unit of single premium deferred annuity. This unit covers the retirement payment attributable to a particular employee's service that year. Each year's purchase is a completed transaction; only one premium payment is made on the contract. This premium is based on the employee's sex and age at the time the annuity is purchased. Premium rates are usually guaranteed for five-year periods. Thus, on a single premium basis, even if there were no increases in the number of participants in the plan or in compensation, the aggregate future service contributions would increase each year because of the increase in the employee's age. Such a plan, then, calls for a low initial contribution with increasing costs until the average age of the group is gradually stabilized. Also, the rate of increase will be reduced by severance of employment before retirement, since the money theretofore contributed will become a credit reducing the company's contributions in the year in which the employee leaves.

If required by the plan, additional units of annuity may be purchased to provide retirement benefits based upon past services rendered by the employee. The group annuity method is sufficiently flexible to permit the employer to purchase these past service annuities whenever his financial condition permits. Upon retirement of each employee, the sum of all the separately purchased units of deferred annuity will equal the total amount of pension payable to him.

The usual group annuity contract gives only retirement income, so far as employer contributions are concerned.

Individual policy plans. Under the individual retirement annuity plan, the employer purchases a separate contract in the name of each covered employee in an amount that will provide the retirement income contemplated. A minimum number of employees need not be covered. This feature commends the individual retirement annuity plan to the small employer.

The annual premium retirement annuity is generally used under the individual retirement annuity plan, although the single premium type is available. Many insurance companies, however, will not issue straight retirement annuities (except in case of uninsurables) but insist that, for a small additional premium, life insurance protection be purchased as well. A policy combining these benefits is often called a "retirement income" or "insurance with income" policy. A typical contract offers about \$1,000 to \$1,500 of insurance for each \$10.00 of monthly retirement income. Such policies provide a sizable death benefit, a feature lacking in the plain annuity.

In the individual policy plan, the level premium deferred annuity usually used provides an income that will begin at a future specified date, equal to the amount of annuity expected to be due under the plan if service is continued to retirement age. The premium, once established, is fixed for employees for whom contracts were purchased, except for changes because of additional units purchased on account of increase in compensation or reductions due to decrease in compensation. Payment of premiums continues until the time for payment of the retirement income arrives. Under such a plan, therefore, the annual cost is constant, not taking into consideration deaths, severance of employment, or retirement. When these events occur, it is safe to assume that the new employees hired to take their places will be younger, and the contributions or premiums will tend to decline.

Group permanent plans. Group life retirement plans on "group permanent" form combine group life insurance with group annuities into one contract on a level premium basis, drawn to meet the needs of the employer. Though written on a group basis, this method gives substantially the same type of benefits as individual policies.

A master contract, the Group Policy, is entered into between the employer and the insurance company, and each employee is given a printed group certificate containing a summary of the benefits and

of the provisions of the group permanent contract. The master contract contains all the provisions of the plan. The underlying principles of group insurance are applied in group permanent contracts. Thus, there are no medical examinations except where the insurance exceeds a certain amount, and all employees are covered under the same type of contract.

The group permanent plan is available where there are at least 50 eligible employees and at least \$250,000 face amount of insurance. The plan is available not only on a group income endowment basis, but on an ordinary life basis, on a paid-up insurance basis, and on other endowment bases.

Contracts are offered on either a contributory or noncontributory basis. The employer is required to pay at least 25 per cent of the cost of the insurance. If employees contribute, at least 75 per cent of those eligible must apply before the insurance can be made effective.

The maximum future premium cost of the plan is partially guaranteed, since the original rate remains the same for all insurance in effect when the plan starts and all that is added during the next five years. The employer gets back as dividends any savings because of low acquisition costs and the actual experience of the insured group. Such dividends must, however, be applied to reduction of that or next year's premiums.

The employee cannot select the amount of insurance he wants. It must be determined by a formula based upon conditions of employment. The average pension formula meets these conditions. Where the income endowment form of group permanent contract is used, insurance is usually issued at the rate of \$1,000 per \$10.00 of monthly retirement income, up to a certain maximum amount of insurance.

Uninsured, security-invested, or self-administered pension plans. The uninsured, security-invested, or self-administered pension plan invariably takes the form of a pension trust or pension plan and trust under which the employer makes contributions to the trust. These contributions or funds are invested by the trustee as prescribed in the trust agreement. The accumulations of the corpus and the income therefrom are used to make the pension payments called for by the plan or trust. The payments of benefits are made either directly by the trustee, or the accumulated funds are used to pur-

chase annuities from an insurance company under which payments are made to the retired employees. If annuities are purchased, the single premium immediate annuity is used. It provides an income that commences immediately. The usual self-administered plan provides only for retirement income for life beginning at the retirement age, though other benefits may be included.

The usual arrangement is to have two instruments: the plan and the trust agreement. The plan contains the eligibility requirements, benefit provisions, rights of participants on termination of employment, and the like. The trust agreement between the employer and the trustee defines the powers and duties of the trustee as to investment and management of the pension funds.

In the security-invested plan, the annual cost of future service benefits can be computed either under the step-up method described for single premium deferred annuities (see page 788) or under the level contribution method described for individual policy plans. The amount that must be contributed is determined by an independent actuary retained by the employer. In determining the cost, the actuary usually takes into account death rates, interest rates, employee turnover, and similar factors—the same factors considered by the insurance company actuaries. If the actuarial computations fall short of providing the benefits contemplated by the plan, the employer must either make additional payments or scale down the benefits.

Under some self-administered plans arranged through collective bargaining, no contributions are made until an employee actually retires. At that time a sum sufficient to pay the retired employee a designated pension for life is deposited with the trustee. Under these plans an employee becomes eligible when he reaches retirement age and has completed the required number of years of service.

Deposit administration plan. The deposit administration plan is an outgrowth of the more commonly used group annuity contract (see page 788). The essential difference is that neither employer nor employee contributions, if any, are used at the outset to buy deferred annuities. Instead, the contributions are deposited with the insurance company in an undivided account at guaranteed interest rates (usually 2 per cent or $2\frac{1}{4}$ per cent). The amount of each annual employer deposit is determined by an actuary, just as in a self-administered trustee plan. When an employee retires, a single

premium immediate annuity is bought for him and the cost is charged against the deposit account.

The advantages claimed for deposit administration are that it gives the employer the flexibility of a trustee noninsured plan and the characteristic safety of principal and guaranteed earnings of the insured plan.

Combination of self-administered and insured plans. Though each of the usual types of plans has a degree of flexibility, in some cases a combination of types may best fit the employer's needs. Combination plans, however, have been used only to a limited extent. The following combinations are mentioned merely to illustrate the variety of combinations that might be worked out in solving a company's pension problems: (1) self-administered plan for wage earners and individual annuity contracts for salaried employees; (2) self-administered plan for earnings of \$4,200 or less and individual or group annuities for earnings in excess of \$4,200; (3) group annuity to provide retirement benefits for current and future service and individual annuities for past service, or *vice versa*; (4) group annuity for past service benefits and self-administered for future service; (5) self-administered to purchase ordinary life insurance for insurable employees and annuities for those who are not insurable, with conversion of the life policies at retirement age into annuities at rates guaranteed when the policies were first issued.

Business and Cost Considerations

Matters to be considered. Pension plans must be built to fit the company's specific pension problems; they must be adjusted to the size, type, and financial situation of the company, as well as to the needs of the employees. In setting up such a pension plan, the employer is concerned with two main points: (1) what is best for the business; and (2) what it will cost. Some of the matters that must be considered in creating a plan affect the cost; others do not. The following points have a relation to cost. Those that do not affect cost are treated at page 802.

1. Should employees contribute to the plan?
2. What eligibility requirements should be set up?
3. What retirement age should be selected?

4. What should be the amount of retirement benefits?
5. Should credit be given for past service?
6. What vesting should be provided—that is, what benefits shall be offered on termination of service before retirement?
7. What death benefits should be provided by the plan?
8. What disability benefits should be offered?
9. Should mortality be discounted in advance?
10. Should severance from employment be discounted in advance?
11. How will interest rates affect the cost of the plan?

The consideration of any of the above factors may be influenced by what may and may not be done under Sec. 401(a), dealing with qualification of plans, and Sec. 404, dealing with deduction of contributions to a plan, of the Internal Revenue Code, and the regulations and rulings that interpret the law. The brief explanation that follows of each of the considerations will merely introduce the reader to the importance of the factor from the standpoint of costs and company policy, for space does not permit an exhaustive explanation.

Contributory versus noncontributory plans. The company may pay the entire cost of the plan or the employees may contribute. Employee contributions may be used either to reduce the cost to the employer or to increase the benefits under the plan.

Before deciding on whether or not a pension plan shall be contributory, factors such as the following must be considered in the light of the corporation's own problems and policies.

1. What are the advantages of a contributory plan?
2. What are the advantages of a noncontributory plan?
3. How will the employees react?
4. Will employee contributions conflict with any state law or labor union agreement?
5. If the plan is to be negotiated with a labor union, how will the employer overcome possible union opposition to contributions by employees?

Eligibility requirements. The number of employees participating in a plan will affect the cost. To keep the cost within bounds, the plan may provide for the following types of eligibility requirements.

1. *Years of service.* Employees must work for the company a certain length of time before they are eligible to participate. The maxi-

mun service period usually required is five years. On the other end of the scale, some noncontributory plans have no service requirement. The waiting period may be affected by the type of plan. In insured plans, the tendency is to favor long waiting periods for eligibility because taking employees into the plan and then dropping them because of termination of employment adds to the cost of the plan. In self-administered plans the rate of employee turnover makes less difference in the cost of the plan. In plans to be negotiated with a labor union, many interrelated factors may have to be considered in fixing the years of service requirement. For example, if the cost of the plan is to be taken into account in settling a wage increase, eligibility provisions may have to be loosened to permit more general participation in the plan.

2. *Age.* Employees must attain a certain age before they are eligible. The purpose of this restriction is to avoid including young employees among whom turnover is greatest. The most restrictive age requirement is 35. Participation at age 30 or younger is most usual. If the age is set too high, the limit may cause discrimination in favor of older and higher-paid employees, thus disqualifying the plan.

Under certain types of plans arranged under collective bargaining, the question of age at which an employee becomes eligible to participate is relatively unimportant because no employee is eligible before he reaches retirement age.

3. *Type of work.* For example, the plan may be restricted to clerical and salaried workers if there is a satisfactory reason for this discrimination, such as heavier turnover among the other workers. In the light of the growing interest of unions in negotiated pension plans, the employer may have to consider whether there should be one plan covering all of his employees, or a plan for nonunion employees only, or for union employees only.

4. *Earnings.* For example, eligibility may be limited to those earning over \$4,200 in order to give them additional benefits not provided by social security. The postwar trend was away from such plans in favor of plans covering all or substantially all of the employees.

Retirement age. The age at which employees are retired varies with industries and conditions. The usual retirement age for both men and women is 65, but the retirement of women at 60 is not unusual.

In some occupations, age alone is not always a sound basis for retirement—years worked must also be considered. This is particularly true in businesses that hire older persons because of required background and experience, or younger persons either for “stepping-stone” jobs or to fill jobs that require a physical endurance that cannot be maintained until 65.

A plan may provide for any reasonable optional early retirement age, with or without the consent of the employer, and for the payment of benefits at such early retirement age. The early retirement provisions usually call for attainment of a certain age, completion of a certain number of years of service, or both.

The cost of a plan is increased when, at the inception of the plan, many of the employees are within a few years of retirement. The problem of the overage employee can be handled in several ways—through past service credits, supplemental benefits, exclusion from the plan, and provision on an informal basis.

In pension plans to be negotiated with labor unions, retirement age is one of the factors that will present problems not encountered in non-negotiated plans. Unions may require that when an employee reaches normal retirement age, he, not the employer, shall decide whether he *must* retire. Many employers will resist such a provision because it tends to defeat one of the objectives of a pension plan—to remove overage employees from the payroll without hardship. In negotiated plans, therefore, more options may have to be available to the employee in determining his retirement date.

Retirement benefits. Most companies approach the question of retirement benefits, which is the heart of any pension plan, with some idea of what the company can afford to spend on a plan and what it considers adequate retirement benefits. The company may decide to raise the amount that it expected to spend because it would not produce sufficient benefits. It may decide upon a particular type of plan because that will yield more retirement benefits than another type for the same amount of contributions. Thus, the principal elements to be considered in determining the amount of benefits are the needs of the employees and the amount of contributions or cost. In addition, the limitations imposed by the tax law must be considered if the plan is to be qualified. The principal limitation is that the plan must not discriminate as to contributions or

benefits in favor of officers, shareholders, supervisory or highly compensated employees as against other employees whether within the plan or not.

Generally, retirement benefits are paid in the form of a pension, though the entire payment could be made in one lump sum. A lump sum payment is rarely used since it is disadvantageous from a tax viewpoint and makes possible a squandering of the benefits by the employee.

The plan must set forth a formula under which the employees' retirement benefits will be calculated. The choice of a formula depends upon the individual circumstances. The most generally used future service benefit formulae produce benefits based on the employee's earnings and years of service, as explained below.

In plans to be negotiated by unions, the employer must be prepared to face a union request for a fixed benefit such as \$50, \$75, or \$100 a month, or a request for benefits that would give employees with, say, 20 years of service the same benefits as those with 40 years of service. It must be prepared to answer any demand for minimum benefits if it sees in such a provision a source of contention in subsequent negotiations. Other special problems may arise in negotiating plans. For example, since benefits are usually based on earnings, the method of determining the employee's basic earnings, which is complicated by overtime and other factors, must be ironed out.

Pension benefit formulae. The following explanation of benefit formulae shows the popularity of each in recent years.

Definite or fixed benefit formula. The employee receives a percentage of each year's compensation while he is a participant in the plan. In recent years, this type of benefit formula has been used most extensively. Most plans accrue benefits ranging from $\frac{3}{4}$ to 1 per cent on the first \$3,000 of annual compensation, and at rates ranging from $1\frac{1}{2}$ per cent to 2 per cent on compensation over \$3,000. Under this plan, there is generally a division between past and future service. If benefits are given for service rendered prior to the creation of the plan, a larger percentage for future service may be used, or a separate percentage may be used for past service credit. The past service benefit is normally based on compensation at the time the plan becomes effective.

Example. John Smith joined the company when he was 30. He is now 40 and is due to retire in 25 years. If the formula uses a 1½ per cent figure for future years and 1 per cent for the past service, Smith's pension, based on a salary of \$4,000, would be:

$$\begin{array}{r} 1\frac{1}{2}\% \times \$4,000 \times 25 \text{ years} = \$1,500 \\ 1\% \times \$4,000 \times 10 \text{ years} = \quad 400 \\ \hline \$1,900 \text{ annually} \end{array}$$

Smith would also be entitled to social security benefits each year. If the employer wanted to correlate his plan with social security, a smaller annuity would be provided by the plan.

Flat percentage of compensation. The employee receives a retirement benefit equal to a fixed percentage of compensation, generally the average compensation for a ten-year period ending at retirement or five years prior to retirement. Under such a formula, a higher pension benefit may accrue because the last years of service are usually years of highest compensation. Thus, a 30 per cent pension figured on compensation during the years of greatest income might yield higher retirement benefits than a formula of 1½ per cent per year for 30 years (total 45 per cent) based on average compensation for the entire 30 years.

The flat percentage formula frequently may be unfair inasmuch as length of service is not a factor in computing the pension. All employees earning the same salary, regardless of length of service, receive the same retirement benefits.

This type of formula has been second in frequency of use in recent years.

Money purchase plan. Under this type of plan, the employer decides to contribute a specified or level percentage of the employee's annual salary. The retirement benefit is the sum that the fixed contributions by the employer and the employee (if it is contributory) will fund. Recent studies of pension plan provisions indicate that the money purchase plan is on the way out.

Other formulae. Variations and combinations of the formulae explained above are sometimes found in pension plans. Also, benefits may be based in part on profit-sharing under a supplemental profit-sharing retirement plan. Or a plan may provide for a flat dollar pension, without regard to earnings or years of service.

Past service benefits. The main purpose of granting past service benefits is to enable older employees who were with the company a number of years prior to establishment of the plan to obtain benefits commensurate with their salary. Obviously, if an employee has not many years to serve before reaching retirement age, contributions made for the comparatively short period of future service will not be adequate to build up a satisfactory pension.

The extent to which benefits will be offered for past service is governed by two factors: cost and limitations necessary to meet the requirements of the law and regulations.

Cost. The more credit for past service, the more costly the plan. Costs may be limited, however, in a number of ways, such as (1) by not giving credit for years of service prior to a specified age or date; (2) by placing a limit on the number of years for which prior service credit shall be granted; (3) by applying the pension rate for past service credit to earnings in excess of a certain amount; (4) by using graduated rates of credit for past service; for example, 1 per cent of the first \$3,600 and $\frac{3}{4}$ per cent of the amount over \$3,600 of the employee's past annual compensation when the plan went into effect.

Meeting requirements of the law. The plan must not result in discrimination in favor of officers, shareholders, supervisors, or highly compensated employees.

Benefits on termination of employment—vesting. More and more plans are providing that participating employees shall acquire certain rights or interests in the employer's contributions to the plan prior to retirement. These vested rights take the form of severance benefits and death benefits.

In arriving at the severance benefit provisions, the employer must decide: (1) whether there shall be immediate or deferred vesting; (2) the portion of the employer's contributions that shall vest; (3) the form of vesting.

Time element. Usually vesting is deferred until the employee has satisfied certain conditions. The most common of these are completion of a certain number of years of service, say 5, 10, 15 or more; attainment of a certain age; a service and age requirement; a certain numbers of years' participation in the plan; a service and participation requirement; an age, service and participation requirement; termination within a certain number of years of retirement. Occasion-

ally, in plans that have no special provision for disability benefits, the employer's contributions vest when an employee becomes totally disabled.

Extent of vesting. A 100 per cent vesting means that all of the employer's contributions are vested if the employee has satisfied the age, service, and other requirements. Usually, however, 100 per cent vesting occurs only after a certain number of years of service. Thus, 25 per cent of the employer's contributions may vest if severance occurs 5 years after service begins, 50 per cent if after 10 years, 75 per cent if after 15 years, and 100 per cent if after 20 years.

Form of vesting. The plan may provide for immediate payment of vested rights on severance or for payment only at the normal retirement age. The type of plan and personnel policies must be considered. No employer wants to so liberalize the vesting provisions as to encourage termination of employment.

In contributory plans, the employee's contributions are returned to him upon severance of employment, usually with interest.

Death benefits. The provisions to be made in a plan for the payment of death benefits are generally governed by three factors: (1) Whether or not plan is contributory; (2) how benefits paid from employer's contributions will affect cost; (3) what type of plan is used.

Contributory plans. These plans always provide for a return of the employee's contributions if he dies before retirement. Usually, also, in the event of death after retirement, employee's contributions less retirement annuity payments already made will be returned to the employee's beneficiaries. These are the minimum provisions in a contributory plan. Additional benefits may be provided from the employer's contributions.

Death benefits from employer's contributions—costs. In the event of death before retirement, all or a portion of the employer's contributions may be turned over to the beneficiary of the employee. As to death benefits after retirement, the plan may provide that the retirement income shall cease entirely or that the balance of the payments may be made to a beneficiary for a specified time. Under some plans, the employee may have the privilege of taking an option that permits payment of a lifetime annuity to his wife in the event of his early death after retirement. In that case, the employee gets a smaller adjusted monthly income during his retirement. This ar-

rangement makes it especially important for the corporation to consider the need for death benefits prior to retirement. The following example illustrates the problem.

Example. Two men were employed about the same time and both served many years. One retired at age 65, and died 3 months later. His surviving wife receives a substantial pension for the rest of her life. The other died at age 64. His wife receives nothing from the employer's contributions. The unhealthy effect on employee morale of this situation is obvious. Clearly, the more substantial the death benefits, the more costly the plan.

Type of plan. Some types of plans are more suitable for providing death benefits than others. An individual annuity pension plan, which uses retirement income or retirement annuity contracts, automatically provides for death benefits. The usual group annuity plan provides for no death benefits. The self-administered plan may, but in many cases does not, provide for death benefits. Where death benefits are not an integral part of the pension plan, the corporation usually carries group life insurance.

Disability benefits. Disability benefits usually include payments to employees upon permanent physical disability. Insured plans generally do not provide for such benefits. Self-administered plans lend themselves to disability benefits. In working out the provisions, the company must consider such factors as the occupational hazards, the company's experience with disability cases, the amount of disability benefits that can be paid, the period of payment, and the costs that will be added by including a suitable disability provision.

The availability of casualty coverages, such as group accident and health and group hospitalization (see page 771), should be considered in connection with a study of disability features in a pension plan.

Discounting for mortality. Contributions to a pension plan are made on one of two bases. (1) The employer may estimate, using mortality tables, the number of employees who are likely to die before reaching retirement age and make contributions on the basis of the number of employees who will live to retirement age. This is the usual procedure and is known as advance discounting for the effects of mortality. The contributions paid under this basis would be fully deductible in the year made, subject to actuarial check as

to the factors used. (2) The employer may assume that all of his employees covered by the plan will live to retirement age. If any employee dies before retirement age, contributions that were made on his behalf and not used as death benefits are deducted from contributions made thereafter for the surviving employees. Contributions made under this basis would not be fully deductible currently, for the part that represents the cost of the "reversionary benefits" would be disallowed. However, these disallowed excess contributions, when released through the death of the employee, would serve to reduce contributions required at future dates, at which time they would be allowable as extra deductions under the carry-over provisions of the tax law.

Discounting for severance. Every company that establishes a plan loses some of its participants through severance of employment. In determining the cost of a plan, the company has the option of discounting for severance of employment or not.

If there is a discounting for severance, an estimate is made in advance of the number of employees who will leave before reaching retirement age. The process involves actuarial computations from time to time, taking into consideration the chances from year to year of employees continuing in service. The effect of discounting for anticipated separations is to reduce the initial cost of the plan.

If there is no discounting for severance, adjustment is made at the time of actual severance. The adjustment involves deducting from future contributions the amount of contributions, not otherwise consumed in severance benefits, previously made on behalf of the employees who have terminated employment.

Insured plans do not discount for severance; self-administered plans sometimes do.

Interest rates and costs. In a self-administered plan, the trust fund will earn interest, and those earnings, together with the contributions, will be used to pay the benefits required under the plan. For purposes of arriving at allowable tax deductions, all calculations must consider anticipated interest. The higher the rate of interest assumed, the lower will be the estimated amount of contributions required to meet the benefits; conversely, the lower the rate of interest assumed, the higher the contributions. A conservative rate of interest is generally chosen. The Treasury Department is cur-

rently allowing the assumption of a rate of interest as low as 2 per cent.

In an insured plan, the employer is not directly concerned with interest rates. The premiums set by the insurance company take into consideration the interest factor.

Some non-cost considerations. In addition to the cost factors just discussed, the employer must consider such factors as the following: (1) the appointment of a pension committee; (2) the need for setting up a trust; (3) telling employees about the pension plan.

Pension committee. Most formalized pension plans have a pension committee, sometimes called a "retirement committee" or "retirement board," to administer the operation of the plan. The committee, which is appointed by the board of directors, usually comprises three to five members, generally officers of the corporation. Its duties are set forth in the plan.

The need for a trust. No trust instrument is ordinarily used under the group annuity plan, or a group permanent plan. Under the individual policy plan, a trust is usually used. In self-administered plans, a trust is invariably used.

Telling employees about the pension plan. To qualify, a plan must be communicated to the employees. Most corporations use employee meetings, announcement letters, booklets, and individual conferences to acquaint their employees with the installation of a plan and to show how it works. Press releases, particularly in small towns or where the company is one of the mainstays of the district, may be helpful in making the general public aware of the plan and in gaining public goodwill.

Because the plan benefits are long range and deferred, the employee does not forever remain conscious of the fact that the plan really represents a savings account or increase in pay for him. For this reason, opportunities for republicizing the plan should not be overlooked.

7. PROFIT-SHARING PLANS WITH DEFERRED BENEFITS

Type of profit-sharing plans to be discussed. This section explains profit-sharing plans that meet the requirements of Section 401(a) of the Internal Revenue Code. They are known as tax-

exempt profit-sharing trusts. Such a profit-sharing plan is one established and maintained by an employer to provide for participation in his profits, by his employees or their beneficiaries, based on a definite predetermined formula for determining the profits to be shared and a definite predetermined formula for *deferred distribution* of the benefits. Distribution of the funds accumulated under the plan takes place after a fixed number of years, the attainment of a stated age, or upon the prior occurrence of some event such as illness, disability, retirement, death, or severance of employment.

The employer must divest himself of all interest in the profit-sharing fund. By placing the fund in trust complete divestiture is assured. Therefore, profit-sharing plans usually call for the setting up of a trust. The creation of a trust requires the drafting of a trust agreement between the employer and the trustee or trustees. This instrument is drawn by the employer with the aid of counsel. The trustee may be an individual or a corporate trustee. Because the continuous investment process which takes place in all substantial trusts is best handled by an organization equipped and staffed to administer the detailed operations of the trust, a corporate trustee is generally selected.

Advantages of a deferred profit-sharing plan. A business gains the following advantages by installing a deferred profit-sharing plan:

1. Employee efficiency is increased. Since contributions depend directly on the profits the employer makes, the employee knows that he will benefit *only* if he exerts himself to help his employer create profit.
2. Labor turnover is decreased.
3. The employer makes no fixed commitment. The profit-sharing plan continues to exist regardless of amount of profit, but contributions vary.
4. Profit-sharing serves as a dismissal wage, if distributions are made at termination of employment.
5. The plan attracts a better class of workers, promotes public goodwill, and fulfills a social obligation of the employer.
6. Employee satisfaction is high.
7. Employer and employee are benefited tax-wise if the plan is approved.

A deferred profit-sharing plan has a striking appeal to employees from the outset because:

1. Generally it costs them absolutely nothing; there are no employee contributions and hence no deductions from pay checks.
2. They see in the plan a means of obtaining deferred salary increases at a time when present increases are subjected to high income taxes.
3. They can look forward to receiving some day a much larger sum of money than they would be likely to accumulate by themselves.
4. They like the idea that their shares may be immediately available if they are disabled, retire, or die.

With these advantages so obviously apparent to employees, even the youngest person in the company can be enthusiastic about the plan.

Features of deferred profit-sharing and pension plans compared. The salient features of each type of plan, in its "pure" state, may be compared as follows:

<i>Profit-sharing plan</i>	<i>Pension plan</i>
(1) Provides a share of pre-retirement company profits as additional compensation, payable in whole or in part at retirement.	(1) Provides income after retirement not based on profits.
(2) Cash disbursements may be made at any predetermined time.	(2) Cash disbursements before retirement generally are made only for reasons of death, accident, sickness or disability.
(3) Employer's contributions are made from profit. The contributions vary in amount depending upon amount of profit and the contribution formula of the plan.	(3) Employer's contributions constitute an operating expense item. The contributions are not in proportion to profits, but may be a fixed amount, or such amount as is necessary to provide certain benefits.

(4) When distribution is made at retirement, the amount in the fund determines what income or cash will be provided.	(4) Except in the money-purchase type of plan (see page 797), the pension to be paid determines the contribution made.
(5) Employees generally do not contribute.	(5) Employees contribute under approximately 50% of plans.
(6) Where distribution is made on severance of employment, the payment acts as a "cushion" until the employee secures another job.	(6) While distribution on severance of employment may be made, this is not the main purpose of a pension plan. It is only an incidental function.

Income tax benefits for the employer and employee. An employer who establishes a profit-sharing plan that meets the requirements of Section 401(a) of the Internal Revenue Code may benefit tax-wise through deductibility of the contributions in arriving at the income tax. The law limits the normal deduction to 15 per cent of the payroll of the officers and employees who are members of the plan. However, if any year's contribution is less than 15 per cent of the payroll, the difference may be carried over to years when profits permit a contribution of more than 15 per cent of the payroll.

Employees also benefit if the profit-sharing plan or trust qualifies under Section 401(a). The employer's contributions to the profit-sharing trust do not constitute taxable income to the employee until distributed or made available to him. If the distribution is made to him or his beneficiary within one taxable year, because of separation from service or death, it is taxable as a gain from the sale or exchange of a capital asset held for more than six months. If the distribution is not paid in one year but over several years, it is not treated as a long term gain.

The income of the profit-sharing *trust* for the exclusive benefit of employees or their beneficiaries is exempt from tax at all times if the requirements prescribed by Sections 401(a) and 501(a) are satisfied.

Illustration of tax advantages. Any illustration of tax advantages of a profit-sharing plan must necessarily be based on assumptions of a particular profit situation and tax rates existing at the time. The illustrations are offered to show a method by which any business can determine what the tax advantage will be to itself and to any participant in the plan, whether he is an officer, executive, or typical employee. The higher the income tax rates, the greater the tax

savings. The rates used in the following examples are those which were in existence at the time the computation was made.

Example of tax advantages to a corporation. Let us take a typical small corporation—call it the X Y Corporation—and its stockholder-executives. Assume two situations:

Situation 1: The corporation has no profit-sharing trust.

Situation 2: The corporation has a tax-exempt profit-sharing trust.

The essential features of this profit-sharing plan are:

1. All officers and employees are members.
2. The corporation agrees to contribute 25 per cent of each year's profits before taxes, but in no event more than the amount deductible on its tax return.
3. Individual accounts are set up under the plan for each member. The company contribution each year is allocated to these accounts in direct proportion to annual salaries. At the end of each year the trust earnings, which are tax-exempt, are apportioned to the accounts of the members.
4. Members can draw down their entire shares if they retire for age or disability.* Upon the death of any member while employed, his share is paid over to the beneficiary; or if he has not designated a beneficiary, then to his estate.
5. Each year of membership entitles a member to a "vested right" in 10 per cent of his account. Thus, if he leaves before 10 years of membership he forfeits part of his account. The forfeited part is then redistributed among the accounts of the remaining members.

The corporation's profits for the year before taxes were \$60,000. It had a payroll of \$85,000. Thus, 25 per cent of profits before taxes was \$15,000. However, 15 per cent of payroll was \$12,750. Accordingly, the year's contribution to the plan was \$12,750, the lesser of the two figures.

The following table shows that it actually cost the corporation only \$6,120 to make the contribution of \$12,750, assuming a tax rate of 52 per cent (i.e., 30 per cent normal tax plus 22 per cent surtax):

* The example assumes that there are no wage stabilization regulations that prevent lump-sum distributions.

	<i>No Plan</i>	<i>With a Plan</i>
Profits before taxes	\$60,000	\$60,000
Contribution to plan		12,750
Income subject to tax	\$60,000	\$47,250
Normal tax and surtax	25,700	19,070
Income after taxes	\$34,300	\$28,180

(The actual cost of the contribution is \$34,300 less \$28,180 or \$6,120)

Example of tax advantages to an executive. Now let's see how the executives of X Y Corporation fare, first, without the profit-sharing plan, and second, with the plan:

J.A., the president, is 40, married, with two children. He owns 50 per cent of the stock. His brother owns the rest.

J.A. draws an annual salary of \$12,000 and has additional income of \$3,200 from investments. Without the profit-sharing plan his dividends from the company for the year in question would have been \$10,500 and with the profit-sharing plan, \$7,500. His wife has no income of her own. Living expenses took \$11,000 in the particular year. What was left went into common stocks yielding an average of 4 per cent. His brother's financial picture is much the same.

	<i>No Plan</i>	<i>With a Plan</i>
J.A.'s income for the year before tax	\$25,650	\$22,650
Income tax (standard deduction) .	5,717	4,727
Income after taxes	\$19,933	\$17,923
Living expenses	11,000	11,000
Available for private investments	\$8,933	\$6,923
Allocation for year in profit-sharing plan . . . . .	....	1,800

Thus, the profit-sharing plan cut J.A.'s funds for private investment that year by \$2,010. In return, however, J.A. has \$1,800 earning income in a tax-exempt trust. And the trust also has \$10,950 (\$12,750, the total contribution, less \$1,800, J.A.'s share) in the accounts of the other employees.

Let's see what would happen if tax rates remain the same and the events assumed above repeat themselves year after year:

Investment yield. We assume that J.A.'s private investments would earn 4 per cent a year. That, however, is before taxes. Even under a joint return and the income splitting technique, J.A.'s top tax bracket is 38 per cent. He will be in a higher bracket in a year or so, but for our purposes assume it stays at 38 per cent. So his net return is 2.5 per cent.

And let's assume that the profit-sharing trust funds also yield 4 per cent. However, that is a net return, because the trust is tax-exempt. So J.A. gets off to a head start under the trust:

1. He has \$1,800 of principal added each year to his profit-sharing fund at an annual cost of about \$2,000 in funds for investment.

2. The trust investments earn a net of 4 per cent instead of a net of 2.5 per cent on his own investments.

Forfeitures. However, there is another important factor. In our example, the employee has to be a member of the plan for ten years before his rights are fully vested. And if he leaves before ten years of membership are up, he forfeits part of his fund to the other employees. Let's assume—very conservatively—that forfeitures swell J.A.'s account each year by only 4 per cent. That brings each year's "yield" up to 8 per cent.

Let's trace the two funds (\$2,000 a year in a private investment fund, as against \$1,800 a year in the profit-sharing account) through twenty-five years, when J.A. becomes 65 years old and plans to retire:

<i>Amount After</i>	<i>Private Fund</i>	<i>Profit-sharing Fund</i>
5 years	\$10,800	\$11,400
10 years	23,000	28,200
15 years	36,800	52,800
20 years	52,400	89,000
25 years	70,000	142,100

Amount after all taxes. Note that the taxes will have been paid on the private fund. That is not true of the profit-sharing fund. When J.A. draws down his account at age 65, he presumably can

treat the entire sum as long-term capital gain. That means, at rates in effect in this illustration, that the tax cannot be greater than 25 per cent. Thus, J.A. will have left, *after taxes*, the sum of \$106,575—which is \$36,575, or about 52 per cent *more* than he would have had without the profit-sharing plan.

Requirements for qualification under Sec. 401(a). All of the requirements for qualification given at page 785 for pension plans apply to profit-sharing plans. In addition, profit-sharing plans must have a definite formula for (1) profits to be shared, and (2) for distribution of contributions among participants.

Considerations in Creating a Profit-Sharing Plan

Matters to be considered in setting up a profit-sharing plan. The following matters must be considered by the employer in setting up a profit-sharing plan:

1. What eligibility requirements shall be set up?
2. What percentage of profits shall be shared with the employee?
3. How shall profits be allocated among employees?
4. What vesting shall be provided? That is, what forfeitures will occur on termination of employment?
5. What provisions shall be made for distribution of participants' shares?
6. Shall participants be informed of the value of their interests in the plan?
7. Shall the employer set up an advisory committee?
8. How shall the trust funds be invested?

The consideration of any of the above factors may be influenced by what may and what may not be done under Section 401(a) of the Internal Revenue Code and Section 404, which relates to the deduction allowed for contributions to the fund. The discussion that follows is merely to indicate in a general way how these considerations might be resolved.

Eligibility requirements. The question of which employees shall be eligible to participate in a profit-sharing arrangement is primarily a matter of company policy. The eligibility requirements for pension plans (see page 793) are pertinent. It is important, however, that

enough employees participate in a plan to keep it from being discriminatory. Thus, the plan cannot be limited to key employees.

Most profit-sharing plans incorporate a minimum length of service requirement before the employee becomes a member and begins to build up an interest in profits.

Percentage of profits to be shared. The extent to which profits will be shared with employees depends upon the employer's attitude. However, the plan itself must provide a definite formula for determining the profits to be shared. The maximum tax deduction of 15 per cent of the annual compensation of employees covered by the plan is usually considered in fixing the profit-sharing formula.

The following are some examples of variations in definite formulas:

1. A specified percentage of profits before taxes, but not more than 15 per cent of annual payroll of participants.
2. A specified percentage of profits before taxes, but not more than the amount deductible on the income-tax return for that year for contributions to the plan.
3. A specified percentage of annual profits before taxes but after allowance for the pre-tax amount required for regular dividends on preferred stock and \$2 on common stock.
4. A specified percentage of net earnings after taxes.
5. A specified percentage of pre-tax profits in excess of a fixed amount.

Allocation of contributions. A profit-sharing plan must set forth a definite formula for distributing the contributions to the employees, or their beneficiaries. The plan may arrange for participation in proportion to basic compensation. Thus, each participant will share in the year's contribution in the ratio that his basic compensation bears to the total basic compensation paid all participants. Expressed differently, it may arrange for participation on the basis of a flat percentage of salary, so that if the contribution amounts to 10 per cent of total compensation paid all participants, each individual's share will amount to 10 per cent of *his own* compensation. Or it can allocate units to the participants, giving, let us say, one unit for each \$100 of compensation. It is often possible to allocate part of the contribution on the basis of years of service or plan membership, in order to reward long service with the company.

Vesting and forfeiture provisions. In setting up a profit-sharing plan, the employer must determine what the participants' rights in the plan are to be in the event of termination of employment before the time fixed for distribution. The plan may provide that all of a participant's interest in the plan shall be forfeited if he leaves the employ of the company before a certain number of years of participation. But funds in the profit-sharing plan arising from forfeitures on termination of service, or for other reasons, must not be allocated to the remaining participants in such a manner as to effect discrimination in favor of officers, shareholders, or supervisory or highly compensated employees.

Frequently, the severance benefits depend upon the reasons for leaving and the period of service. For example, the entire interest of a participating employee who is discharged for inefficiency may be forfeited regardless of his years of participation in the plan. On voluntary discontinuance of employment, the participant may forfeit 90 per cent of his credit in the trust if he leaves one year from the date on which he becomes a participating employee, 80 per cent if he leaves after two years, 70 per cent after three years, and so on until there are no forfeitures if he leaves after ten years. Also, special provision may be made for payments on discharge other than for cause. Similarly, special provisions may be made for employees who leave to enter the armed forces.

Distribution of participants' shares. The plan must provide for a definite formula for distributing the funds of the trust among employees or their beneficiaries. The various methods of distribution are:

1. Lump sum distribution after a specified number of years have elapsed.
2. Annual distribution after a certain number of years.
3. Distribution when employee attains retirement age.
4. Distribution in event of death, sickness or disability.
5. Distribution on termination of employment.

Informing participants of value of interest. Whether or not participants shall be informed annually of the amounts of annual contribution allocated to them and the amount of net earnings or losses of the trust credited or charged to their accounts, is a matter

of business policy. Obviously, if a participant is informed annually of the exact status of his account, the purpose of the plan is better accomplished.

Advisory committee. Many profit-sharing plans provide for an advisory committee to supervise the management and operation of the profit-sharing plan. The committee functions in much the same way as a pension committee does.

Investment of the profit-sharing fund. The profit-sharing fund held in trust by the trustee may be used or invested in different ways. Where it is all invested in securities, the portfolio might, for example, consist of about 55 per cent in sound bonds, including Government bonds, 15 per cent in preferred stocks, and 30 per cent in common stock. Where the fund is small, diversification can be obtained by investing in shares of regulated investment companies.

Some trusts purchase life insurance on key employees upon whom profits depend, and name the trust beneficiary. Others invest all or part of each employee's annual share of profits in deferred annuity contracts of the single-premium or annual-premium type.

Provision may be made by some corporations for investment of part of the funds in the corporation's own common stock, and, in effect, make the employees part owners of the business through the trust. Still others hold options to buy up the shares of a stockholder at his death, and fund the arrangement through insurance on his life. And there are some trusts which own the corporation's plant and equipment, under a buy-and-lease-back arrangement, to the mutual advantage of employer and employee.

Telling employees about the profit-sharing plan. What was said at page 802 as to telling employees about the pension plan applies with equal force to deferred profit-sharing plans. A definite policy should be formulated by the employer to give effective and repeated publicity to his plan.

8. PROFIT-SHARING PLANS WITH CURRENT BENEFITS

Current and deferred profit-sharing distinguished. If current, profit shares are paid to employees as they are earned, either monthly, quarterly, or annually. If deferred, the amounts intended for the

ultimate benefit of employees are paid to a trustee, and the distribution of these amounts and any earnings thereon are delayed until some event occurs, such as a lapse of a fixed period of time, attainment of a stated age, illness, disability, death, or severance of employment. Deferred profit-sharing plans are covered beginning at page 802. Current profit-sharing plans, which comprise about 75 per cent of all plans in operation, are explained in the following paragraphs.

Types of current profit-sharing plans. Current profit-sharing plans, regardless of their individual characteristics, may be classified as:

1. Cash plans.
2. Wage-dividend plans.
3. Production-sharing plans.
4. Other current profit-sharing plans.

Although plans in these categories differ widely in mechanics and formulae, they are all essentially alike in (1) their objectives, (2) prerequisites for success, (3) the process of drawing up the plan, and (4) the means of presenting the plan to employees. These points will be discussed before the types of plans are explained.

Objectives of current profit-sharing plans. The principal reasons for establishing a current profit-sharing plan are:

1. To induce employees to work harder to reduce the spread between profit and break-even point in anticipation of future benefits; to increase production.
2. To create a common interest between employer and worker.
3. To maintain a flexible wage structure; to avoid inordinately high wage rates which in periods of poor business are difficult to reduce without a deterioration in industrial relations.
4. To prevent strikes. (But profit-sharing cannot be considered as a substitute for faulty management policies in the industrial relations sphere; nor can it be used successfully to combat unionism.)
5. To improve public relations.
6. To give employees a stake in the continuation of private enterprise and thus help to preserve capitalism.
7. To promote teamwork, and to insure a fair share of the sales dollar's being returned to employees, in keeping with the progress of the company.

8. To establish confidence and co-operation between labor and management.

Prerequisites of a sound current profit-sharing plan. A current profit-sharing plan will fail unless the following basic prerequisites for success are present:

1. Good earnings and a firm financial structure. Too low or too irregular earnings cannot supply a proper incentive.

2. A wage scale at least as high as standard in the industry.

3. Working conditions at least as good as standard in the industry.

4. Relatively good basic employer-employee relations.

5. An understanding by employees of (a) the plan and its operation, (b) company management, and (c) production problems.

6. Real participation and partnership in the enterprise. The share of each employee must be sufficient to produce an incentive to further effort.

The process of drawing up the plan. How the plan is drawn up, the degree of participation that is allowed to labor, timing, and manner of introduction are a few of the factors that must be considered in instituting a plan.

Joint agreement. Once management has decided to adopt profit-sharing, the plan should be a written agreement whose terms are debated and approved by both management and labor.

Plan continuity. A written agreement may insure continuity of the plan, but the employee also wants to be certain that the distribution formula is fixed and not left to the discretion of management.

Provision for stockholder security. Some successful profit-sharing plans provide that a certain percentage of profits, usually 6 to 8 per cent, will be set aside as a return on invested capital before labor's share is determined. Other plans specify that a fixed percentage of profits or a fixed dollar amount of profits will be earmarked for dividends. Such provisions dovetail perfectly into the partnership conception of profit-sharing and often help to strengthen the plan.

Joint administration. In the majority of cases, the committee that administers the plan is composed of employee and employer representatives, and, in more recent plans, management is in the minority.

Drawing up the provisions. A profit-sharing plan commits management to divide profits with employees. Hence, the plan must

contain a contribution formula, an allocation formula, statement of eligibility requirements, a provision for time and form of payment, and for an administrative body. A statement of employees' rights on termination should also be included.

Contribution formula. A contribution formula defines the basis upon which shares are computed. The following formulae are used most frequently:

1. A percentage of profits (commonly 25 to 50 per cent) before provision for Federal income taxes. A firm that had \$1,000,000 in profits for the year would contribute \$500,000 to the profit-sharing fund, assuming its agreement called for a 50-50 payment before taxes.

2. A percentage of profits after deduction of income taxes. The firm described above might pay, say, \$300,000 in the fund under this kind of provision.

3. A percentage of profits after deduction of taxes and a stipulated amount (usually in dollars) for dividends. If the same firm agreed to set aside \$100,000 for dividends, it might then pay \$200,000 into the fund.

4. A percentage of the amount that is declared as a dividend. (This formula will be explained more fully in the discussion of wage-dividend plans.)

5. Payments are related to productivity. Profit-sharing plans that use this type of formula differ from firm to firm. They require careful, expert preparation to avoid any semblance of a speed-up plan.

Although some plans incorporate a formula that permits the board of directors to fix the amount of profits to be distributed at their discretion, this is contrary to good profit-sharing practice, which requires a fixed formula to avoid employee suspicion.

Allocation formula. The allocation formula determines how the employee is to participate. In most cases, shares are distributed pro rata on the basis of the employees' annual wages or an average of annual wages for the past five years. In a few instances, the pro rata share is revised by impartial merit rating reports. This latter practice should be avoided because it departs from the fixed-in-advance concept of profit-sharing.

Eligibility. The eligibility provision of a profit-sharing plan outlines who among company employees are entitled to benefits. Usually,

all employees are eligible after a qualifying period that may run from a few months to one or two years of employment. The typical period is a year. Some plans include detailed requirements to take care of re-employed workers, part time employees, employees with long absence records because of illness, and employees who leave the company before the termination of a distribution period.

Termination rights. To avoid the possibility of future misunderstandings, the plan should outline specifically a worker's rights on termination of employment. Most plans provide that an employee surrender all rights under the plan if his employment is terminated, voluntarily or involuntarily, during the accounting period. For example, if profit-sharing payments are distributed quarterly and the employee leaves during the quarter, he loses whatever share he might have received for that quarter. But if he leaves during the period between the declaration of a distribution and the date fixed for the payment, he is entitled to receive his share.

Time and form of payment. Payment of fund shares is usually made in cash, although a few plans convert the employee's share into common stock of the company. Distribution is generally made at the end of the accounting period for which profits are calculated. The generally accepted practice is to make payments on an annual basis, but in some instances, to shorten the period between effort and receipt of the profit-sharing bonus, payments are made quarterly or even monthly.

Administration. The plan agreement stipulates who is to administer the plan and how members of the administration committee are to be chosen. Administrative duties will naturally hinge upon the nature of the plan. Cash plans require little work, except at payment time. Complicated production plans may demand full-time attention.

Presenting the plan to employees. A plan must be explained and the profit-sharing concept must be sold to employees. They must be informed constantly of company progress under the plan; and, perhaps most important of all, the employee must be made to understand the basic role that *profit-making* plays in the day-to-day business of the company.

A successful launching of a plan depends directly upon the effec-

tiveness with which these three methods are used: (1) employee participation in formulation of the plan, (2) a mass meeting of all employees to announce the plan, and (3) a booklet to describe the plan as simply as possible. The main point is to convince the employees that they are about to gain real participation in *their* company.

Once the plan is announced and put into effect, its durability and effectiveness depend upon the degree to which employees are kept abreast of company and plan developments. Periodic bulletins, company financial reports, labor-management committees, bulletin board announcements, letters from top executives—all of these and more are used in various companies as channels of communication to keep interest in their plans alive.

Cash Plans

Distinguishing feature of cash profit-sharing plans. Cash profit-sharing plans usually stipulate that a percentage of profits will be divided among employees and paid to them at fixed intervals.

Guides in the installation of a cash plan. In working out a cash plan, management must determine, among other things, (1) how to arrive at net profits for purposes of the plan, (2) what the distribution formulae will be, and (3) how frequently the profit-sharing bonus shall be distributed. Although the answer to each question depends on both management attitudes and the situation within a particular company, the following information, based on a survey of such aspects, may be helpful.

What are "net profits?" Ideally, profits should be defined as accurately as possible to dispel any possibility of employee suspicion. S. C. Johnson & Sons, Inc., Racine, issues the following statement to employees:

Here is the way we go about getting the total share to be distributed. As you know, we use most of the dollars we take in from the sale of our products to pay for:

1. raw materials, containers, and supplies.
2. wages and salaries.
3. freight and shipping costs.
4. maintenance of our property and equipment.
5. depreciation of equipment, buildings, and other property.
6. advertising.

7. property taxes, unemployment taxes, Federal old age benefit taxes, franchise taxes, sales taxes, transportation and other special taxes.

8. the dozens of other expenses which together add up to the total cost of making, selling, and distributing our products.

After all these expenditures have been provided for, we have left a sum of money which is called "net profit before income taxes." Out of this profit, we first set aside a minimum, reasonable return on the capital invested in the business. Then, *before* we pay our Federal and state income taxes, the Board of Directors sets aside a part of the remaining profit as the employees' share of the profit for that fiscal year. This has come to be called "the profit-sharing pool."

What will the distribution formula be? The percentage of profits that is distributed under various plans runs from a low of 8 to 10 per cent to a high of 50 to 75 per cent (after an amount has been set aside for company needs). A company in an unstable, highly seasonal industry may feel that it can afford only a low-percentage distribution, since it has to build up a cushion against economic shocks. A well-established company in a relatively stable field may be able to afford a liberal percentage distribution formula in its plan. In addition to business considerations, a management's philosophy plays a large part. A company that regards its prosperity as resulting largely from employee efforts may be more liberal than one with a different attitude. By and large, plans with large distribution percentages are found in companies with progressive managements.

How frequently should profits be distributed? The extremes of distribution frequency are represented by annual payments and monthly payments. Experience indicates that the annual period tends to destroy the incentive of profit-sharing by making the employee wait too long for his bonus. If profit-sharing checks are distributed monthly, the employee associates the bonus with his wages and thinks of it as part of his earnings to which he is entitled. Profit-sharing seems to have its greatest tonic effect on employee morale when payments are made quarterly.

Examples of successful cash-payment plans. The profit-sharing plans of the following companies are of the cash-payment type: W. A. Sheaffer Pen Company (Madison, Iowa), Greenfield-Mills Restaurant Company (Columbus, Ohio), C. A. Norgren Company (Denver), ILG Electric Ventilating Company (Chicago), and Whit-

ing Corporation (Harvey, Illinois). The plan of the Whiting Corporation is described to illustrate how a cash-payment plan operates.

Whiting Corporation cash-payment plan. Under the plan, 50 per cent of net profits, after an allowance for "rent," is paid monthly to all employees who have been on the payroll for a full quarter. The "rent" is an amount reserved for dividends, plant improvements, and the like. It is a partial return on capital, in that it allows the retention of 5 per cent on net worth, prior to sharing the remaining profits with employees. The net worth figure is adjusted annually to reflect changes as determined by outside auditors. Actual payments are made to employees in accordance with their earnings.

At Whiting, the profit-sharing plan is called the Wage Adjustment Plan. They speak of it as being such-and-such per cent. It is figured monthly on the basis of the past three months' operations. For example, if, during a particular quarter, average monthly net profits to be shared were \$10,000 and average monthly payroll for the quarter averaged \$400,000, the wage adjustment would be $2\frac{1}{2}$ per cent. A worker who earned \$350 for the month would receive a bonus at the end of the month of \$8.75.

To keep employees informed of the profit-and-loss facts of business life, Whiting holds "Town Hall Meetings" periodically. Company operations, plans, and profit and loss figures are discussed. At the meetings, simplified income statements are distributed to show exactly how the Wage Adjustment figure was obtained, and any and all questions are answered. Otherwise, plan administration is conducted by management.

Wage-Dividend Plans

Distinguishing feature of wage-dividend plans. Wage-dividend plans fix the percentage of profits allotted to plan participants and distribute shares according to the amount of dividends to stockholders. They tend to emphasize a partnership of stockholder and employee. The stockholder invests capital in the enterprise and, in profitable years, receives dividends as a return on his investment. The worker invests his effort and ingenuity, for which he receives a bonus in addition to his wages or salary. The wage-dividend plan divides profits annually between employees and stockholders accord-

ing to a fixed relationship formula, so that, whenever a dividend is declared, a wage dividend is paid to employees.

Some well-known wage-dividend plans. Two of the best known of all profit-sharing plans are wage-dividend plans: the Eastman Kodak Wage-Dividend Plan and the Pitney-Bowes Plan. The Eastman Kodak plan is described below to show how such a plan operates. Size or national prominence have no bearing on the successful operation of such plans. The Lincoln Extension Institute, Inc., a Cleveland company with 50 full time and 50 part time workers established a wage-dividend plan in 1946. Many other small companies have also instituted such plans.

Eastman Kodak Company plan. The Kodak wage dividend is paid once a year in March to all employees who joined the company before October 1 of the previous year. Whether or not a wage dividend is paid depends directly upon whether the annual dividend on common stock exceeds 70 cents per share. The formula is a simple one. The wage-dividend rate is one-half of 1 per cent (.005) for each increment of 20 cents over the basic 70 cents. A common stock dividend of 90 cents ($70 + 20$) fixes the wage dividend rate at one-half of 1 per cent; a dividend of \$1.10 ($70 + 20 + 20$) means a wage-dividend rate of 1 per cent, and so forth. Kodak then multiplies the wage-dividend rate, as declared by the board of directors, by the individual employee's total earnings for the past five years to obtain the wage dividend. Employees who have been with the company less than five years have the rate applied to whatever their total earnings are for the time they have been employed. A premium is thereby placed on length of service. For example:

. . . if dividends declared on the common stock amounted to \$1.40, the wage-dividend rate would be $1\frac{3}{4}$ per cent ($.005 \times 3\frac{1}{2}$). In that event, the wage dividend on total earnings of \$12,500 would be \$218.75, or more than four weeks' average earnings.

If, because of his or her very brief service with the company, an individual's first wage dividend, when figured in the above way, should amount to less than \$15, a minimum dividend of \$15, less Federal taxes, is paid.*

* A Handbook for Kodak Men & Women, Eastman Kodak Co., Rochester, N. Y., page 36.

Production-Sharing Plans

Nature of production-sharing plans. Production-sharing plans are essentially hybrid profit-sharing plans. They provide for a bonus, but the distribution is not a direct percentage of company profits. Rather, it is a division of savings resulting from reduced labor costs of production. The purposes and incentives of production-sharing plans are those of profit-sharing, but unlike profit-sharing plans, they dramatize the intimate effect the average worker's efforts can have upon overall company profits. Or, more precisely, they highlight productivity, which is essentially the source of profits. The essence of most production-sharing plans is worker participation in management as a spur to employee morale and, hence, to increased productivity. The principles outlined in the following plans are not an automatic cure-all. They require the desire on the part of both management and labor to work out problems together. Top management must be prepared to accept criticism and act upon it. Employee representatives, whether or not unionized, must make the effort to understand management problems and even to acquire a grasp of competition, marketing, pricing, and the like.

In this general category are the two following well-known plans: (1) the Scanlon plan and (2) the Rucker share-of-production plan. Various other production-sharing plans have been used in individual situations, but the explanation is limited to the two best-known types.*

The Scanlon plan. This type of plan takes its name from Joseph Scanlon, who devised it as a means of saving a steel company from the rocks. The plan worked better than anyone had anticipated.

The basic operating principles of the plan are these: †

The first task in the application of the Scanlon plan is to find a normal labor cost for the company under consideration, and then to devise a means for giving labor the benefit of *anything* it can save under the norm. In every case, therefore, some kind of link must be found between the worker and overall shop productivity.

* For a number of individualized plans, see *Successful Employee Benefit Plans*. New York: Prentice-Hall, Inc., 1952, Ch. 14.

† Russell Davenport, "Enterprise for Everyman." *Fortune Magazine*, January, 1950, p. 57.

The link is nothing more than a way of expressing total output in terms that reduce all operations and all final products to a common denominator, intelligible to all workers. For example, in a manufacturing plant that makes a variety of products, the number of units produced of each product has significance only to the employees concerned with the particular product on which they work. Scanlon, therefore, has devised such accounting links as ounces of silver processed, pounds of castings produced, tons of merchandise warehoused, and the like. Since no two companies are alike, the connecting link between worker output and overall company production differs from firm to firm.

In most cases, the workers receive a bonus equal to the entire saving effected by reduced labor costs. Management's gain comes from increased sales without an increase in overhead costs, or, putting it another way, from lower unit costs.

The advantages result from in-plan co-operation and especially from employee suggestions that increase efficiency of operations and reduce costs. The suggestions are handled first by production committees formed from the men on the job. The worker-level committee has the power to put in operation any suggestions that do not affect other departments or require substantial outlays of money. It can, therefore, act quickly, and often does. A screening committee, composed of employer (including the boss) and employee representatives, which meets monthly, goes over suggestions that have a wider implication. Either the suggestion is accepted and put into effect as rapidly as possible, or a member of the committee is instructed to explain to the worker who made the suggestion exactly why it was not used. There are no prize awards for suggestions that are accepted. The reward lies in the employee's knowledge that he is helping to increase productivity and, hence, to augment his bonus.

Example of operation of Scanlon plan. Although no two Scanlon plan installations are alike, the mechanics of the plan can be understood from viewing the operation of the plan at Lapointe Machine Tool Company, Hudson, Massachusetts.

At Lapointe, the entire amount that workers save through increased productivity is paid to them monthly as a bonus, in addition to their basic wages. The link between productivity and overall output is the ratio of direct labor costs to total production value (sales plus or

minus inventory at the end of the month). After exhaustive study of past performance, a joint labor-management committee arrived at a fair figure. For competitive reasons, Lapointe's management cannot disclose the exact figure, but the basic idea can be understood from the following simplified example.

Assume that the ratio was established at 40 per cent; that is, over a period of time, an average of 40 cents of every sales dollar represented direct labor costs. If total shipments for the month amount to, say, \$100,000 and inventory increased \$20,000, total production value would equal \$120,000. The "normal" labor cost would be \$48,000 ($\$120,000 \times 40\%$). If actual wages paid for the period were \$40,000, the difference, \$8,000, would be paid *in full* to *all* workers in proportion to their basic wages. "All workers" includes the boss.

On a few occasions at Lapointe, productivity has fallen below the norm: to use the figure given in the illustration, actual wages paid were greater than 40 per cent of sales plus or minus inventory adjustments. To provide for this contingency, with full agreement from labor, Lapointe withholds $7\frac{1}{2}$ per cent of each month's bonus. The withheld portion is used to compensate for added costs in below-normal production months. Any balance in the fund is paid to the men at the end of the year. The establishment of the reserve protects the company against losses and inspires employees to work to protect the reserve.

Rucker share-of production plan. This type of plan takes its name from Allen W. Rucker, president of the Cambridge, Massachusetts, firm of management consultants, The Eddy-Rucker-Nickels Company. The Rucker Plan, as its author emphasizes, is not a profit-sharing plan. Rather, this plan makes it possible for hourly-paid factory workers to increase their monthly and annual earnings in direct proportion to the increase in "production values" that they help to create. Its principal stimulus for mutual co-operation, as in profit-sharing plans, emanates from the creation of an effective partnership between labor and management. Through participation in the share-of-production committee, employees come to know the problems of management, and by being paid a share of production values, they come to realize the nature of the effect that their efforts have on the progress of the company and on themselves. Employees may make

added earnings from added productivity, whether or not the company makes a profit.

In every instance in which the Rucker Plan has been established, it has been a joint undertaking of employees (whether or not unionized) and management. A share-of-production committee, with a rotating membership representing both employees and management, is set up to discuss production problems, consider improvements, and explore the possibilities of suggestions to increase productivity.

Basis of the Rucker plan. Although a careful analysis must be made of the operating experience of a company before the Rucker Plan can be prepared for installation, the essential formula that forms the core of the plan can be applied to most manufacturing firms.

For example: The Jones Company manufactures a line of china-ware. At one end of the production line, clay and coloring matter worth 50 cents are fed into the manufacturing hopper. Five cents' worth of heat is added to make the total cost 55 cents. At the other end of the line, the hopper ejects a colored bowl that sells for \$1.00.

Along that production line 45 cents has been added to the value of the original materials. That amount is the production value, which has been created by the combined efforts of management, labor, and the machinery supplied by the stockholder. Who contributed what and who gets what are determined by a study of the past performance of the company. It may be that 40 per cent of the production values is the amount shown by experience to have been paid in wages, which means that the remaining share goes to the company to meet the costs of all other compensation, overhead, taxes, dividends, and business savings for future expansion.

This is the point at which the Rucker Plan enters. Assume, now, that the Jones Company sold \$250,000 worth of bowls in the first quarter of this year, and the material, supplies, and allied costs amounted to \$150,000. The production values, hence, amount to \$100,000.

According to the historical experience of the company, 40 per cent or \$40,000 of production values is the amount earned by the workers. But assume that, during the first quarter, actual regular wages (including overtime) amounted to only \$35,000, leaving a difference of \$5,000. This amount then, less a reserve of one-fourth, is distributed pro rata among employees as their share-of-production earnings.

The company's share, \$60,000, or 50 per cent of the total production values, goes to pay other compensation, overhead, taxes, and ownership obligations. The difference between the total of these expenses and \$60,000 is profit or loss.

If regular wage earnings (including overtime earnings) exceed the share-of-production credit in any month, the resulting deficit is carried as a debit to the previously mentioned reserve account. For example, if the regular payroll at current wage rates in the above illustration had amounted to \$45,000, when it should have been \$40,000, the \$5,000 deficit is debited to the reserve account. That deficit is offset by credits amounting to one-fourth of share-of-production additional earnings in future months.

At the end of the year, the reserve account is balanced and any credit remaining is paid pro rata to eligible employees, according to the actual regular earnings of each. Should a deficit result in the reserve account at the year's end, the company always pays out three-fourths of any month's additional or share-of-production earnings regardless of the condition of the reserve account.

Other Current Profit-Sharing Plans

Non-classifiable plans. Cash, wage-dividend, and production-sharing plans are probably the types of profit-sharing plans used most frequently. But since each plan must be devised specially for the particular company, there are almost as many possibilities for variations in types of profit-sharing plans as there are firms willing to install profit-sharing. The multiplicity of programs, however, does not mean that a plan is more likely to achieve success because of its uniqueness or the number of nuances that it may contain. On the contrary, the success of profit-sharing depends to a large extent on (1) employees' comprehension of the mechanics of the plan and how it ties in with the company operations and (2) the degree to which the plan has been designed to meet special circumstances. The simple, straightforward, easy-to-understand plan is most likely to achieve results.

Other current-profit-sharing plans include a combination of a current and deferred plan; a combination of a cash plan and a stock ownership plan; and some unique plans that are devised to meet particular situations and conditions.*

* For a description of several non-classifiable, successful profit-sharing plans, see *Successful Employee Benefit Plans*. New York: Prentice-Hall, Inc., 1952, Ch. 14.

SECTION 8

Accounting for the Business Executive

1. WHAT EVERY BUSINESSMAN SHOULD KNOW ABOUT ACCOUNTING		Reports for Control of Current Operations	
Minimum accounting knowledge required	831	Classification of operating reports	847
Definition and purposes of accounting	831	Financial reports	847
General requirements for good accounting	832	Operating reports	850
The accounting executive	832	General rules for operating reports	851
The Accounting Structure		Data for the Planning of Future Operations	
The chart of accounts	833	Controls for future operations	852
Who sets up the chart of accounts	833	Comparison of standard costs and budgets	852
The businessman's interest in the chart of accounts	834	Tie-in of standard costs with use of accounting information	853
Accounting data, records, and procedures	834	Tie-in of budgets with use of accounting information	853
Accounting Data		3. HOW THE BALANCE SHEET IS CONSTRUCTED	
Classes of accounting data	835	Meaning of descriptive terms in the balance-sheet title	854
External data	835	Combinations of titles	856
Internal data	836	Other titles for balance sheets	856
Accounting Records		How a statement of affairs differs from other balance sheets	856
Books of account	840	What a pro-forma balance sheet is	857
Journals	840	How to entitle the balance sheet	857
Ledgers	841	Form of the balance sheet	858
Procedures and Methods		Methods of clarifying the balance sheet	859
Importance of procedures and methods	844	Explanation of Items in the Balance Sheet	
Procedures	844	CURRENT ASSETS	
Methods	845	What the current assets of a business are	861
Some Accounting Terminology		Cash	862
Terms defined	845	Time and special deposits	862
2. HOW TO USE ACCOUNTING RESULTS FOR EXECUTIVE CONTROL			
Importance of control in business management	847		

Marketable securities	862
Accounts receivable	862
Notes receivable	864
Inventories	865
Other current assets	867

FIXED ASSETS OR FIXED CAPITAL

What are the fixed assets of a business?	867
--	-----

Tangible Fixed Assets

What the tangible fixed assets are	867
How tangible fixed assets are valued	867
Land	868
Buildings	868
Machinery and tools	869
Furniture and fixtures	869
Patterns	869
Delivery equipment	869
Containers	869
What the balance sheet does not show about the property items	870

Intangible Fixed Assets

What the intangible fixed assets are	870
Patents	871
Copyrights	871
Franchises	872
Leaseholds	872
Leasehold improvements	872
Goodwill	872
Trade-marks	873
Formulas and processes	873

Investments

How investments appear in the balance sheet	873
Valuation of permanent investments	874
Investments in controlled subsidiary or affiliated companies	875
Other investment securities	875
Real property	875
Investments in the company's own stock	876
Sinking funds	876
Other funds	876

Long-term notes receivable	877
Temporary investments	877
Advances	877

DEFERRED CHARGES

What the deferred charges are	878
Prepayments	878
Unamortized expenditures	878
Miscellaneous suspense items	879

OTHER ITEMS

What is included among other assets	879
Notes and comments relating to assets	880

CURRENT LIABILITIES

What the current liabilities are	880
Accounts payable	881
Notes and acceptances payable	881
Discounted notes, acceptances, and so forth	881
Accounts and notes due to officers, stockholders, and employees	881
Accrued liabilities	881
Other current liabilities	881

FIXED LIABILITIES

What constitute the fixed liabilities	882
Mortgages	883
Long-term bonds, debentures, notes, and certificates of indebtedness	883
Deposits	883

DEFERRED CREDITS

What deferred credits represent	884
---------------------------------------	-----

CONTINGENT LIABILITIES

What are contingent liabilities?	884
--	-----

MINORITY INTERESTS

Liability to minority stockholders	885
--	-----

RESERVES

What reserves are listed among the liabilities?	886
Reserves for corresponding funds	887

CAPITAL STOCK AND SURPLUS	
What the capital-stock section should show . . .	887
Valuing no-par stock in the capital-stock section of the balance sheet	888
Treatment of surplus in the balance sheet	889
How capital and surplus generally appear in the balance sheet	890

4. HOW THE INCOME STATEMENT IS CONSTRUCTED

How to head the income statement	891
Titles for the income statement	891
Form of the income statement	892
Divisions of the income statement	892
Grouping of items	892
Methods of clarifying the income statement	893
Points in income statements requiring special clarification	894

Explanation of Items in the Income Statement

Sales	895
Operating charges	895
Cost of goods sold	895
Operating expenses	896
Operating income in a consolidated income statement	896
Nonoperating income	896
Nonoperating charges	897
Portion of profits or losses applicable to minority interests	898

The Statement of Surplus

How to head the statement of surplus	898
What capital surplus is	898
What the statement of surplus should show	900

5. HOW TO ANALYZE A FINANCIAL STATEMENT

How to obtain financial statements	901
--	-----

Extent to which financial statements are used in credit work	904
What part of the balance sheet reveals credit strength?	904
Place of fixed assets in credit analysis	905
Place of prepaid expenses in credit analysis	905
Need for comparative data	906
The comparative statement	906
Procedure in analyzing financial statements	906
Rearrangement of the data in financial statements	907
Simplification of figures	907
Reducing figures to ratios	912
Present-day use of ratios in determining credit strength	912

Analysis of Working Capital

Scrutinizing the items that make up the current assets	914
Examination of cash	914
Examination of accounts receivable	914
Ascertaining the age of accounts receivable	916
Determining age of accounts receivable through ratio of accounts receivable to sales	916
Weaknesses in test of ratio of accounts receivable to sales	918
Comparison of age of accounts shown by ratio with percentages in the industry	918
Examination of notes receivable	919
Examination of trade acceptances	920
Testing the adequacy of the reserve for bad debts	921
Examination of inventories	921
Determining quality of inventory from ratio of sales to inventories	922
Difficulties in applying the merchandise-turnover test	923
Possible explanations of excessive inventories and slow turnover of merchandise	924
Examination of marketable securities	924

Examination of current liabilities	925	Determining the sources of the credit applicant's working capital	933
Examination of accounts payable	926		
Estimating the age of accounts payable	927		
Examination of notes, bills, and acceptances payable	927		
		6. FALSE FINANCIAL STATEMENTS	
WORKING CAPITAL RATIO		Laws providing punishment for false financial statements	934
Ratio of current assets to current liabilities	928	Prosecution under larceny laws	935
Importance of current ratio	929	Prosecution under the false-statement laws	935
Consideration to be given to the current ratio	930	Who can be punished under the false-statement laws?	936
Distribution of current assets	931	Superiority of protection afforded by false-statement laws	936
The "acid-test, or "quick," ratio	932	Prosecution under the Federal mail-fraud statute	937
		Some tests in determining whether prosecution should be undertaken	937
Other Factors in Financial Analysis		Can an accountant be held for an incorrect statement?	938
Sales volume as a factor in financial analysis	932		
Importance of the sources of working capital	933		

SECTION 8

Accounting for the Business Executive

1. WHAT EVERY BUSINESSMAN SHOULD KNOW ABOUT ACCOUNTING *

Minimum accounting knowledge required. Most of the information that a businessman needs to direct the operations of his business intelligently from day to day and to plan for the future comes from the accounting records. Although the businessman can usually rely on trained accountants for the information on which he must base policy-making decisions, he should have a sufficient knowledge of how an accounting system works to understand the extent to which he can obtain guidance from the records. As a minimum he should understand:

1. The general requirements for adequate accounting.
2. The accounting structure.
3. How to use accounting results for executive control.

The first two minimum requirements are explained in this subsection. The third requirement is discussed in the next subsection. In later subsections financial statements are fully explained.

Definition and purposes of accounting. Accounting is the process of analyzing business transactions and recording them in an orderly and logical manner in the books of account to show the results of business operations. The accounting records are maintained for the purposes of: (1) presenting the financial history; (2) supplying current information for the control of current operations; (3) supplying data for the planning of future operations; and (4) supplying information to government agencies, bankers, creditors, investors, and other outside interests. The first purpose is traditional. Growth of enterprise, increasing complexity of business, rapidity of economic

* Acknowledgment is made to William W. Voorhees, Assistant Controller, Air Associates, Inc., for this subsection.

changes, and the need for prompt reaction to such changes have, however, shifted emphasis from the static or historical aspects of accounting to the dynamic aspects expressed in the second and third purposes. The fourth purpose is of ever-increasing importance because of taxes and other governmental requirements.

General requirements for good accounting. Good accounting can be brought about only through a planned, coordinated effort. For adequate accounting there must be:

1. A properly organized system of accounts, backed up by suitable records.
2. A complete layout of methods and procedures to implement the system of accounts.
3. A properly trained and experienced accounting executive who will insure the adequacy of (1) and (2) and interpret the results properly. The first two points will be discussed under accounting structure.

The accounting executive. The accounting executive is the keystone of the accounting structure. Selecting this person is a serious decision. Obviously, proper accounting education and experience are requirements of major importance, but there are several others, lack of which may cause the most brilliant accountant to be of little use.

The accounting executive must be approachable, diplomatic, and pleasant, yet firm enough to stand up for what he considers right. Accounting is a service function. As such, it must often sell the value of its services to other functions. The accounting executive who is liked and respected by the heads of the other departments has half won his battle.

The accounting executive's background of experience should be broad. Banking, manufacturing, brokerage, insurance, retail trade, and many other lines of business have their peculiarities. Specialized experience in a given field is helpful. Experience in several fields is broadening and desirable. Experience in more than one company in any field is essential. A "one-company" man may have a restricted viewpoint and a tendency to pattern all he does after that one company's method.

Experience in activities other than accounting is especially desir-

able. The accounting executive must often put himself in the shoes of the sales manager, production manager, purchasing manager, and others. Practical experience in any of these activities produces a fuller appreciation of the problem at hand and makes for a more effective solution from an accounting standpoint.

Should the businessman need assistance in making the final selection of an accounting executive, his banker or his auditors are qualified to help him.

The Accounting Structure

The chart of accounts. The chart of accounts provides the framework within which the accounting records are constructed. It is the means whereby business transactions are *uniformly* classified as to type, function, object, and responsibility. The nature of the business, the size of the business, the management's need for information, the cost of getting the information—all must be considered in setting up the chart of accounts. For a one-man business, the chart of accounts may be a simple list of accounts. For a large, complicated business, the chart of accounts may be several pages long, with a code designation for each account by number, letter, or other symbol to identify it. Code identification aids memory of the accounts and saves time.

A simple chart of accounts for a commercial artist's studio is shown in Figure 67. It is an owner-managed corporation, employing several artists and retouchers, a photographer, one general office girl and an office boy-messenger. Its quarters are rented, it utilizes a relatively small investment in equipment except in photography, and its principal expenses are labor and supplies. Occasionally, outside services such as typesetting are purchased. The president is principal stockholder, acts as manager and salesman, and sometimes works as an artist on special assignments.

The listing of the accounts follows a pattern that is common in setting up charts of accounts.

Who sets up the chart of accounts. In a one-man business, where accounting requirements are simple, the proprietor or manager himself might set up a chart of accounts adequate for the immediate needs. It is, however, a job that cannot be taken lightly, and is best performed by persons with accounting knowledge. In a larger organization, the accounting executive has this responsibility. Setting up

<i>Assets:</i>	<i>Sales Accounts:</i>
Cash in Bank	Sales—Art Work
Petty Cash	Sales—Photography
Accounts Receivable	<i>Cost of Sales Accounts:</i>
Furniture and Fixtures	Professional Salaries
Photographic Equipment	Photo and Art Supplies
Automobile Equipment	Depreciation
Deferred Insurance and Taxes	Rent
<i>Liabilities and Capital:</i>	Light and Power
Accounts Payable	Purchased Services
Notes Payable	<i>General and Administrative</i>
State and Federal Taxes	<i>Expenses:</i>
Withheld	Office Salaries
Capital Stock Outstanding	Stationery and Postage
Surplus	Miscellaneous Expense

Figure 67. Simple Chart of Accounts.

the chart of accounts is only part of the job. Once established, it must be continually reviewed. It must be kept in line with current operations and changed as rapidly as conditions, methods of operation, or assignments of responsibility change. If this is not done, accounting fictions having no relation to the facts will result.

The businessman's interest in the chart of accounts. Whether or not he is a trained accountant, and whether he is a sole proprietor or chief executive of a large corporation, the businessman has a real, though perhaps unrecognized, interest in the accounting framework. It is the outline for the maintenance of essential records. From these records are drawn the reports that tell whether the business is progressing or retrogressing. The factors responsible for progress or otherwise are spelled out in the figures contained in the books. They can only be brought to light if they have been properly classified and recorded, and this, in turn, can be done only when the proper framework has been established.

Accounting data, records, and procedures. The accounting data, records, and procedures, plus the chart of accounts, comprise what is generally referred to as the "accounting system." A short definition of each term will provide an appropriate background for the discussion that follows.

Data are the pieces of paper on which the details of transactions appear.

Records, more commonly referred to as "the books," are media wherein the data are analyzed, summarized, and recorded.

Procedures are the detailed routines followed in the preparation and summary of the data and in recording them in the books. Each will be considered in that order.

Accounting Data

Classes of accounting data. The size of the business and its character dictate the simplicity or complexity of the data required for satisfactory accounting results. For clarity of discussion, data may be divided into two general classes, external and internal. A few basic types of each class will be presented to illustrate the nature of accounting data and to highlight the importance of the subject to adequate accounting. It must be remembered that there are many types of specialized data of importance in a particular situation that are not covered here.

External data. These data are the means whereby individual transactions with those outside the organization are recorded. The principal functions that give rise to external data are selling, purchasing, and financing.

Selling data. Means must be provided to insure proper recording of each customer's order and acknowledgment of its receipt. An order acknowledgment form accomplishes this purpose. It becomes the basis for billing the customer once the goods are shipped.

Copies of sales data become "internal" data for the purposes that will be outlined under that heading. They may also become "journals" or "ledgers." (See accounting records, page 840.)

Purchasing data. The purchase order, although not actually an accounting document, contains important data. It authorizes a supplier to ship goods or render services to the business. It establishes the quantity to be supplied and confirms the price to be paid. The invoices resulting from the purchasing transactions are accounting data.

Purchase requires payment, usually by check. The check serves the dual purposes of eliminating the liability to the supplier and reducing the company's cash account when it is deposited and cleared through the bank.

Financing function data. Banks are agencies outside the business

and the specialized papers used in dealings with them are external accounting data. These are the deposit slips, which are evidence of money placed in the bank account, and the bank statement, which is a record of all transactions affecting the bank account during the period for which it is prepared.

Other external financial data include promissory notes, which the organization may give to creditors or banks or receive from customers. Mortgages, bonds, and other security instruments also fall into this category. In the corporate form of organization, there is the evidence of ownership known as the stock certificate. Although not solely an accounting document, it has significance in such matters as dividend distribution and establishing the value of capital stock outstanding for balance sheet preparation (see page 890).

Internal data. These data are the means whereby individual financial transactions internal to the organization are recorded. Copies of external data provide the necessary internal data in respect to the selling, purchasing, and financing functions outlined above.

Sales data. Copies of invoices provide the basis for determining total sales and total sales by type of product, individual customer, and territory, where such analysis is required. They provide the basis for posting charges to the accounts receivable ledger, or they may become such a ledger (see page 842).

Purchase data. Copies of purchase orders support a series of internal transactions that start when the goods arrive. They authorize the receiving department to accept the goods and tell the accounting department what the price is, how much was ordered, and what the terms and conditions of purchase are. They may be used to inform the inspection department as to quality and specifications of goods ordered.

Vendors' invoices become the means whereby total liabilities for goods and services are determined, inventory accounts are charged, and unit material costs are determined.

Copies of checks drawn become the data from which total cash disbursements are ascertained, analyzed, and recorded.

Payroll data. Another class of internal data concerns wages and salaries, commonly referred to as payroll. Pay is generally determined either by the passage of time alone or by the results of efforts put forth during a given time. Payments to salaried workers, both

NO

NAME _____

PAY PERIOD ENDING _____

NET HOURS	RATE	AMOUNT	WITH HOLDING TAX	WITH HOLDING TAX CLASS
GROSS HOURS	RATE	AMOUNT	FEDERAL O A S I	TOTAL EARNINGS
HOURS		AMOUNT	STATE U C	TOTAL DEDUCTIONS
		TAX EXEMPT	BONDS	BALANCE DUE
		TAXABLE BAL		

	1st DAY	2nd DAY	3rd DAY	4th DAY	5th DAY	6th DAY	7th DAY
16							
15							
14							
13							
12							
11							
10							
9							
8							
7							
6							
5							
4							
3							
2							
1							
TOT.							

No 00175

IBM ENDICOTT, N. Y., U. S. A.

Figure 68. Time Clock Card.

clerical and executive, or so-called "straight time pay" to hourly rated workers are examples of the former. Commissions to salesmen, bonuses to salaried workers, and incentive pay to productive workers are examples of the latter. Under any circumstances, the records associated with time and/or accomplishment are fundamental accounting data.

Figure 68 is a standard form of time clock card used to record the hours worked. In a simple situation involving few employees and a minimum number of job variations, this card may be used as the basis both for paying the employee for time spent, and for determining the accounting distribution of the payment. Such a card is usually employed as a basic record even though additional information is required either for computing incentive pay or for determining the time spent on each job.

Material data. These data provide information on the movements of material and its uses. The receiving report, prepared when the material is delivered by the supplier, records receipt of material ordered and serves to identify the goods as they move through inspection and into stock. Copies of the receiving report provide the accounting department with a record of quantities and items, to be used in checking suppliers' invoices.

The material requisition form, Figure 69, is the means whereby the

REQUISITION ON STOREKEEPER			Nº 15597		
Date _____, 19____			Charge Acct. No.		
Deliver to					
To be used for					
Group	Floor	Mach. No.	Job No.		
Bldg.	Dept.	Signed			

Figure 69. Requisition on Storekeeper.

MATERIAL REJECTION TICKET N^o 96967

PART NO.	NAME	ORIG. LOT	QUANTITY REJECTED
DATE	LOCATION	W. O. NUMBER	LAST OPER. COMPLETED

DESCRIPTION OF DEVIATION:

DEFECT DUE TO OPERATION RESPON.				EMP. NO. RESPON.				QUANTITY			
								REWORK			
								SCRAP			
REASON FOR REJECTION											
	V	DEPT. NO.	Acc't. No.		V	DEPT. NO.	Acc't. No.				
OPERATOR				ENG. CHANGE							
METHODS				INSPECTION							
TOOLING				OTHER							
MRB DISPOSITION				COST COMPUTATION							
ACCEPT		QTY.		RAW MAT.	UNIT COST	EXT'N					
REWORK		QTY.		PCH. PARTS							
SCRAP		QTY.		LABOR							
SALVAGE INSP.				BURDEN							
CHIEF INSP.				DEV. TOOLS							
FOREMAN				DEV. ENG.							
				SUNDRY							
				TOTAL							
				SUPERV. RESP.							

E-1032

DISPOSITION:
 1ST STAGE — FINISHED PARTS STORES
 2ND STAGE — TABULATING
 3RD STAGE — PRODUCTION CONTROL

1

Figure 70. Material Rejection Ticket.

material is taken from stock to the point of use or shipment. It requires approval as a safeguard. It tells where the material is to go and what it is to be used for. The accounting department prices the requisition and makes entries on the books accordingly.

Material is often spoiled and, if thrown away without a record, represents a waste that is unaccounted for. Usual procedure calls for the issuance of a scrap ticket, of which Figure 70 is typical. Such tickets are generally issued by the inspection department when the material is disposed of. The particular form shown serves a dual purpose. Where the material is thrown away, it becomes a scrap ticket. Where the material can be saved with expenditure of additional labor, it also may be used to authorize this expenditure and provide a "charge number" for recording the labor cost.

Accounting Records

Books of account. Accounting records may be generally divided into two classes: (1) journals, referred to as "books of original entry," and (2) ledgers, referred to as "books of final entry." Journals and ledgers, taken together, constitute what is generally referred to as the "books of account."

Journals. An accounting journal is a record wherein the various data previously described are analyzed and summarized prior to being recorded in summary form in the ledgers. Journals are either specialized or general. Specialized journals, also known as subsidiary journals, are used to record transactions of a like kind that occur frequently. Transactions not provided for in the specialized journals are recorded in the general journal. (See "adjustment entries" and "closing entries," on pages 845-846.) The most common types of specialized journals are:

The cash journal. All detailed transactions affecting cash are recorded in the cash journal. The details of both receipts and disbursements may be contained under one cover, as is frequently the case in small businesses where a minimum of analysis is required. Generally, however, two separate records, referred to as Cash Receipts Journal and Cash Disbursements Journal are maintained.

The sales journal. This journal contains details of the transactions with customers involving billings for goods or services furnished and credits given to customers for goods returned or other adjustments.

This record provides the analysis of sales by product class, territory, or in whatever manner is required to suit the individual situation.

The purchase journal. This journal provides the record of detailed transactions with vendors, the companies or persons from whom the business buys essential goods and services. When a company progresses beyond the "very small" stage, this record is hardly ever found in modern practice. Its place is taken by the "Voucher Register," which is a combination of journal and ledger and which will be described under that heading.

The payroll journal. This is the record of amounts paid to employees. It usually shows hours worked, overtime or other forms of premium compensation, and deductions from gross pay for withholding taxes, social security taxes, unemployment insurance taxes, union dues, or any special deductions that are required to determine "take home pay." Where the requirements for accounting analysis of wage and salary costs are simple, the payroll journal may also provide for such analysis. Relatively complex situations, especially in a manufacturing enterprise, dictate the necessity for a separate analysis which is, in effect, a journal subsidiary to the payroll journal. This record is usually referred to as the "payroll distribution." It analyzes only one of the factors appearing in the payroll journal, "Gross Pay."

Journal forms. Every journal, regardless of its complexity, follows a basic pattern. Provision is made for both the "debits" and "credits" required to round out each transaction under the double entry accounting method now universally employed. In the various specialized journals, provision is made for the analysis required of the record. The journal form itself may be one developed for a given situation, or it may be one of the many standard forms that have been developed by stationery manufacturers and that are available in any office supply store. They are so well catalogued that space limitations make their illustration unnecessary.

Ledgers. These records comprise the accounts to which the data, summarized in journal form, are finally transferred. The transfer process is technically referred to as "posting." Like journals, ledgers are of two general types, general ledger and specialized ledgers, known as subsidiary ledgers.

The general ledger. This is probably the most universal form of record found in business. It is the record in which *all* business data

finally come to rest in one way or another. The general ledger is the ultimate financial record of any business, large or small. Everything—assets, liabilities, income, costs, ownership equity—is recorded here in greater or less detail.

Although this is the ultimate record, not all of the information is recorded in detail. As a business grows, the extent of the essential details would make the general ledger too voluminous to be practical. Consequently, various types of specialized or subsidiary ledgers are used. The term “subsidiary” is derived from the fact that the specialized ledgers are controlled by the general ledger. Control means that the sum of the balances in the accounts in a specialized ledger must agree with the general ledger controlling account for which the subsidiary ledger provides the details. The implications of control will become more apparent as the various typical subsidiary ledgers are discussed.

The accounts receivable ledger. This subsidiary ledger provides the summary of money owed to a company by its customers. Each customer has an account in this ledger. As sales are made, customers’ accounts are debited or charged; as remittances are received, customers’ accounts are credited. Source data are copies of invoices and remittance advices, as the case may be. The invoice copies may be the same as those used to prepare the sales journal previously described. The remittance advices, which may be on the face of a check or on a separate form, are the basis for the cash receipts journal described above. In some situations it is possible to use invoice copies as the ledger itself.

The accounts payable ledger. This ledger provides a summary of money owed to vendors. Invoices from vendors are credited to their individual accounts; payments are debited to their accounts. The vendors’ invoices are the same as those used to prepare the purchase journal. The payment records are the same as those used to prepare the cash disbursements journal. This type of ledger is still found in many companies, but in many others it has been supplanted by the “voucher register.”

The voucher register. This record combines the functions of a ledger and a journal and has some of the characteristics of both. A reasonable understanding of its function can be best obtained from a description of how it is operated. The voucher register serves first as a purchase journal. Vendors’ invoices are given a voucher number

and are entered in detail and the ultimate accounting classification recorded, usually in columnar form. This entry provides the several information factors otherwise found in a purchase journal. As checks are issued in payment, the disbursement is noted in the register against the invoice or invoices covered by the remittance. Thus, at the end of any given period, a summary of the unpaid invoices (or vouchers) develops a picture of liabilities for purchases (the accounts payable ledger). The successful operation of the voucher register system requires that all expenditures be vouchered and cleared through the register. Where conditions warrant, the operation of the register can be extended to perform the functions of a cash disbursements journal.

Other subsidiary ledgers. Various other types of subsidiary ledgers are encountered. Some of the more typical are:

1. *The fixed assets ledger.* This is a record describing in detail each piece of property representing the fixed assets. The record may be further broken down between various classes of assets such as buildings, machinery, fixtures, and the like.

2. *The inventory ledger.* This record is often referred to as the "perpetual inventory." It shows, in detail, the quantities of various materials on hand at a given date and their value. Such ledgers may be set up for materials used in production only or, where the volume and variety warrant, may include supplies as well.

3. *The expense ledger.* In large organizations, where the accounting breakdown of expenses is voluminous, it is customary to show details of functional costs in such records. There may be separate ledgers for manufacturing expenses, selling expenses, general administrative expenses, and the like. Moreover, each of these classes of expenses may be broken down to show department responsibility for the various types of expenses.

4. *The stock ledger.* The use of this record is limited to corporations whose capital stock is widely held and frequently traded. The record shows the ownership of capital shares in appropriate detail.

Ledger forms. A ledger form must provide for the following minimum information: date of posting, reference data to show origin of posting, provision for distinguishing debits from credits and, of course, provision for a heading to identify the account. There are many types of ledger forms available commercially and, where the

situation warrants, specialized forms are used. As with journals, any good office supply catalog will provide information as necessary.

Procedures and Methods

Importance of procedures and methods. The purpose of accounting has been previously defined as the creation of an orderly financial record for certain uses. Corollary, but equally important, are two basic requirements: (1) the information must be made available in time to be of maximum utility; (2) the cost of generating, recording and summarizing the information must be kept at the lowest possible figure consistent with the requirements for that information. These basic considerations indicate the importance of procedures and methods.

Procedures. A procedure may be generally defined as a series of clerical operations that are concerned with the production of accounting data and the summary of that data up to the point of posting in the general ledger. Consideration of procedures includes the routines involving posting of subsidiary ledgers. There are all manner of procedures—sales distribution, sales order, shipment order and billing, timekeeping, and payroll, to name a few.

When the adequacy of accounting procedures is examined, procedures generally must be broken down into considerable detail. Since each has a specialized purpose, it is only possible in this treatment to lay down a few general criteria of suitability. These are:

1. Sufficient copies of data must be made to avoid re-writing.
2. The maximum possible information should be filled in during a single writing to avoid frequent collation, re-insertion into typewriter, and other duplication of effort.
3. Principles of good form design should be followed in arrangement of information to facilitate placing information on the form and taking information from the form.
4. Paper should flow from point to point in orderly fashion.
5. Procedures affecting various parts of the accounting system should be integrated so that the same data required in several different operations are not prepared in more than one place.

Disregard of these criteria usually results in increased clerical cost, delays, and production of inadequate information.

Methods. Methods concern the mechanical devices involved in the production, handling, and storage of data and records. The study of methods requires consideration of adding, calculating and book-keeping machines and devices, methods of reproduction, summary and sorting equipment and devices, record housing and storage equipment and devices; in short, all of the office devices and machines now available. The selection of the right piece of equipment for the job is just as important in the office as it is in the factory. The wrong selection or inadequate consideration of methods improvement can prove costly.

Some Accounting Terminology

Terms defined. The language of accounting contains many terms that are meaningless to the business executive who has no accounting background. The terms encountered in financial statements are explained in the sections dealing with the balance sheet and the income statement (see pages 854 *et seq.* and 891 *et seq.*) Other terms that the businessman should be familiar with are defined below.

Account. An accounting record maintained in a ledger to which entries are posted from books of original entry in the form of debits (at the left) and credits (at the right). The difference between the totals of both sides of the account is known as the balance. The account assembles all transactions relating to the subject, which is identified in the name of the account.

Accrual accounting. A method of keeping the books of account by which expenses and income are allocated to periods to which they are applicable, regardless of when payment for such expenses and income is made. Adjustment entries are made in the journal to record accrued income, expenses, and other allocations.

Adjustment entries. Journal entries made at the close of a fiscal period to take up income and expense in the proper period and make the profit and loss statement show the net income from operations during a stated period. This involves setting up deferred charges (see page 878) and prepaid expenses (see page 878), deferred income (see page 884), accrued expenses (see page 881) and provisions for bad debts and depreciation. Adjustment entries are also made to correct errors discovered when the books of account are audited at the close of the fiscal period preliminary to preparing an income statement and balance sheet.

Closing entries. Entries made in the general journal at the end of the accounting period to transfer all the balances of the income and expense accounts and the nominal elements of mixed accounts (such as the profit and loss element in the sales account) to balance sheet accounts. The closing entries first transfer the balances to the profit and loss account, which in turn is closed (by closing entries) into the capital account (if it is a sole proprietorship or partnership) and into the earned surplus account (if it is a corporation).

*Double entry bookkeeping.** The method of recording business financial transactions by equal debits and credits.

In recording financial transactions in the journal, two phases of the transaction (debit and credit) are recorded in each individual entry. For instance, the purchase of machinery for cash is recorded by:

Dr. Machinery	\$5,000	
Cr. Cash		\$5,000

(read "debit machinery; credit cash"). This signifies the two phases of the transaction just made, viz., the acquisition of an asset, machinery, and the relinquishing of another asset, cash.

As another example, the payment of a non-interest bearing note is recorded:

Dr. Notes Payable	\$1,000	
Cr. Cash		\$1,000

This signifies the reduction of the liability "notes payable" (by payment) and the reduction of the asset, cash.

Since the debits and credits in journal entries must always equal each other, and these balanced entries are, in turn, posted to a ledger, it follows that the aggregate of the debits in all the ledger accounts must be equal to the aggregate of the credits in these accounts. This is the basic concept of double-entry bookkeeping.

It also follows that, since the individual balance in any particular account discloses the same net effect as the aggregate debit and credit totals, the total of all the debit balances in the accounts of a ledger must equal the total of the credit balances. In other words, the ledger should always be in a balance or equilibrium.

Trial balance. A listing of the debit and credit balances of ac-

* Acknowledgment: Tunick and Saxe, *Fundamental Accounting*, 2d Ed., page 56. Englewood Cliffs, N. J.: Prentice-Hall, Inc., 1956.

counts in a ledger (usually the general ledger) for the purpose of seeing that the total debit balances equal the total credit balances, as they should in double entry bookkeeping. It is used as the basis for preparing the balance sheet and income statement.

2. HOW TO USE ACCOUNTING RESULTS FOR EXECUTIVE CONTROL *

Importance of control in business management. Two of the major purposes of accounting are the furnishing of information for *control of current operations* and *control of future operations*. Accounting helps management to exercise control of the business through (1) furnishing reports on current operations, and (2) supplying data for the planning of future operations.

Reports for Control of Current Operations

Classification of operating reports. Reports that aid management in the control of current operations can be divided into two general classes:

1. Financial reports.
2. Operating reports.

Each type serves a different purpose and is of major interest to different groups.

Financial reports. The principal types of financial reports are:

1. *Balance sheet.* The balance sheet shows the financial position of a business on a certain day by listing the monetary values of all the assets and the amounts of all the liabilities. The difference between the two represents the net worth of the business on the day as of which the balance sheet is prepared. The balance sheet also shows the proprietary interests in the net worth of the business. The balance sheet amounts are based on the assumption that the company will continue in business indefinitely, and therefore the net worth shown in the statement is in no sense an indication of the amount that might be realized if the company were to be liquidated immediately. Usually the balance sheet presents the condition of the busi-

* Acknowledgment is made to William W. Voorhees, Assistant Controller, Air Associates, Inc., for this subsection.

ness at the beginning of the period as well as at its close. A complete explanation of how the balance sheet is constructed is given beginning at page 854.

The balance sheet is of great interest to the highest echelons of management, such as the board of directors and the president, and is of even greater interest to outsiders. The latter includes suppliers who are asked to extend credit to the business, banks and other lenders to whom applications for loans are made, and those who have invested capital in the business or who contemplate doing so.

2. *The cash report.* The cash report is usually prepared daily to show the interested officers, generally the president and the treasurer, the cash position of the company each day. Important in this report are the previous day's balance, the cash receipts for the day, and the day's cash disbursements. This report is usually a summary of each day's cash receipts and disbursements for a period of a month. A form of daily report is shown in Figure 71.

REPORT OF DAILY CASH BALANCE				
Month of _____, 19__				
Date	Previous Balance	Received Today	Disbursed Today	Closing Balance
1				
2				
3				

Figure 71. Daily Cash Report.

When conditions are favorable and cash balances are ample, the need for this report is not urgent. However, under unfavorable conditions, a daily report is important. If the business operates on a budget system, weekly cash reports are usually adequate.

3. *Report of daily accounts receivable balances.* The prime function of a daily report of accounts receivable balances is to inform management of any lag in receiving collections from customers on their accounts. The report traces the previous day's balance through the current day's billings and the current day's collections on customer accounts, and arrives at the closing balance in accounts receiv-

able daily. A form of daily report of accounts receivable balances is shown in Figure 72.

REPORT of DAILY ACCOUNTS RECEIVABLE BALANCE				
Month of _____, 19____				
Date	Previous Balance	Billed Today	Collected Today	Closing Balance
1				
2				
3				

Figure 72. Report of Daily Accounts Receivable Balances.

When conditions are favorable and customers pay promptly, the need for this report is not urgent. But under unfavorable conditions, when payments by customers on their accounts lag, the report of daily accounts receivable balances becomes important.

4. *Inventory reports.* Through inventory reports, management as well as those concerned with current inventory operations are kept informed of changes of the inventory position. For wholesalers, jobbers, and other trading companies, the report of inventory balances, commitments, and inventory turnover is possibly the most important report for purposes of managerial control and the daily preparation of the report may be warranted. In the case of a manufacturing concern, a statement as to the amount of inventory actually on hand is of real importance only as it is related to the trends in turnover rates and to unfilled orders on hand. Therefore, the rate of turnover, or the number of days' supply, should be shown on the inventory analysis for each major classification of finished goods, and, in many cases, for basic raw materials. Also, inventory reports on work-in-process may be necessary.

In the finished goods report, comparison is usually made with the figures for the previous month end, beginning of the fiscal year, and at times, for the previous year.

5. *Working capital report.* This report lists the current assets and current liabilities as of the date of the report. This report may be prepared weekly, if the company is suffering from lack of working

capital; otherwise monthly reports are adequate. Comparisons may be made with the previous month end and in cases where there is a regular fluctuation of working capital during the month, it is helpful to give comparisons with the same date last month.

6. *Other financial reports.* In some companies, such reports as a capital expenditures report, a report of fixed assets, an analysis of surplus, and other types of financial reports may be prepared.

Operating reports. Operating reports reveal the use made of the assets and of the manpower of the company, the results of operations, and the sources and causes of profits and losses. The principal types of operating reports are explained below.

1. *The income statement.* The income statement is a summary, for a definite period, of income received from business operations, all costs and expenses involved in producing the operating income, all income from sources other than direct operations of the business, all deductions from income, and the net results of the conduct of the business for the period covered. The income statement may be combined with a statement of surplus, in which case it will show distributions of income made during the year to the stockholders, and other changes in the surplus account. In the case of sole proprietorships and partnerships, the income, profit, and loss statement may be combined with the capital accounts to show changes made in the capital accounts during the year. A complete explanation of how the income statement is constructed is given beginning at page 891.

2. *Analysis of gross profits by product line.* This report is a gauge of sales department effectiveness in price realization. It is essential in a situation where the sales department has a degree of latitude in price quotations. It is, of course, of prime interest to the sales executive. It may be extended to show an analysis of gross profit by salesmen and/or by sales territories. If that is done, the sales executive has an effective tool for controlling his end of the operation. The analysis by product lines reveals the products that are not carrying their share of the load.

3. *Other operating reports for sales.* Other reports that are prepared for control and direction of sales activities include a booking and backlog analysis, a daily report of billings, bookings, and backlog, a lost order report, an analysis of selling or distribution expense, and an analysis of advertising expense by media and by product line.

4. *Operating reports for production.* This group of reports calls for the greatest ingenuity and study. There are an infinite number of reports and analyses that may be used and it is impossible to set forth any standard types of reports. They include, generally, factory cost reports, departmental cost summaries, reports for control of material, analyses of direct labor costs, and reports for control of factory overhead.

5. *Operating reports for purchasing.* Where materials are an important item of cost to the business, reports should be prepared to enable management to see that working capital is not tied up unnecessarily in raw materials. A periodic report of prices of basic materials together with charts showing the trends in these prices are helpful to the purchasing department. Frequently this is developed within the purchasing department rather than the accounting department.

General rules for operating reports. Experience has shown that certain general criteria may be applied to operating reports. These may be stated as follows:

1. The report must be keyed to the management level for which it is intended. The higher the level, the less detail is required. Thus, a report to the foreman of a department contains detailed information about that department. The division manager's report on the same subject would cover all departments in the division in a summary form.

2. The report must be timely. Information that is too late to be of use is worse than no information.

3. The report should contain sufficient information to be helpful. It should not contain so much information that it is confusing.

4. The report should contain information only on those factors of the operation about which the supervisor receiving it can do something.

5. The report should be in the best possible form for presentation of the subject matter. Tabulations should not be used where simple charts are clearer, and vice versa.

6. A report should be reviewed periodically to determine the need for change in content or presentation, or even discontinuance.

Solving the problems associated with the development of a report system rests mainly with the accounting executive. If, however, the

businessman has some idea of what he wants, and of when and how he should be getting it, his criticisms become constructive.

Data for the Planning of Future Operations

Controls for future operations. Under modern business conditions the future cannot be left to itself. Any business organization, from the smallest to the largest, must plan ahead. In the case of the corner grocer the plan may be in the mind of the owner when he says, "I think I'll add a delicatessen counter next year." In the case of a large corporation, it may be a lavish document resulting from months of market research, plant site research, engineering studies, and the like. It may be something between these extremes, depending on the size of the business.

An essential part of any plan is the determination of methods to gauge the results. Reverting again to the example of the corner grocer, he will install his delicatessen counter only because he feels that it will produce additional sales income and, hence, more profit. In fact, he will have established in his mind a dollar amount he hopes to gain in both sales and profits. Thus, he can measure the degree of realization as time passes after his counter is installed. He can take appropriate action to get back on his plotted course if actual results measured against his planned goals fall short of what he anticipated. When any business organization is in a position comparable to that of the corner grocer, it can be said to have achieved control.

The principal techniques that are used by large businesses to establish controls for future operations are *standard costs* and *budgets*. Only a brief description will be given of these techniques since the purpose is merely to show how they tie in with the use of accounting information for control.

Comparison of standard costs and budgets. Standard costs and budgets have similar basic characteristics. Both represent a set of conditions that it is desirable to achieve. In other words, both result from a conscious effort of predetermination. Both are used as a reference point against which results are measured and deviations derived. Both are considered as devices of "management by exception," which means that variances from predetermined goals are spotlighted and attention focused on the *exceptions* indicated by the variances.

There is one important difference between standard costs and

budgets. Standard costs, as the name implies, deal only with one aspect of the entire operation—cost to manufacture, cost to sell, costs of administration. Budgets, on the other hand, are all-inclusive and to be properly developed must consider not only costs but sales, profits, inventories, capital expenditures, cash, and other operations of the business. Budgets can be prepared without the use of standard costs, but standard costs are extremely helpful in the process.

Tie-in of standard costs with use of accounting information. The term “standard costs” can refer either to the cost of operations (manufacturing, selling, administrative) or to the cost of the products made and sold. To a great extent, the latter are derived from the former. Standard costs of operations are those having the closest relationship to the accounting information developed in the books.

Two close relationships between standard costs and accounting information should be noted: (1) The cost standards are based to a great degree on the past history contained in the accounting records. Past performance is not an absolute criterion of what should happen in the future. Conditions will change, material costs will go up and down, and labor costs will rise and fall. Business activity will be higher or lower, having varying effects on the sales and manufacturing activities of individual companies. For these reasons what happened in one period is not a fair standard in absolute amounts for what should happen in the next. A study of historical costs will, however, indicate certain *relationships* between cost factors and the volume of business that can, with experience and judgment, be applied for projecting the future. (2) Once the standards have been established, current results are measured against those standards to show whether the plans are being realized.

Tie-in of budgets with the use of accounting information. Budgeting is the forecasting of realizable results over a definite period or periods, the planning and coordination of the various operations and functions of the business to attain the realizable results, and the control of variations from the approved plan in order that the desired results may be achieved.

First, forecasts are made of probable income and expenditures over a relatively long period. Second, approved budgets or plans of operation based in a large measure upon the forecasts are established. (The budget period is usually shorter than the forecast period, gen-

erally one year, in order to achieve greater accuracy in planning over the near term and to obviate the necessity for frequent revisions of the budgets themselves.) Third, statistics of actual performance are compiled at stated intervals during the budget period and they are compared with the budget allowance. Fourth, variances of actual from budgeted performance are measured and reasons or causes of the variances are analyzed. Fifth, the necessary corrective action to be taken to reduce or eliminate the cause of the variance is determined and the proper persons are authorized to institute the corrective action. The decisions are followed up to see that the agreed-upon action is taken and results achieved.

The third step indicates the most direct tie-in of budgets with the use of accounting information. The accounting records become the basis for the preparation of reports for each of the budgets that has been prepared—the sales budget, the inventory budget, the cost of production budget, the selling expense budget, the administrative expense budget, and other budgets. Each report compares the actual figures as shown by the accounting records with the budgeted figures and shows the per cent of variance. A study of these reports enables management to see where the variances have occurred. Armed with this information, it can seek out the causes of the variances and take the necessary corrective action.

3. HOW THE BALANCE SHEET IS CONSTRUCTED

Meaning of descriptive terms in the balance-sheet title. The statement of financial condition on a certain day is most commonly called a “balance sheet.” (See page 847.) The term implies that the statement has been drawn up from the books of account and that the figures represent the balances shown in a double-entry ledger after closing. The following descriptive terms are used to show the nature of the statement:

1. *General balance sheet.* The term “general” has no special significance. It is employed principally by the railroads in presenting their balance sheets.

2. *Condensed balance sheet.* The word “condensed” is used to indicate that the balance sheet is a summary and that details are omitted. It implies that the balance sheet is supported by schedules,

which may or may not accompany the statement. (See page 861.)

3. *Comparative balance sheet.* Any balance sheet so entitled will make comparisons with data for the immediately preceding closing date, or some earlier date or dates. Such statements usually contain columns showing increases or decreases in amounts during the intervening period.

4. *Consolidated balance sheet.* The prefixing of the term "consolidated" indicates that the statement shows the financial condition of a group of companies controlled by the same interests. In other words, the assets and liabilities of the companies whose stocks are owned by the parent company are substituted for the stock of the subsidiary companies, and the financial condition of the group is presented as though the subsidiaries had no separate corporate existence. All intercompany relationships are necessarily eliminated in the preparation of the consolidated balance sheet. For example, if parent Company A has loaned subsidiary Company B \$50,000 and has taken Company B's note therefor, the item would not appear in the consolidated balance sheet, since the note receivable in Company A's accounts is offset by the note payable in Company B's accounts. Another example is the elimination of intercompany profits from the inventories.

No fixed rule is followed by accountants in the determination of the amount of control necessary to justify the inclusion of the subsidiary accounts in the consolidated balance sheet. If the controlling interest is only 51 per cent, it is generally not regarded as sufficient to warrant combining the accounts of the subsidiary with those of the parent company in the consolidated balance sheet. Some accountants consider that a 60 per cent interest is sufficient; others do not combine the accounts of a subsidiary in the consolidated balance sheet unless a 75 or 80 per cent interest is owned by the parent company. On the other hand, some accountants take into consideration the size of the subsidiary company, and if it is so small that a 40 per cent interest is insignificant in comparison with the net worth of the parent company, they will see no objection to consolidating its accounts. Unless a note is appended to the balance sheet to show what principles have been applied in the consolidation, the term "consolidated balance sheet" conveys no accurate idea of what group of companies is covered.

If the accounts of subsidiaries that are not completely owned by the parent company are combined for balance-sheet purposes with those of the parent company, the interest of the minority stockholders must be set forth in the balance sheet as a liability, or, as some accountants call it, an "accountability." This item is further explained on page 885. The parent company's equity in the aggregate earnings or losses of the unconsolidated subsidiaries must also appear on the balance sheet.

Combinations of titles. Various combinations of the terms mentioned above are used in entitling balance sheets. Thus it is not uncommon to come upon a "comparative condensed general balance sheet," or a "condensed consolidated balance sheet," or any other combination of the terms.

Other titles for balance sheets. Balance sheets are sometimes entitled as follows:

1. Statement of financial position.
2. Financial position.
3. Statement of financial condition.
4. Statement of assets and liabilities.
5. Statement of assets, liabilities, and net worth.
6. Statement of ownership.
7. Statement of what the company owned and what it owed.
8. Assets, liabilities, and capital investment.
9. Statement of affairs.

A statement bearing one of the above titles is not necessarily a reflection of balances appearing in the books of account on the date mentioned in the statement. The use of any of the titles in place of "balance sheet" does not attach any particular meaning to the statement except insofar as usage and practice have given them special significance. Statements rendered to banks and others for the purpose of obtaining loans are frequently called "financial statements." The term "statement of condition" is employed in the presentation of the balance sheets of banks. "Statement of affairs" identifies the financial statement of an insolvent company.

How a statement of affairs differs from other balance sheets. A statement of affairs is prepared from the viewpoint of liquidation.

Thus it contains two columns for assets, in one of which the going-concern value is given, and in the other of which the estimated realizable value is noted. It furthermore classifies accounts differently from an ordinary balance sheet in that the assets are grouped to show those which have been pledged with creditors and those against which there are no liens, while the liabilities are arranged according to priorities, as prior, fully secured, partially secured, and unsecured.

What a pro-forma balance sheet is. A statement that carries the title

PRO-FORMA BALANCE SHEET, , 19..

is one that gives effect to changes that have not in fact taken place. It portrays a financial condition that does not exist, but which it is expected will exist as a result of certain contemplated transactions. Such balance sheets are prepared, for example, in connection with new financing, mergers, recapitalizations, reorganizations, and the like. They are sometimes called "giving-effect" balance sheets. The statement should indicate the transactions to which effect has been given. Thus, the title would appear as follows:

THE COMPANY
BALANCE SHEET, DECEMBER 31, 19

(Giving effect as of that date to the subsequent issuance and sale of \$8,500,000 Refunding Mortgage Bonds and the proposed application of the proceeds thereof)

How to entitle the balance sheet. The heading of the balance sheet should contain the following three points of information:

1. The name of the person, firm, or corporation whose financial condition is portrayed.
2. What the statement purports to be.
3. The date as of which the statement is prepared.

The following illustrates a balance-sheet heading:

INTERNATIONAL HARVESTER COMPANY AND AFFILIATED
COMPANIES

CONSOLIDATED BALANCE SHEET, DECEMBER 31, 19..

The date is usually the day on which the books were closed. This is generally the last day of the calendar year or of the fiscal year. The

latter term generally means an accounting period of twelve months ending on the last day of any month other than December. The expression "as of" or "at" before the date is sometimes used; the usual practice, however, is to omit such expressions. If the balance sheet is a comparative one, showing amounts for the current date and for an earlier date, both dates appear in the heading as follows:

DECEMBER 31, 19 . AND DECEMBER 31, 19 .

Form of the balance sheet. Unless a form of balance sheet is prescribed by some regulating body, bank, or other outside organization calling for a statement of financial condition, the arrangement of the balance sheet need follow no particular order. The most common setup of the balance sheet presents the assets on the left-hand side of the sheet and the liabilities, capital stock, and surplus on the right-hand side. The balance sheet thus resembles an account.* It is not unusual, however, to list the assets in the upper part of the balance sheet, and to place the liabilities, capital stock, and surplus immediately below the assets.

The assets and liabilities that appear in the balance sheet vary with the nature of the business, the accounts maintained in the books of the company, and the purpose for which the financial statement is prepared. The items on the asset side can generally be classified into:

- | | |
|---------------------------|----------------------|
| 1. Current assets. | 4. Fixed assets. |
| 2. Permanent investments. | 5. Deferred charges. |
| 3. Sinking funds. | |

The liabilities side of the balance sheet can be divided into:

- | | |
|-------------------------|---------------------------|
| 1. Current liabilities. | 3. Deferred credits. |
| 2. Fixed liabilities. | 4. Proprietary interests. |

An explanation of the groups and the items that comprise them is given on pages 861, *et seq.* No fixed rule exists as to the order in which these groups shall be presented in the balance sheet. A relationship should be maintained, however, between the two sides of the balance sheet. If the current assets are presented first on the asset side, the current liabilities should head the liabilities side; if the fixed

* In England, the practice is to use the left-hand side of the balance sheet for liabilities, capital stock, and surplus, and the right-hand side for the assets.

assets are listed first among the assets, the fixed liabilities or the proprietary interests should be stated first among the liabilities.

A balance sheet prepared for submission to a bank, a credit agency, or a creditor for purposes of obtaining a loan or credit generally takes the form of an account, with the current assets listed first on the left-hand side and the current liabilities first on the right-hand side.

Methods of clarifying the balance sheet. The following methods are commonly used to simplify the reading and understanding of the balance sheet.

1. *Captions above each class of items to indicate their nature.* The classification given above suggests the captions that may be used. Others will be mentioned as the items are discussed.

2. *Footnotes.* Any item requiring further explanation may be marked with an asterisk or superior figure, and the star or number may be explained at the foot of the balance sheet. The following is an example:

CURRENT ASSETS:

Cash	\$58,667,466.42	}	*
Marketable securities, at the lower of par or market	49,282,522.00		
* Amount required for retirement of special stock on April 15, 19	47,866,368.65		

3. *Notes or comments.* The tendency in recent years has been to clarify the balance sheet by appending thereto notes or comments pertaining to the balance sheet as a whole or to particular items. With regard to the balance sheet as a whole, if there has been any change as compared with the preceding period, either in accounting principles or in the manner of their application, which has had a material effect on the statement, the nature of the change should be indicated. The explanation of items in the balance sheet, beginning on page 861, points out those that require elucidation and indicates how, by means of explanatory notes, the items can be clarified. See page 866 for an example.

4. *Expansion of items.* The following illustrates an expansion of the item "Property":

Real Estate and Plants, Raw Sugar Properties, Warehouses,
Cooperage, Railroads, Tank Cars, Steamships, Coal Barges,

Wharves and Garages, with their machinery, equipment, etc., and timber and other lands owned in fee or through ownership of the entire capital stock of constituent companies, at cost less depreciation . . . \$80,571,809.70

5. *Running comments in the body of the statement.* The following excerpt from an actual balance sheet shows a liberal use of comments:

CURRENT ASSETS:

This group comprises cash and items which in the ordinary course of business are convertible into cash in time to meet maturing obligations.

CASH \$ 566,483.22

This item represents money on deposit in banks, in transit, and on hand in the companies' offices.

INVESTMENTS—At Market Value:

State, County, and Municipal Bonds . . . 530,522.50

Railroad, Industrial, and Public Utility Bonds 104,310.00

Other 3,101.00

The three preceding items represent the temporary investment of excess current funds.

NOTES, DRAFTS, ACCOUNTS RECEIVABLE, AND ACCRUALS 1,520,738.12

These items at September 30, 19 , represent accounts receivable from customers (after deducting reserves of \$111,687.15 for items which may be uncollectible) and interest receivable from investments, \$21,-274.91, salesmen's advances, \$7,814.68, amounts due from employees, \$8,565.25, and debit balances in accounts payable and sundry accounts receivable, \$55,115.83 (after deducting reserves of \$17,630.98).

DUE FROM EMPLOYEES FOR PURCHASES OF CAPITAL STOCK 6,950.92

This amount is receivable from employees on their purchases of shares of stock; the market value of such shares, which are held as collateral, was \$11,250.00 at September 30, 19 . . .

INVENTORIES	1,243,950.19
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This represents the cost of manufactured finished goods, the lower of cost or market of goods purchased for resale, and generally the lower of cost or market of materials and supplies.

TOTAL CURRENT ASSETS	\$3,976,055.95
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*The sum of the preceding items.
(The excess of total current assets over total current liabilities, \$3,161,260.73 at September 30, 19 , constitutes "Working Capital.")*

6. *Schedules.* Since for most purposes a condensed balance sheet is sufficient, it is frequently advisable not to make the statement bulky by including details that can be furnished in the form of schedules. Any item in the balance sheet may be expanded by means of a schedule. The following is a list of schedules commonly prepared in connection with condensed balance sheets:

- (a) Property account.
- (b) Securities owned.
- (c) Investments and advances—affiliated companies.
- (d) Funds in the hands of trustees.
- (e) Inventories.
- (f) Deferred charges.
- (g) Depletion, depreciation, amortization, and current maintenance reserves.
- (h) Funded debt.
- (i) Capital stock.
- (j) Contingent liabilities.

Explanation of Items in the Balance Sheet

CURRENT ASSETS

What the current assets of a business are. The current assets of a business are cash and other assets that will be converted into cash during the normal operations of the business, as well as those that can readily and quickly be converted into cash without interfering with the regular operations of the business. The items that ordinarily make up the current assets are discussed below.

Cash. This item includes demand deposits in banks, legal tender, checks, bank drafts, and money orders. It may also include paper left at a bank for collection, if the bank has credited the depositor's account with the deposit. Cash will be overstated if the company has, for the purpose of showing a strong cash position, recorded as of the last day of the period amounts received after the close of the period. Post-dated checks, dishonored checks, I.O.U.'s, and postage stamps should not be considered as cash.

Time and special deposits. Time deposits may be shown separately among the current assets or may be included with the cash item. In the latter case, the sum representing time deposits should be indicated in parentheses, thus:

Cash (including \$1,000,000 in time deposits) . . . \$1,635,928.00

Special deposits from which predetermined disbursements are to be made, such as dividend accounts, payroll accounts, and the like, may be included among the current assets.

Marketable securities. This item may include only those securities with a ready marketability that are being held during a period of small cash requirements and that will be sold as soon as a need for cash develops, or it may include as well all securities that are readily marketable and that can be disposed of without undue interference with the business. It should not include marketable securities that will not be sold in the ordinary course of business. For example, securities that represent investments made to maintain trade relations are not current if by a sale of them the company would interfere with the purpose for which they were acquired. The item of marketable securities is sometimes divided into "Government securities" and "Sundry marketable securities." When listed among the current assets, marketable securities should be included at the lower of cost or market value. The valuation may be shown in the following manner:

U. S. Government securities at lower of cost or quoted market value (market value \$25,419,946)	\$24,937,026
Other marketable securities at lower of cost or quoted market value (market value \$874,363)	864,210

Accounts receivable. This item should represent the net amount of accounts receivable that will be converted into cash in the regular

course of business, after accounts ascertained to be worthless have been eliminated. The account should show the amount of reserves for bad debts and the reserves for any other deductions, such as freight to be paid by the customer and deducted from his bills, allowances, and discounts. The following illustrates a common method of showing the reserve:

Accounts receivable (less reserves for discounts,
freight, and doubtful accounts—\$100,754.40) \$235,535.67

In many balance sheets, receivables that will not be converted into cash within a year, such as deferred-payment contracts to the extent to which they are not payable within the year, are not included among the current assets. They may appear as a separate item below the total of current assets, or among the "other assets." See page 879. It is generally considered proper to classify past-due items as current receivables, unless collection will be deferred beyond a year.

Accounts receivable should be divided into "trade receivables" and "other receivables" in order that the statement may clearly reveal what portion of the receivables has resulted from trade and what portion represents current receivables resulting from other transactions. A further division should be made to indicate the amount of receivables arising from sales on regular or installment terms. In the absence of the latter division, the reader of the balance sheet may be led to believe that all of the receivables are collectible within the normal period of 30, 60, or 90 days, depending upon the terms of sale in the business. The information may be presented thus:

Customers' accounts:
 Regular retail terms \$2,274,074.70
 Installment terms 734,802.51

In a consolidated statement, the amount of reciprocal intercompany receivables and payables is eliminated. (See page 855) Any amounts collectible currently from affiliated companies, not eliminated through reciprocal intercompany transactions, should be listed separately under the accounts receivable as "Affiliated companies' accounts" to distinguish them from customers' accounts and other accounts. The item should not be included among the current assets if the debtor company does not have a satisfactory margin of current assets over current liabilities, including such accounts. Under the

latter circumstances, the affiliated companies' accounts would appear under investments or some other title, as the circumstances indicate.

Notes receivable. Notes receivable, or bills receivable, as they are sometimes called, are frequently combined with accounts receivable. Whether so combined or entered as a separate item among the current assets, the amount of notes receivable should not include dishonored notes—that is, those that have passed their maturity without being collected. The form of balance sheet contained in the bulletin entitled "Verification of Financial Statements," issued by the Federal Reserve Board, includes past-due notes among the current assets, but the manner of presenting them, illustrated below, leaves no room for misunderstanding.

Notes and accounts receivable:

Notes receivable, customers' (not past-due)	.....
Accounts receivable, customers' (not past-due)	.....
Notes receivable, customers' (past-due)	.....
Accounts receivable, customers' (past-due)	.. .. .

Less:

Reserve for bad debts	.....
Reserve for discounts, freight, allowances, etc.	.....

If the reserve for bad debts takes into account possible losses on notes receivable, it should be deducted in the balance sheet from the total of notes and accounts receivable; if not, the reserve should be deducted only from the accounts receivable.

Notes receivable that are not due within a year should be segregated from the current assets, unless trade practice warrants a different treatment. (See page 877.) Notes arising from transactions outside of the ordinary business of the company, and notes from stockholders, directors and employees, should be separated from those arising from trade accounts. (See page 879.)

What was said of accounts receivable of affiliated companies is equally applicable to notes receivable. Notes of affiliated companies should be listed separately from customers' notes, and should be included among the current assets only if the debtor company has a satisfactory margin of current assets over current liabilities, including such notes.

See page 884 for the manner of noting in the balance sheet the possibility of liability on customers' discounted notes.

Inventories. This item varies in the balance sheet with the nature of the business. A company that purchases finished goods for resale would have a merchandise inventory; one that manufactures products would have an inventory of finished goods, goods in process, raw materials, and supplies. Supplies usually denote commodities used in the operations of a business that are not ingredients of a manufactured product and that are not sold specifically. Since they represent prepaid expenses, they may be excluded from the inventory and placed among the deferred charges. Supplies, however, are frequently included among the inventories because they involve a physical inventory rather than because they constitute assets of greater currency than other deferred charges.

Containers, barrels, cartons, bottles, cans, and the like, may represent materials entering into the production of the product, supplies, or permanent assets. If they constitute materials entering into production, they may be placed among the current assets; if supplies, they may appear among the deferred charges; and if permanent assets, they may be included among the fixed properties. (See page 869.)

Included in the inventories may be goods sent out on consignment and not sold, valued at cost of the goods plus any expenses incurred in sending the merchandise to the consignee. The inventory should not include merchandise received to be sold on consignment.

What the valuation of inventories in the balance sheet represents. The standard rule for the valuation of inventories is "cost or market, whichever is lower." Although most balance sheets generally show the basis of valuation by the inclusion of a parenthetical statement immediately after the item, indicating that the lower of cost or market has been used, that information is not sufficient for a proper understanding of the valuation.

The analyst should know whether costs have been determined by (1) specific identification, (2) average cost, (3) first-in—first-out (Fifo), (4) last-in—first-out (Lifo), or some other method. Also, such questions as the following are of interest to the analyst:

1. Have the incidental expenditures for freight, drayage, and storage been included in calculation of cost?
2. Have cash discounts been treated as a reduction of cost or as financial income?
3. What method has been used to arrive at the cost where pur-

chases have been made during the year at fluctuating prices and where goods have been manufactured during the year at various costs?

4. How have reductions from cost to market been treated in the accounts, and how are reduced inventories treated in the succeeding period?

In a consolidated statement, the question arises: How have intercompany profits on goods included in the inventory been handled? The intercompany profits should be eliminated, unless it is impracticable to do so, and in that event, a note in the balance sheet should explain that they have not been eliminated. A note in the balance sheet, summarizing in general terms the instructions issued by the company to those charged with the duty of preparing the actual inventories, would throw some light upon the inventory item. The following two examples of notes, taken from actual balance sheets, demonstrate how the inventory item can be clarified. Neither of the notes, to be sure, answers all the questions that arise in an analysis of the asset.

Raw materials and bulk supplies are priced at the lower of cost or market. Miscellaneous supplies, work in process, and finished products are priced at cost or less, a large portion being covered by sales orders at prices in excess of inventory value, the remainder being valued conservatively, in the opinion of the management, by the provision of reserves considered adequate for losses anticipated from obsolescence.

* * *

The quantities of inventories on hand at the end of the year 19 . were ascertained by employees of the Corporation, by weight, count, or measurement, except in the case of certain raw materials the taking of physical inventories of which was impracticable. As to the latter, the quantities shown by the books were used, the book balances having been adjusted from time to time during the year on the basis of estimates made by such employees.

Inventories, other than contract work in progress, were valued at the lower of cost or market. (Reference is made here to a schedule of inventories.) In valuing such inventories, interdepartment, interplant, and intercompany profits have not been included.

Contract work in progress was valued at cost, as adjusted by estimated profits or losses on certain work nearing completion or on separate units thereof. Such profits and losses have been taken or provided for, based upon estimates of probable final costs. The income account is charged with such estimated losses and is credited with such estimated profits.

The unbilled portion of the cost of the contract work in progress does not include interdepartment, interplant, or intercompany profits.

Other current assets. A number of other assets may properly be added under the caption of "current assets," or grouped under a separate heading called "other current assets." They include:

1. Agents' balances.
2. Amounts due from employees. This item may be included in "other assets." See page 879.
3. Accrued interest and dividends receivable.
4. Bonds and other securities maturing in the near future. The names of the securities and the maturity dates should be indicated in the balance sheet.
5. Sight drafts with bills of lading attached, and C.O.D. items.
6. Advances that are returnable within a short period.
7. Good-faith deposits on United States Government contracts.

FIXED ASSETS OR FIXED CAPITAL

What are the fixed assets of a business? All property of a permanent nature, whether tangible or intangible, that is used in the operation of the business and that is not intended for sale may be considered the fixed assets of an enterprise. Fixed assets appear in the balance sheet under the caption of "fixed assets," "fixed capital," or "capital assets." The use of the latter term is not recommended, since the assets properly classified as fixed assets do not include all of the assets that represent capital. The items making up this group of assets will be discussed below under the two principal headings of:

1. Tangible fixed assets.
2. Intangible fixed assets.

Tangible Fixed Assets

What the tangible fixed assets are. Tangible fixed assets include land, buildings, machinery and tools, furniture and fixtures, patterns, delivery equipment, containers, and similar property.

How tangible fixed assets are valued. The values of fixed assets set forth in the balance sheet may be:

1. Cost, regardless of upward or downward changes in market value.

2. Increased value on the basis of an appraisal. The latter is justified if the increase has not been credited to the surplus account and if the fact that the books show appraised value has not been overlooked in the determination of depreciation.

3. Decreased value on the basis of appraisal.

The basis of valuation should be indicated for each item, with the year of appraisal noted if appraised value is the basis. The following excerpt from a balance sheet illustrates how the basis is noted:

Land, factory sites, etc., at cost	\$ 3,711,960.41
Buildings, docks, etc., at sound values as appraised in 19. , plus subsequent additions at cost	12,465,553.81
Machinery, equipment, motor trucks, etc., at sound values as appraised in 19. , plus subsequent additions at cost	14,328,714.54

If the basis of valuation is the same for all the items, it may be noted in the caption as illustrated below:

Fixed Assets, as Revalued by the Company, December 31, 19. . ,
plus Subsequent Additions at Cost:

The reserve for depletion, depreciation, wear and tear, and obsolescence of the properties included among the fixed assets should appear as a deduction from the values of such properties.

Land. When this item is included among the fixed assets, it should represent land used for plant purposes and not land held for speculation or for future plant use. Nor should it include land held under long-term leases. If cost is the basis, the value may include brokers' commissions, fees for examining and recording title, taxes accrued at the date of purchase, and the cost of such improvements as installing sewers and laying pavements. Interest on installment payments of assessments should not be included in the cost of the land.

The item "real estate" in the balance sheet may represent land and buildings. In the books of account, however, the two assets are ordinarily kept separate, since items of depreciation and insurance may affect one and not the other.

Buildings. Both buildings acquired and buildings constructed are included in this item. In the case of buildings acquired, cost covers the purchase price, the cost of all alterations, improvements, and

repairs made to restore depreciation that occurred before the property was purchased. In the case of buildings constructed, the cost covers material and labor, or the contract price, and many other incidental items occurring during the period of construction, such as payments for permits, architects' fees and superintendents' salaries, premiums on workmen's compensation, and taxes and insurance during the construction period.

Machinery and tools. The valuation of machinery on the basis of cost includes the purchase price, freight, duty and installation charges, as well as a capitalization of costs of breaking in the machinery and testing it, where these are necessary. It should not include any amounts expended in rearranging the machinery after the initial installment. Such expenditures may be carried as a deferred charge. Tools and machinery are generally kept in separate accounts on the books, since they are subject to different considerations in determining depreciation.

Furniture and fixtures. The value of furniture and fixtures in the balance sheet indicates the cost of permanent equipment; it should not include amounts expended upon rearrangements and replacements that add no value to the asset. The reserve for depreciation may be given separately or bulked with the general reserve for depreciation of property.

Patterns. If this account is conservatively maintained, the balance will reflect the values of patterns used for regular stock work and will not include the costs of patterns made for special jobs, or patterns, lasts, and so forth, for products that are no longer manufactured. Furthermore, it will show values after substantial reductions have been made from book value.

Delivery equipment. Motor trucks and other delivery equipment are valued at cost less depreciation in the balance sheet. The amount should not include the cost of parts requiring frequent replacements.

Containers. Bottles, boxes, barrels, cans, and the like, that have not been charged to customers, and that are owned by the business, may be included among the fixed property at a valuation that makes liberal allowance for depreciation and for loss through failure of customers to return them. If containers have been billed to customers,

the value of any in circulation will be included in the accounts receivable (unless, as in the brewery business, the intent is that the containers are charged to customers merely "on memo"), and the property account will not reflect them.

What the balance sheet does not show about the property items. Information on the following points in regard to fixed tangible assets is generally not disclosed in a balance sheet unless a note is appended to the statement.

1. Whether the property accounts are charged only with new property or with replacements and improvements as well.

2. Whether the property accounts include any charges, in addition to direct cost, for overhead expense, interest, or other similar expenditures.

3. Whether cash discounts taken on purchases of fixed assets have been treated as a reduction in the cost of the property, or have been recorded as a financial income.

4. How provision for depreciation has been made—that is, what classes of property have been considered, what basis has been used, and what depreciation rates have been applied.

5. What classes of expenditures, if any, are charged against reserves for depreciation.

6. Upon a sale or abandonment of property, what disposition is made in the accounts of the difference between depreciated value and realized or realizable value.

7. Upon purchasing property from a subsidiary, whether cost to the subsidiary or some other basis is used in charging the property account.

Intangible Fixed Assets

What the intangible fixed assets are. The intangible fixed assets generally include patents, copyrights, trade-marks, formulas and processes, leaseholds, and goodwill. In many balance sheets the intangibles are not valued separately, but are presented as a combined asset and given a value of \$1 or some other nominal sum. This does not mean that the intangibles have no greater value than that indicated. It merely indicates that with regard to these items the company has been conservative in not capitalizing them; it furthermore serves to remind the reader of the balance sheet that such assets exist. If the

nominal valuation is presented merely for balance-sheet purposes and does not represent the value at which the intangibles are carried on the books, a note such as the following may be inserted after the item:

Intangibles carried on the books at substantial amounts are shown at the nominal amount of \$1 for the purposes of the published accounts.

In the following discussion, each of the intangible items will be discussed separately. First, the intangibles that are subject to amortization will be presented—that is, those that should be written off over a definite period of time—patents, copyrights, franchises, leaseholds, and leasehold improvements; then the intangibles that are not subject to amortization—goodwill, trade-marks, and formulas and processes.

Patents. All patents ultimately lose their value, since they are issued for a limited period of seventeen years. They may become valueless long before the expiration of the patent because other patents have superseded them, or because the product manufactured under the patent has lost its marketability, or for other reasons. Deductions must therefore be made from the valuation of patents to allow for the disappearance of the asset. These deductions, known as *amortization*, are generally not set forth in the balance sheet; the value indicated, rather, is a net valuation after the appropriate deductions have been made. Since patents are generally either purchased or applied for, the valuation shown in the balance sheet may represent the following expenditures after deduction for amortization has been made:

1. The cost of the patent, if it was acquired by purchase.
2. The expense involved in obtaining the patent, in providing working models, and in experimenting with them, if the patent is obtained otherwise than by direct purchase.
3. The cost of conducting an experimental department for developing patentable devices. Only so much as may be applied to successful patents granted should be included.
4. The cost of successful litigation that has established the patent.

Copyrights. This item, when more than nominal in value, may indicate that the copyright has been purchased from a previous owner. A conservative treatment of this asset, whether obtained by the company indirectly from the Government or acquired by purchase, would in most cases require it to be written off against the

income from the first edition rather than over the life of the copyright, which is twenty-eight years, with the possibility of a renewal for an additional twenty-eight years, since few publications are marketable during the entire life of the copyright. However, in certain instances less drastic treatment may be justifiable.

Franchises. The asset franchises appears usually in the balance sheet of a public-service company and not in that of an industrial enterprise. It represents the cost of obtaining the franchise, less a deduction for amortization, if the franchise has been granted for a limited period. Franchises that are not perpetual and are not limited to a fixed number of years should be written off rapidly.

Leaseholds. The valuation of leaseholds among the intangibles ordinarily represents the advance payment of rent made by the lessee or sublessee on a long-term lease, less the appropriate deduction for amounts written off over the life of the lease. Sometimes the account includes a capitalization of the saving in rent made possible by an advantageous lease. If so, that fact should be evident from the inclusion in the statement of a special surplus account representing the amount added by the capitalization of the saving.

Leasehold improvements. If the lease provides that the lessee shall pay the costs of any alterations or improvements of the leased property, such as new fronts, partitions, and other changes, the improvements become the property of the owner at the expiration of the lease. During the life of the lease, however, the costs of such improvements may be carried in the balance sheet as leasehold improvements, but the cost should be written off during the life of the lease.

Goodwill. The following enumeration of items that frequently make up the goodwill account shows the great difficulty the reader of the balance sheet encounters in understanding the significance of the account.

1. The amount paid for goodwill upon acquisition of a going concern. Many accountants justify a goodwill account only when it is created through the circumstances of a purchase of a going concern.
2. The amount expended in excess of a normal sum, for advertising with the intent of creating goodwill.
3. Valuations arising through the writing-off of the patent account

to goodwill instead of to income in cases where the patent has given the owner a monopoly that is expected to continue after the expiration of the patent.

4. Amounts added to the account that in fact are deferred charges or expenses, such as organization expenses and costs of establishing a business.

5. Amounts improperly added to the account as arbitrary capitalizations of earnings in excess of a normal return on capital.

The cost of goodwill acquired upon the purchase of a going concern need not be written off, even though it has declined in value because of a falling-off of profits. Should the goodwill acquired by purchase increase in value, any writing-off would result in an understatement of the net worth and accumulated profits and the creation of secret reserves. Additions to the goodwill account arising in ways other than by purchase are generally not justified.

Trade-marks. This item, when it appears in the balance sheet, represents the cost of trade-marks acquired by purchase. Frequently its value does not appear separately in the balance sheet but is included with goodwill. Since a trade-mark does not expire as does a patent or copyright, its value is not subject to amortization. Just as it is improper to capitalize permanently in the goodwill account amounts expended in creating goodwill through advertising and other sales-promotion outlays, so it is considered equally unjustifiable to capitalize amounts spent in advertising a trade-mark.

Formulas and processes. Formulas and processes acquired from a going concern at a direct cost are generally included in the goodwill and are not valued as a separate item in the balance sheet. Like trade-marks, formulas and processes have an unlimited life and therefore need not be amortized. They should be written off when they are no longer used.

Investments

How investments appear in the balance sheet. The investment group in the balance sheet embraces permanent investments, temporary investments that cannot be liquidated or that are not intended to be used for current business needs, and advances that will not be collected within the near future. This division of investments, how-

ever, is not generally made in the balance sheet. The most common method of presenting investments is to include a caption "Investments," or "Permanent investments," and to show a valuation for:

1. Investment in and advances to affiliated companies.
2. Funds.
3. Other investments.

The investments in affiliated companies may be mentioned by name, if they are not too numerous.

If any of the securities have been pledged, or hypothecated, that fact and the book value of such securities should be stated on the balance sheet. The following illustrates how the item would appear:

INVESTMENTS:

Securities of subsidiary and affiliated companies owned (including \$31,964,672.66 pledged as collateral to notes payable of this company and to guaranty of notes payable of a subsidiary company) at book value	\$256,850,853
Investments in, advances for account of, and account receivable from Deep Rock Oil Corporation (in receivership)—at book value	34,149,623
Other Investment Securities (including \$6,984,402.32 pledged as collateral to notes payable of this company and to guaranty of notes payable of a subsidiary company)—at book value (market value at December 31, 19 , \$3,216,546.25)	7,056,176

Valuation of permanent investments. The securities held by a company may comprise mortgages, bonds, and stocks. Mortgages may be included at their face value, unless it is known that the security behind them has declined in value below the face of the mortgage. Stocks and bonds held for permanent investment are ordinarily valued at cost. All minor market fluctuations and all increases in market value should be ignored. If the market value is considerably less than the cost, a reserve should be set up equal to the difference between the cost and the market value. The reserve is a charge against surplus rather than against profit and loss because it does not arise from operations. (See page 886.)

In the case of bonds acquired at a premium or at a discount, the valuation reflected in the balance sheet should give effect to adjust-

ments for amortization of premiums paid and for the accumulation of discounts. Such adjustments are made periodically for the purpose of bringing the valuation of the securities upon the books to par at maturity.

Investments in controlled subsidiary or affiliated companies. The valuation in controlled or affiliated companies may reflect one of the following:

1. The cost of the securities plus the holding company's proportion of the subsidiary's profits (or if the subsidiary's profit and loss statement shows a loss, less the holding company's proportion of the loss), less the dividends received from the subsidiary.
2. The proportionate share of book value of net assets of controlled companies.
3. The cost of the investment to the holding company.

Unless the balance sheet indicates how the securities of controlled and affiliated companies are dealt with, there is no way of determining the true meaning of the valuation.

A consolidated balance sheet will omit from the investment item the stocks of subsidiaries owned by the parent company if the assets and liabilities of the subsidiaries are included in the consolidated accounts. However, the value of investments in controlled and affiliated companies whose accounts are not included in the consolidation will appear in the balance sheet. (See page 855.)

Other investment securities. This item includes securities of uncontrolled companies and holdings of nonaffiliated companies acquired to create and maintain favorable business connections. The valuation indicates the cost of the securities less any reserve that has been set up to reduce the book value from cost to market. The amount of the reserve may be mentioned in parentheses after the item, as:

Other investments, at cost (less reserve, \$26,000) . . . \$136,020

or the reserve may be shown as a deduction from the value. Frequently the item is presented in the balance sheet at cost, with a parenthetical statement of the value on the basis of market quotations.

Real property. Properties held for speculative purposes or for use in future expansion of the plant should be listed among the perma-

ment investments at cost, irrespective of changes in market value. The carrying charges, such as taxes, may be included in the cost.

Investments in the company's own stock. A company that has purchased its own stock with the intention of reissuing it may regard the shares it holds in the same light as it does the securities of other companies and carry it on the books at the cost or market value, whichever is lower. However, if the stock acquired is regarded as retired, but is not actually retired because retirement would involve an amendment of the certificate of incorporation, the par or stated value of the amount held should be shown as a deduction from outstanding capital stock in the capital-stock section of the balance sheet. (As to shares that are held in the treasury as a result of donations, see page 888. Many accountants hold that treasury stock should in any event be reflected in the balance sheet as a deduction from the capital stock.)

Sinking funds. Sinking funds are generally created to meet a contractual obligation undertaken at the time of the creation of an issue of bonds or notes. The nature of the investments purchased with the funds depends upon the terms of the indenture requiring the creation and maintenance of the fund. Usually the investments consist of bonds of the very issue that the fund is designed to protect. The value of the sinking fund shown in the balance sheet may represent the total par value of the bonds of the same issue held in the sinking fund, the cost of other securities purchased with sinking-funds money, if any, uninvested cash, and accrued interest on the securities owned. If the company's own bonds have been acquired for the sinking fund and cancelled, they will not appear in the sinking fund as an asset, but will be accounted for in the reduction of outstanding obligations among the liabilities. The item may appear on the balance sheet as follows:

Cash resources held by Trustees' account	Bond	
Sinking Funds		\$437,652
(Trustees also hold \$13,340,000 of redeemed bonds,		
not included as liabilities in this balance sheet)		

Other funds. Other funds may include:

1. Funds for the retirement of capital stock.
2. Funds to meet some contingent liability; as, for example, a fund

to pay damages that may result from an unfavorable decision under pending litigation.

3. Funds for the payment of future liabilities; as, for example, funds to pay for advertising.

4. Funds representing investments of reserves, such as endowment funds, insurance funds, pension funds, and replacement funds. (See page 887 for an explanation of funded reserves.)

A separate classification is sometimes made in the balance sheet of funds that represent neither permanent investments nor the usual funds. Amounts held by trustees for the payment of matured and called bonds would, for example, not represent an investment or a fund.

Securities held as investments of funds are ordinarily valued as permanent investments. (See page 874.)

Long-term notes receivable. Notes receivable not maturing within a year from the date of the balance sheet may be included among the permanent investments, since they may not be considered current assets.

Temporary investments. When this asset is included among the investments and not in the current assets, it represents securities that will not be sold in the ordinary course of business and should be valued in the same manner as permanent investments.

Advances. Advances made to subsidiary companies for permanent working capital constitute, for practical purposes, investments by the parent company in the subsidiary companies, in addition to the investment represented by ownership of the securities of the subsidiary companies. The item therefore belongs with the investments. It is frequently combined with the investments in the balance sheet in the following way:

Investments in and advances to affiliated companies \$1,428,333
or included under the caption of investments, as follows:

Notes of and advances to associated companies:

Controlled companies	\$2,333,363
Noncontrolled companies	630,000

Or, the advances may be listed in the balance sheet as a separate item, without a caption.

Advances to stockholders, officers, and directors may appear under the investments, under "other assets," or under some other caption, except current accounts receivable.

DEFERRED CHARGES

What the deferred charges are. Practically every balance sheet includes a group of items representing deferred charges, for in the operation of a business there are always certain expenses that are paid in advance. They may be designated in the balance sheet as "deferred charges," "deferred assets," "deferred charges to future operations," "prepaid and deferred charges," "deferred items," "suspense items," or by other names. The items generally include prepaid expenses, unamortized charges, and miscellaneous suspense accounts.

Prepayments. The usual prepayments among the deferred charges are unexpired insurance, prepaid interest, taxes, rent, royalties, and advertising.

Unamortized expenditures. The following deferred charges arise through the application of the amortization process to expenditures that will eventually be entirely charged off to profit and loss:

1. **Unamortized bond discount and expense.** This item in the balance sheet generally represents the difference between the face amount of bonds issued and the consideration received for them that must still be written off before the entire discount at which the bonds were issued by the corporation is wiped out.

2. **Unamortized improvements to leased property.** Amounts expended in erecting buildings upon leased property and in making alterations and improvements to such property must be written off over the life of the lease, for the additions, alterations, and improvements usually revert to the landlord at the expiration of the lease. (See page 871.) The sum shown among the deferred charges as unamortized improvements to leased property reflects the expenditures that must still be written off. Improvements to leased property are sometimes not included among the deferred charges but are presented as a separate asset, without caption, immediately below the fixed assets. In that case the amortization may be shown as a reserve, in the following way:

ALTERATIONS AND IMPROVEMENTS TO LEASED PROPERTIES:

At independently appraised reproductive values at December 31, 19. . , adjusted for property changes since 19. . , including additions at cost		\$7,131,149.63
Less Reserve for Amortization		2,875,252.44
		\$4,255,897.19

3. Unamortized organization expenses. This item among the deferred charges indicates the sum expended for organization costs that must still be written off.

Miscellaneous suspense items. A variety of items make up this category, such as questionable assets, merchandise of doubtful marketability, and expenditures that have not finally been classified as assets or expense items.

OTHER ASSETS

What is included among other assets. Many balance sheets do not contain this title, for the assets of the company fit properly under the principal categories heretofore discussed. Items that do not fit into the standard groups may be included without caption in the balance sheet, or may be grouped under the heading of "other assets." The following accounts are frequently placed among the "other assets:"

1. Stock subscriptions. When there is no immediate intention of calling upon the subscribers for the unpaid balances of their subscriptions, the unpaid subscriptions may be included in the "other assets" or may be deducted from the capital stock, as explained on page 888. Subscriptions may appear among the current assets when the collection of the subscriptions is expected in the near future. The item should not be listed among the assets at all, but as a deduction from capital stock, if there is no probability that the stockholders will be required to pay the unpaid subscriptions.

2. Deposits as security or guaranties—for example, bonds on deposit with the State Labor Commission; lease deposits.

3. Amounts due from officers and employees.

4. Advances to salesmen and employees.

5. Miscellaneous accounts receivable.

6. Insurance policies. This item is sometimes included among the

investments. The value should represent the cash-surrender value and not a capitalization of premiums paid for the policies. Although the cash-surrender value of insurance policies is immediately available, the asset is not a current asset unless there is a definite intention of surrendering the policies in the near future.

Notes and comments relating to assets. Notes and comments of an informative character may be used freely in the balance sheet to clarify the meaning of any item not apparent from its title, to furnish information not reflected in the accounts of the company, and to supplement the accounts. The following are examples of asset items that may require notes and comments at the foot of the balance sheet.

Contingent assets. Contingent assets do not appear in the body of the balance sheet, since they represent items that are not real assets but that may some day become assets. For example, claims in dispute are contingent until they acquire the status of a collectible item. Contingent liabilities, discussed on page 884, are frequently offset by contingent assets. For example, if the company has endorsed the notes of another company, it has created a contingent liability; should the original maker of the note default and the company become liable as endorser, it will have a claim against the original maker of the note for reimbursement. That claim is a contingent asset. A footnote in the balance sheet may explain the nature of any contingent assets.

Sinking-fund arrears. If the sinking fund is in arrears, a note at the foot of the balance sheet should indicate the amount of the arrears. The following is an example of such a note:

The Company was in arrears in the amount of \$10,000 on December 31, 19. ., on sinking-fund contributions required by the trust indenture.

CURRENT LIABILITIES

What the current liabilities are. The current liabilities of a business set forth in the balance sheet should disclose all liabilities for goods purchased; all liabilities for services rendered; all accrued liabilities for wages, interest, taxes, bonuses, and the like, and all liabilities upon due bills, trading stamps, and merchandise coupon books.

Accountants are not in agreement as to the period which determines that a liability is current. In some balance sheets the current liabilities may represent debts that mature within ninety days; in others they may include liabilities payable within a year of the date

of the balance sheet. The usual debts included among the current liabilities are discussed below.

Accounts payable. This item generally includes obligations on open accounts due trade creditors and amounts due others for expenses. It also includes liabilities for taxes, salaries, and wages, though these items are frequently listed separately with the current liabilities. The advantage of showing separately amounts due trade creditors is that this method offers the reader of the balance sheet an opportunity to analyze the relationship of the amount due for merchandise and raw materials to purchases for the period. Liabilities to affiliated companies should be shown separately.

Notes and acceptances payable. Sometimes notes and acceptances payable are divided into trade-notes payable and other notes payable. As in the case of accounts payable, a separation of trade-notes payable from other notes payable throws light upon the relation of debts for merchandise to goods bought. The balance sheet, or supporting schedules, should indicate whether the debts are secured or unsecured. Notes payable to affiliated companies should be shown separately.

Discounted notes, acceptances, and so forth. The sum noted for this item indicates the extent to which the company has become indebted because of the default of customers whose notes or acceptances have been discounted.

Accounts and notes due to officers, stockholders, and employees. This debt should appear as a separate item if the amounts are large; if small, they may be included among the accounts payable. In balance sheets that are prepared to be submitted to banks, the amount should be stated as a separate item.

Accrued liabilities. The accrued liabilities may be separated from other current liabilities by a caption. They include amounts that are liabilities at the time the balance sheet is made up, but that are not yet due. The usual accruals are for salaries and wages, commissions, taxes, interest, rent, gas bills, dues, and other sundry expenses.

Other current liabilities. A number of other items may be included among the current liabilities if they represent debts that must be paid within the near future; among them are:

1. Purchase obligations. This may represent payments that will be due currently or during the year on account of purchases of capital assets.

2. Customers' deposits. This debt belongs with the current liabilities whenever there is an obligation to return deposits within a short time or to apply them against sales. Customers' deposits may be carried as a separate item when they are to be held for a long period. Public-service corporations, for example, usually list customers' deposits as a separate item.

3. Customers' credit balances.

4. Matured interest payable. This item usually refers to sums payable about the time that the balance sheet is made up. For example, interest may be due on January 1 and the balance sheet prepared as of December 31. The fund to meet the interest due may be in the hands of the interest-paying agent or in a special bank account of the company.

5. Dividends declared on certain classes of stock and payable after the date of the balance sheet.

6. Matured long-term debts unpaid. This class of debt arises through the failure of holders of matured or called bonds to present their bonds for payment.

7. Unpresented interest coupons and unclaimed dividends.

8. Long-term debts maturing in part or in whole during the year. Some accountants maintain that if the debt is to be refunded—that is, if the sum to meet the maturing obligations is to be raised by the issuance of other long-term obligations—the item should not appear in the current liabilities but should be carried among the fixed liabilities.

9. Reserves representing actual liabilities. (See page 886 for a discussion of this class of reserves.)

FIXED LIABILITIES

What constitute the fixed liabilities? The long-term liabilities, or fixed liabilities, generally include all obligations, whether secured or unsecured, maturing in more than one year from the date of the balance sheet. The items that usually make up the fixed liabilities are discussed below. They appear in the statement, usually, under the heading of "funded debt."

Mortgages. Any mortgages upon the property of the company should be listed among the fixed liabilities and should not be presented as a deduction from the property account.

Long-term bonds, debentures, notes, and certificates of indebtedness. Although most balance sheets merely show the par value of long-term debts outstanding, the statement would be more useful for analytical purposes if it showed:

1. The name of the issue, the rate of interest, and the maturity date.
2. The par value of bonds outstanding of each issue.
3. The amount of bonds of each issue still unissued.
4. Whether any of the unissued bonds have been pledged.

A schedule of funded indebtedness may be appended to the balance sheet, giving the above data.

The difference between the par value of bonds outstanding and the price received for them should be charged to bond discount, if they have been sold for less than par, or credited to the premium on bonds account, if they have been sold at a premium. Both of these accounts are written off periodically. The amount of discount on bonds remaining to be amortized will be included among the deferred charges, as explained on page 878. Any premium on bonds unamortized will be stated among the deferred credits.

In a consolidated balance sheet, the long-term debt may represent the net amount outstanding in the hands of the public if any of the affiliated companies whose accounts are included in the balance sheet hold bonds of a related company. In other words, the bonds held as an asset of one company may be offset against the bond liability of the other company.

Deposits. Customers' deposits held for a long period, such as deposits held by public-utility corporations, appear as separate items among the liabilities.

Under some circumstances, installment payments received from employees under employee stock-purchase plans are treated like deposits and entered as a liability. The amount is offset by the asset cash. The usual treatment of subscription installment payments, however, is to show the amount due on subscriptions among the assets

and to deduct from the capital stock on the liability side of the balance sheet the amount of uncollected subscriptions. (See page 879.)

DEFERRED CREDITS

What deferred credits represent. The deferred credits in a balance sheet, sometimes called "deferred income" or "miscellaneous unadjusted credits," represent the opposite of "deferred charges," explained at page 878. They represent an item of gross income that is to be credited to Profit and Loss in a future period, and comprise advance collections of income, unamortized credits, and miscellaneous suspense accounts. The group usually consists of the following items:

1. Advance collections of interest, rent, royalties, dues.
2. Advance collections on contracts or other sales when these are not properly included among the current liabilities.
3. Unamortized premiums on funded debt.
4. Miscellaneous suspense items; that is, receipts that have not definitely been classified as liabilities or income items.

CONTINGENT LIABILITIES

What are contingent liabilities? Contingent liabilities are not ordinarily incorporated in the balance sheet proper because they do not affect the accounts while they remain contingent. No objection, however, can be found to the practice of including a caption for contingent liabilities and entering the items "short"—that is, without carrying the amounts out to the columns that reflect the actual liabilities. The more common practice is to indicate the nature and amount of contingent liabilities as footnotes below the balance-sheet totals. The following are examples of contingent liabilities and the manner in which they have been treated in actual balance sheets:

Notes receivable discounted. "Contingent liability on notes discounted, \$42,980.54."

Obligations of others guaranteed. "The Company was contingently liable at December 31, 19.., as guarantor and indorser of obligations of subsidiary companies, aggregating \$6,379,137.61."

Contingent liability as surety. "On December 31, 19.., the Company was surety on a bond for \$13,112,668.94 executed by the Co., as principal, pro-

viding for the refund by that company to telephone users of sums, if any, which may be found to have been collected under rates in excess of those ultimately held legal. The Company was surety on a similar bond of the Company in the amount of \$3,000,000."

Unsettled tax disputes. "Federal income taxes for certain prior years are subject to final settlement with the U. S. Treasury Department."

Accounts assigned. "The company was contingently liable on December 31, 19.., in the amount of \$8,500 as guarantor of assigned accounts receivable."

Lawsuits. "The item of \$34,149,623.15, representing the book value of investments in, advances for account of, and account receivable from Deep Rock Oil Corporation (in receivership), includes a claim of Standard Gas and Electric Company against the Corporation for \$9,342,642.37, against which a counterclaim has been asserted. In the opinion of counsel for the Company, the determination of the claim and counter-claim should result in a substantial liability from the Corporation to Standard Gas and Electric Company."

Cumulative dividends in arrears. "No provision has been made in the above statement for cumulative undeclared dividends on the \$6 preferred stock, amounting to \$6,844,291.12, and on the \$5 preferred stock amounting to \$7,032,566.25 on September 30, 19..."

Indemnification of underwriters. "Standard Gas and Electric Company, in connection with the solicitations of deposits of its twenty-year 6 per cent gold notes and 6 per cent convertible gold notes, both of which were originally due October 1, 19.., agreed under Extension and Deposit Agreement dated June 18, 19.., to indemnify the underwriters from all loss, liability, or expense incurred or sustained under the Securities Act of 1933, as amended, or at common law or otherwise, arising out of, or based upon, an untrue statement of a material fact, or the omission to state a material fact in the registration statements or the prospectus, subject to certain exceptions as to statements or omissions based entirely on information furnished to the Company by the underwriters."

MINORITY INTERESTS

Liability to minority stockholders. As indicated on page 856, the interest of minority stockholders in controlled companies must

be set up as a liability if the accounts of a subsidiary are taken into the consolidated balance sheet as though the companies were completely owned by the parent company. The item is generally stated simply as a liability, under no particular caption, in such terms as the following:

Capital stock and surplus of minority interests. . . \$755,143.49

The portion of surplus of subsidiary companies applicable to the minority interest may be indicated in the item as follows:

Preferred and common stocks of subsidiary companies (consolidated) in hands of public, including \$118,483 surplus applicable thereto \$1,928,883

In some balance sheets, the minority's interest is shown in the capital stock section of the balance sheet instead of as a separate item among the liabilities.

RESERVES

What reserves are listed among the liabilities? In the discussion of the assets shown in a balance sheet, such reserves as the reserve for bad debts and reserve for depreciation were mentioned. These reserves appear on the assets side of the balance sheet as deductions from the valuation of the assets to which they pertain because they represent reserves against decreases in the value of the assets. All other classes of reserves appear on the liabilities side of the balance sheet. They may be classified as follows:

1. Reserves that represent actual current liabilities. A reserve for the payment of Federal and state income taxes, for example, should be listed among the current liabilities.

2. Reserves for contingencies. These may be treated in three ways:

(a) A reserve for a contingency that is very likely to become a reality should appear as a separate item among the liabilities. For example, a reserve for payments to be made under a pending lawsuit for which an unfavorable verdict is expected should be presented as a distinct liability. Companies with investments in Continental Europe during World War II set up contingent reserves among their liabilities as a provision for possible irrecoverable losses in connection with foreign investments.

(b) A reserve for a contingency that is likely to become a reality

and decrease the value of an asset may be presented as a deduction from the asset. For example, a reserve for declines in the market value of investments, or a reserve for declines in the market value of merchandise, might appear as deductions from the assets to which they apply.

(c) A reserve for a contingency of loss that is merely possible and not definitely probable should appear under the caption of reserves. An example is a "reserve for unforeseen possibilities."

3. Reserves that represent net worth. Such reserves are either:

(a) Appropriation of surplus.

(b) Unrealized profit reserves.

A reserve that represents an appropriation of surplus may be either required by contract—as, for example, a reserve for sinking funds—or voluntarily set up—as, for example, a reserve for plant extension. Such reserves should appear under the surplus caption. An unrealized profit reserve—as, for example, a reserve for unrealized profit on appraisal of plant—may appear under the caption of reserves; but if the asset to which the reserve refers has actually increased in value, the item may be included as a separate item under surplus.

Reserves for corresponding funds. When a reserve appears on the liabilities side of a balance sheet and a corresponding fund is included among the assets, the conclusion may be drawn that the fund shown among the assets had been created out of profits of the company to the extent indicated in the reserve for the particular fund. Such reserves are temporary appropriations of surplus and belong in the balance sheet under the general heading of surplus. They have the effect of reducing the amount of free surplus available for dividends to the extent of the reserve. When the fund is finally disbursed, the reserve will revert to surplus and be available for dividends.

CAPITAL STOCK AND SURPLUS

What the capital stock section should show. The capital stock section of the balance sheet should indicate the various classes of stock and as to each class the following information should be given:

1. Par value, if any, or the fact that the stock is without par value. In the case of preferred stock, redeemable at or entitled in liquidation to an amount in excess of par value, the preferred stock may be carried at its liquidation value.

2. The preferences and other special rights, if any, of each class of stock.

3. The amount authorized, issued, and outstanding, held in the treasury, and reserved for issuance upon exercise of stock purchase warrants.

If part of the purchase price of the stock is still unpaid, and there is no intention of immediately calling the unpaid subscriptions, the uncollected subscriptions should appear as a deduction from the capital stock, thus:

Capital stock—authorized, 10,000 shares at \$100	
par value; issued and outstanding, 800 shares . . .	\$800,000
Less uncollected subscriptions	200,000
Paid-in capital	\$600,000

(For the inclusion of unpaid subscriptions among the assets, rather than as a deduction from the capital stock, see page 879.)

The premiums on stock that has been sold above par may appear in the capital stock section as a separate item, indicated as "Premiums on Capital Stock." The amount will remain on the balance sheet indefinitely unless it is eventually transferred to "paid-in surplus" or to "surplus." It will not be transferred to surplus if under the laws of the state in which the company is organized amounts representing premiums on stock may not legally be distributed as dividends.

The discount on stock that has been sold below par may appear in the capital stock section of the balance sheet as a deduction therefrom.

Treasury stock should appear as a deduction from the capital stock outstanding to the extent of its par value, since it is not outstanding. However, at times it may appear among the assets valued at cost. (See page 876.)

Valuing no-par stock in the capital stock section of the balance sheet. Stock without par value is indicated by that title in the capital stock section of the balance sheet and is given a valuation. That valuation may represent:

1. The full price received for no-par stock by the corporation.
2. The minimum price that the law of the state in which the corporation is organized requires to be paid for the stock.
3. The "stated," or "declared," value placed upon the no-par stock,

if the law of the state in which the corporation is organized provides that directors may place a stated or declared value upon no-par stock.

4. An amount arrived at arbitrarily by the board of directors.

Any amount received for no-par stock in excess of the minimum price or above the stated or declared value becomes surplus or "paid-in surplus." If the excess is permitted to be treated as surplus under the laws of the state in which the corporation is organized, and is so treated by the corporation, the surplus out of which dividends can be paid is augmented by an amount that has not been earned by the corporation. If the excess is carried as paid-in surplus in the balance sheet, it is clear that the corporation does not regard the amount as a part of its free surplus. However, the mere separation of the paid-in surplus from the surplus does not signify that the former will not be used for dividends.

A reader of the balance sheet cannot tell how the sum indicated for no-par stock was determined; he can merely conclude that the amount noted reflects the capital investment behind the outstanding no-par shares.

The capital-stock item in a consolidated balance sheet refers to the capital stock of the parent company. The stock of the subsidiary companies included in the consolidation has been eliminated in the preparation of the consolidated statement. To make this clear, consolidated balance sheets sometimes indicate the name of the parent company in the capital stock item, as follows:

CAPITAL STOCK:

..... Corporation	
Common capital stock:	
Authorized, 2,500,000 shares of no-par value	
Issued, 1,509,556 shares	\$52,539,547.11
Less held in treasury, 7,943 shares . . .	276,453.22
Outstanding, 1,501,613 shares	\$52,263,093.89

Treatment of surplus in the balance sheet. The surplus account is not analyzed in the balance sheet. It is analyzed either in the income statement or in a separate account. If the latter method is used, the balance sheet will show the amount of surplus and will refer to the separate analysis of the surplus account. The explanation of the surplus account, given on page 898, shows how the item included in the balance sheet is generally made up.

How capital and surplus generally appear in the balance sheet. Various methods of presenting capital stock and surplus are followed in practice, the most common of which are identified and illustrated below.

1. A caption combining capital stock and surplus:

CAPITAL STOCK AND SURPLUS:

Common Stock—No-par value:

Authorized	250,000 shares	
Issued and outstanding	189,538 shares..	\$1,014,000.00
Surplus as per annexed statement		1,588,663.53
		\$2,602,663.53

2. A caption combining Capital Stock and Paid-in Surplus, with earned surplus listed separately:

CAPITAL STOCK AND PAID-IN SURPLUS:

6% Cumulative Preferred Stock—\$100 par value:

Authorized—	100,000 shares	
Issued—	61,657 shares . . .	\$ 6,165,700.00

Common Stock (No-par value):

Authorized—	2,500,000 shares
Issued—	2,263,150 shares
Less in Treasury	7,229 shares

2,255,921 shares

at stated value of	
\$10.00 per share	22,559,210.00
Paid-in Surplus	28,782,600.00
	\$ 57,507,510.00

EARNED SURPLUS, as per annexed statement	\$ 76,595,940.83
	<u>\$154,154,698.44</u>

3. Separate captions for capital stock and surplus:

Preferred 7% cumulative (authorized and outstanding, 20,000 shares of \$100.00 each; called for redemption on February 1, 19 ; at redemption value as of December 31, 19 .)	\$ 2,500,000.00
---	-----------------

Common—without par value (authorized, 1,000,000 shares; issued, 711,000 shares) . .	18,486,000.00
Total capital stock	\$20,986,000.00
Surplus	3,681,301.12
Total	<u>\$25,756,976.49</u>

4. HOW THE INCOME STATEMENT IS CONSTRUCTED

How to head the income statement. The heading of the income statement should contain the following points of information:

1. The name of the person, firm, or organization whose profit and loss statement is being rendered.
2. What the statement purports to be.
3. The period of time covered by the statement.

The terms “condensed,” “comparative,” and “consolidated” in the title of the income statement have the same significance as they do in the title of the balance sheet. (See page 854.)

The period is generally indicated as “for the year ended, 19..”; or “. months ended, 19..”; or “fiscal year ended, 19..”

Titles for the income statement. An even greater variety of terms is used for the title of the income statement than is used for the balance sheet. The most common are the following, with the prefix of such terms as “condensed,” “comparative,” or “consolidated,” or combinations of these words:

1. Statement of income.
2. Income statement.
3. Income account.
4. Earnings statement.
5. Statement of earnings.
6. Income and profit and loss statement.
7. Statement of profit and loss.
8. Profit and loss account.
9. Profit and loss statement.
10. Income and earned surplus accounts.

11. Statement of profit and loss and retained earnings (including variations in earned surplus terminology).
12. Statement of income and retained earnings (including variations in earned surplus terminology).
13. Statement of operations (and earned surplus).

If the title does not include a reference to the surplus, a separate statement concerning surplus is generally rendered.

Form of the income statement. The income statement is generally presented in "report" or "narrative" form, sometimes also called the "reducing-balance" form or the "running" form. In statements so prepared, the items are presented in logical order, one under the other. Even statements that carry the word "account" in their title do not present the items in account form—that is, as debits and credits.

Divisions of the income statement. Every income statement is divisible into two parts:

1. Items dealing with operations of the business.
2. Items relating to nonoperating income and nonoperating charges.

Many statements of income contain a third part—namely:

3. Items showing disposition of the net income.

When this section is omitted from the income statement it is usually found in a statement of the surplus account.

Grouping of items. Income statements show a greater variety of items and less uniformity of grouping than balance sheets. Manufacturing concerns set up accounts to reflect cost of production; companies engaged in trading have no such accounts. Organizations that are not engaged in manufacturing or trading would employ accounts suitable for their needs. Whatever the business, and whatever the accounts, the statement is likely to be segregated into the following groups:

1. Sales.
2. Cost of goods sold.
3. Selling expenses.
4. General and administrative expenses.

5. Income other than operating income.
6. Charges other than operating charges.

No typical order of the groups can be presented. An examination of many published income statements, reflecting the practices of leading accounting firms, reveals a great difference of opinion on the subject of placement of the various deductions from and additions to income. In the explanation of items in the income statement that follows, some of the variations in practice will be indicated.

Methods of clarifying the income statement. The income statement may be clarified in ways similar to those employed in elucidating items in the balance sheet. They are as follows:

1. By fairly full explanations of the items within the statement proper. For example, the item "Net sales billed" is clearer if presented as follows:

Aggregate net amount billed for products shipped and other classes of business (excluding sundry sales, real estate, and certain miscellaneous services), less sales commissions, returns, and other allowances.

2. By running comments in the statement. The following is an example of this form of presentation:

GROSS PROFIT BEFORE DEDUCTING DEPRECIATION	\$5,277,070.19
<i>The amount remaining from sales income after deducting manufacturing and purchase costs exclusive of depreciation.</i>	
ADVERTISING, SELLING, DISTRIBUTING, AND ADMINISTRATIVE EXPENSES	4,572,971.74
<i>The cost of marketing the products and administering the business of the companies.</i>	
PROFIT FROM OPERATIONS BEFORE DEDUCTING DEPRECIATION	\$ 704,098.45
<i>The amount remaining after deducting the above-described costs and expenses.</i>	
OTHER INCOME	128,963.11
<i>Includes interest on investments, discounts earned for prompt payment of bills for purchases, etc</i>	
GROSS INCOME BEFORE DEDUCTING DEPRECIATION	\$ 833,061.56
<i>The sum of the two preceding items.</i>	

OTHER DEDUCTIONS (exclusive of depreciation, interest, and taxes on income)	123,560.13
<i>Includes discounts allowed customers for prompt payment of bills, provision for uncollectible accounts receivable, pensions paid to former employees, net loss on sales of investment securities, etc.</i>	

3. By notes or footnotes appended to the income statement. For example:

Gross profit on sales—See Note A \$2,206,800.28

Note A explains the item as follows:

All profit on installment sales is taken into income at the time the sales are recorded on the books, and Federal income taxes are accrued annually thereon, even though such taxes are paid only as the installment accounts receivable are collected.

4. By the use of schedules. Published income statements are supported by few schedules, although many are prepared in connection with the income statement for the use of the business executives. The schedules most commonly made available are those showing depreciation, renewal, maintenance, nonoperating income, and other charges and credits.

Points in income statements requiring special clarification. Income statements do not show upon their face what principles are followed in allocating charges and credits to income account and surplus account. This can be determined only from a statement prepared especially to disclose this information. As yet business enterprises have not adopted the practice of furnishing such an explanatory statement.

The nature of income from companies controlled but not consolidated is not obvious from the income statement unless the information is especially given.

The company's proportionate share of the undistributed earnings or losses of controlled companies whose accounts are not consolidated for the purposes of the income statement is not apparent from the statement unless a note concerning such income is included in the statement.

Explanation of Items in the Income Statement

Many published income statements are abbreviated or condensed to such an extent that they disclose little information. For example, they start with gross operating income or merely operating income, and present no information as to sales or operating costs. The following explanation includes items that would appear in a statement which reveals all the sources of revenue and all costs and charges.

Sales. The sales, when set forth, are variously termed "gross receipts," "net sales and billings," "net sales billed," or "net sales." These terms generally reflect the volume of sales, less such deductions as returns, allowances, rebates, allowances made under price guaranties, freight on sales, allowances for the return of containers, and the like. Provision for doubtful accounts may be deducted from the sales or included among the operating charges. The deductions may or may not include commissions and cash discounts. Commissions allowed on sales are frequently treated as selling expenses, and cash discounts are sometimes regarded as operating expenses and included under the operating charges.

Operating charges. The components of operating charges are not clearly defined, nor do companies in their published statements undertake to disclose the exact nature and determination of the operating charges. For purposes of this explanation the following are considered the operating charges:

1. Cost of goods sold.
2. Operating expenses.

Many of the items included in the following explanation of these two divisions of operating charges are subject to different treatment. The variations in treatment will be noted.

Cost of goods sold. In a manufacturing concern the cost of goods sold is made up of the total of:

1. Inventory at the beginning of the period,
2. Direct labor,
3. Overhead expenses,

less the inventory at the end of the period. In a trading concern the cost of goods sold is the merchandise cost, which includes buying expenses.

The difference between the cost of goods sold and the sales is termed the "gross profit on sales," or "trading income."

Operating expenses. The operating expenses include:

1. Selling expenses.
2. General expenses.
3. Administrative expenses.
4. Taxes. This item sometimes omits income taxes, which are treated as a deduction from income. Other classes of taxes besides income taxes are also treated as deductions from income in some income statements.
5. Provision for doubtful accounts. This item may be treated as a deduction from the sales, as indicated above.
6. Depreciation and depletion attributable to operations. This item is also sometimes found among the deductions from income.
7. Provision for possible losses. This deduction includes reserves and may be included under the heading of "reserves."

The difference between the "gross profit on sales" and the operating expenses is the "net operating revenue" or "operating income." If all of the items constituting operating expenses have not been deducted, attention may be called to the fact by labeling the difference somewhat as follows: "profit from operations before deducting depreciation"; or if the reserves are separately enumerated, the difference may be termed "operating income before deduction of reserves."

Operating income in a consolidated income statement. In a consolidated income statement, the operating income may omit the profit on intercompany transactions of subsidiaries considered in the consolidation. Or, intercompany profits may be shown as a deduction in some other part of the income statement. The operating income may include dividends received from subsidiaries and affiliated companies not consolidated, as well as the parent company's equity in the undivided profits or losses of subsidiaries and affiliated companies whose accounts are not consolidated in the statement.

Nonoperating income. Additions to income arising from nonoperating sources are included in this group generally under some

heading such as "other income," "income from other sources," "nonoperating income," or merely under the word "additions." The following items are the usual nonoperating sources of revenue:

1. Interest on securities.
2. Interest on bank balances, notes receivable, and the like.
3. Profits realized on sale and on maturity of securities.
4. Dividends.
5. Discounts earned for prompt payment of bills. This item would not appear here if the discounts were considered in determining cost of goods sold and in the valuation of inventories.
6. Royalties.
7. Losses recovered.

When these items are added to the "net operating income," the total is generally called "total income." Frequently the addition is made on the statement without labeling the total or by merely calling the sum "total."

Nonoperating charges. Deductions from income resulting from financial expenses are subtracted from the total income under the heading of "deductions from income," "interest and other charges," "other charges," or "deductions." The usual nonoperating charges are:

1. Interest on funded debt.
2. Other interest.
3. Discount on bonds.
4. Depreciation and depletion, not included under operating expenses.
5. Income taxes and other taxes not included among the operating expenses.

The difference between "total income" and the "deductions from income" represents the "net profit" or "net loss" for the period.

The income statement may end with the net profit or net loss and be supplemented by a statement of surplus, or it may be continued to show the changes in the surplus account during the period. In the latter case, the title of the statement will include a reference to the surplus. The presentation of the make-up of the surplus account is practically the same whether it is appended to the income state-

ment or presented in a separate statement. In this discussion the statement of surplus is treated separately, below.

Portion of profits or losses applicable to minority interests. A consolidated statement that is prepared as though the parent company had a 100 per cent ownership of the stock of subsidiary companies, when in fact less than 100 per cent of the stock of the subsidiary is owned, must show the proportion of the income or loss applicable to minority interests. This item usually appears after the "net profit" or "net loss" item, although in some statements it is placed ahead of the figure showing the net profit or loss for the period.

The Statement of Surplus

How to head the statement of surplus. The heading of the statement of surplus, when presented apart from the income statement, should contain the same three points of information as the income statement—namely:

1. The name of the corporation whose surplus account is presented.
2. What the statement purports to be. If the statement analyzes earned surplus, as differentiated from capital surplus, the title should show it to be a statement of earned surplus; similarly, if the changes in the capital-surplus account are being presented, the title should convey that information. If the statement covers capital surplus and earned surplus, the general term "surplus" may be used in the title.
3. The period of time covered by the statement. The period is indicated in the same way as in the income statement.

What capital surplus is. Capital surplus is that portion of the net worth of a business which is not represented by capital stock or by earned surplus. The most common forms of capital surplus are "paid-in surplus," "donated surplus," "reduction surplus," and "appraisal surplus." There is a tendency to replace the term "surplus" as used in "capital surplus" and "paid-in surplus" with terminology to show the source from which the proprietary capital was derived. All surplus accounts are capital surplus except (1) earned surplus, and (2) appropriations of earned surplus.

The following are the usual sources of capital surplus (in other words, the circumstances under which capital surplus is credited). The terms in parentheses show the items commonly designated by terms other than "capital surplus."

1. Premiums upon the sale of par value stock (paid-in surplus).
2. A part of the consideration received from the sale of no-par stock, set aside by the directors as paid-in surplus (paid-in surplus). This may also be the capital contributed by stockholders in excess of the stated value of no-par shares.
3. Amounts received upon the resale of treasury stock in excess of the cost of the acquisition.
4. Purchase of assets for less than book value; for example, the value of assets acquired from another company in excess of the par value of the stock given in payment therefor.
5. Increases in the value of assets beyond the amount paid when the property was acquired (appraisal surplus, revaluation surplus, or appreciation surplus).
6. Reductions in capital stock made through redemption at a figure less than the amount originally received for the stock (paid-in surplus).
7. Conversion of capital stock into another issue of the same company; for example, the excess of stated value of preferred stock over par value of common stock into which it was converted.
8. Exchange of capital stock for that of another company; for example, excess of issue price over par value for shares issued to acquire the capital stock of a subsidiary company.
9. Restoration of realization of assets previously written off.
10. Merger and consolidation adjustments; for example, undistributed earnings of a partly-owned company prior to acquisition of the remainder of its stock.
11. Transfer from earned surplus in connection with a stock dividend.
12. Donations of cash, marketable securities, or assets the value of which is certain (paid-in surplus).
13. Donations of property or of the company's own stock, which is called treasury stock (donated surplus). When a non-cash gift is converted to cash, or marketable securities, the name is changed to paid-in surplus.

Capital surplus is not used for the payment of dividends while the company has an accumulation of earned surplus, except under unusual circumstances. Charges are made to the capital surplus accounts under such conditions as the following:

1. On the purchase and sale of the company's issued stock; for example, the excess of cost over the par value of preferred stock acquired for retirement.

2. Transfers to capital, for example, the par value of stock dividend shares credited to capital.

3. Write-off of intangibles; for example, the write-down of goodwill.

4. Transfers to earned surplus.

5. Adjustments in connection with consolidations, mergers, and recapitalizations; for example, costs and expenses incidental to the liquidation of a subsidiary.

What the statement of surplus should show. The statement of surplus should indicate:

1. What the surplus was at the beginning of the period.

2. Additions to profits not resulting from the operation of the business during the period covered by the income statement. These may be given under the heading of "surplus credits." The following are examples of such additions to surplus:

(a) Increases in the market value of marketable securities.

(b) Increase in dollar value of net current assets due to variations in foreign-exchange rates.

(c) Reinstatement of excess provision made in previous year for shrinkage in market value of investment securities.

(d) Adjustments of reserves where charges to depreciation in previous years proved to be excessive.

(e) Recovery of Federal income taxes for prior years.

3. Deduction of charges not affecting the operations for the period covered by the income statement. These may be given under the heading of "surplus charges." The following are examples of such deductions.

(a) Obsolete property abandoned.

(b) Provision for shrinkage in market value of securities.

(c) Taxes applicable to previous years.

(d) Net loss on disposal of machinery and equipment.

(e) Write-down of marketable securities.

4. The amount of net income added for the year or the amount of net loss deducted. This is the sum shown in the income statement for the period.

5. The deduction of dividends declared during the year, set forth as to each class of stock.

6. The balance of the surplus. This amount is shown on the liabilities side of the balance sheet. (See page 890.) It may be divided as follows:

(a) Appropriations for special purposes; for example, reserves for plant extensions and other reserves representing net worth.

(b) Capital surplus.

(c) Undivided, or "earned," surplus.

5. HOW TO ANALYZE A FINANCIAL STATEMENT

How to obtain financial statements. Statements of the financial condition of a business asking for credit can be obtained directly from the firm or indirectly from other sources.

Direct requests. The usual practice is to write a letter asking for a financial statement and to enclose a printed form such as that reproduced in Figure 73. It is advisable to keep on file the postmarked envelope in which any financial statement is mailed, for following a debtor's bankruptcy, the statement, if false, is frequently the basis of an indictment charging the use of the United States mail to defraud. The form reproduced on pages 902-903 is a self-mailing form, thus assuring preservation of the evidence of mailing.

Most business firms recognize that it is established practice to supply complete financial information when seeking credit. Some firms, in fact, will even furnish creditors, upon request, with monthly balance sheets and profit and loss statements, after having submitted financial statements that are several months old. However, objections to furnishing statements are sometimes encountered. One-man or family-controlled companies sometimes refuse as a matter of policy or pride. Other companies refuse out of fear that the financial information might fall into hostile hands. If the mailed request is not answered with the desired information, a telephone call to the treasurer or controller of the company, or a personal visit, may bring results. The success of the interview is a matter of salesmanship. Ob-

Form 42
Date _____ 1935

FINANCIAL STATEMENT OF

Kind of Business _____ Address _____ City _____ State _____

At Close of Business on _____ 19____

State of New York
for statement

THIS FORM APPROVED AND PUBLISHED BY THE NATIONAL ASSOCIATION OF CREDIT MEN

For the purpose of obtaining merchandise from you on credit, or for the extension of credit, we make the following statement in writing, intending that you should rely thereon respecting our exact financial condition.

PLEASE ANSWER ALL QUESTIONS. WHEN NO FIGURES ARE INDICATED, WRITE WORD "NONE".



FOLD IN ON THIS LINE

FOLD IN ON THIS LINE

ASSETS		LIABILITIES	
Dollars	Cents	Dollars	Cents
Cash (in Bank) (On Hand)		Accounts Payable (for Merchandise)	
Accounts Receivable		Notes & Acceptances Payable	
(Amt. Paid Due		Owe to _____ Bank	
(Amt. Sold or Pledged \$		(When Due _____ Secured) (Unsecured)	
Notes and Trade Acceptances Receivable		Income Taxes, Accrued	
(Amt. Sold or Pledged \$		Other Taxes, Including Sales Taxes, Accrued	
Merchandise Inventory (Do not include Mer-		Interest, Accrued	
chandise on Consignment at Cost or Market,		Rentals, Payroll, etc., Accrued	
whichever is lower		Payables to Partners Relatives	
(Amount Pledged \$		Other Current Liabilities (Describe)	
Other Current Assets (Describe)			
TOTAL CURRENT ASSETS		TOTAL CURRENT LIABILITIES	
Land and Buildings (Depreciated Value)		Mortgage on Land and Buildings	
Machinery, Fixtures and Equipment (Depreciated		Chattel Mortgage on Mch. or Equipment	
Value)		Lease on Mch. or Equipment	
Due from Officers or Non-Customers		Other Liabilities, No Current (Describe)	
Other Assets (Describe)			
TOTAL ASSETS		TOTAL LIABILITIES	
		Net Worth or { Capital \$	
		Surplus \$	
		TOTAL NET WORTH AND LIABILITIES	

STATEMENT OF SURPLUS (or of NET WORTH if not incorporated)

Surplus (or Net Worth at beginning of period) dated _____ 19____

Add Profit for Period \$ _____ and Adjustments \$ _____

Deduct Loss for Period \$ _____ and Dividends (or Withdrawals, if not incorporated) \$ _____

TOTAL \$ _____

\$ _____ and Adjustments \$ _____

SURPLUS (or NET WORTH) in Statement Above \$ _____

STATEMENT OF PROFIT AND LOSS FOR PERIOD FROM _____ TO _____

1. TOTAL SALES FOR PERIOD (Cash, \$ _____; Credit, \$ _____)

2. Inventory at Start of Period \$ _____

3. Purchases for Period \$ _____

4. Total (Item 2 plus Item 3) \$ _____

5. Deduct Inventory at Close of Period \$ _____

6. COST OF SALES \$ _____

7. GROSS PROFIT \$ _____

8. Less Total Expense \$ _____

9. NET PROFIT \$ _____

10. Less Income Taxes \$ _____

11. NET PROFIT After Taxes \$ _____

Amount you are liable for as endorser guarantor surety \$ _____

Amount of merchandise held on consignment \$ _____

Amount of machinery or equipment held under lease \$ _____

Amount of machinery or equipment under conditional sale \$ _____

Amount you pay per month on lease or conditional sale contract \$ _____

Do You have a Credit Department? _____

Name of your bank(s) _____

Expiration date of lease _____

Title to business premises is in name of _____

If premises leased state annual rent _____

Date of latest audit _____

Date of latest inventory _____

What books of Account do you keep? _____

TOTAL OPERATING EXPENSE \$ _____

INVENTORY CARRIED

Fire Merchandise \$ _____

Furn & Fixt \$ _____

Building \$ _____

Extended Coverage \$ _____

U & O \$ _____

Liability \$ _____

General \$ _____

Auto & Truck \$ _____

Life for Benefit of Business \$ _____

The statement above and on the back of this form has been carefully read by the undersigned (both the printed and written matter), and as to my knowledge in all respects complete, accurate and truthful. It discloses to you the true state of my (our) financial condition on the _____ day of _____, 19____. Since that time there has been no material unfavorable change in my (our) financial condition, and if such change takes place I (we) will immediately advise you in writing. The figures submitted are not estimated. They have been taken from my (our) books and physical inventory taken as on date shown.

Name of Individual or Firm _____

If Partnership, Name Partners _____

If Corporation, Name Officers _____

How long established _____

Previous business experience _____

Where _____

Street _____ City _____ State _____

Date of Signing Statement _____

Witness Residence Address _____ Signed by _____

of Witness _____ Title _____

(Over)

Figure 73. Financial Statement Approved by National Association of Credit Men.

jections can usually be overcome through courtesy and reasonableness. If the credit man can create confidence in his company and in himself, and can advance reasons why it is to the advantage of the applicant to furnish the requested information, he will usually succeed in getting it.

Indirect sources. If the direct request fails, indirect sources may be tried, such as general and special credit agencies (see page 981), and financial publications. Banks, creditors, suppliers, bonding companies, and accountants sometimes have the desired financial statements, and if they are not honor bound to withhold the information, they may supply it.

Extent to which financial statements are used in credit work. The policy of business houses in asking for financial statements varies. Some stress the importance of putting the customer to as little trouble as possible and call for a financial statement only when they consider it necessary. Others make it a practice to request new financial statements from all customers at regular intervals, in order to keep their files up to date. Such factors as the length of time the applicant has been in business, its record in the community, the experience of the seller with the account, the amount of credit that is sought, and similar elements, determine whether a financial statement should be required. If a newly established firm is seeking credit, a financial statement is invariably requested. In some lines of industry, most of the firms will ask for financial statements in any case where the order is in excess of \$500.

What part of the balance sheet reveals credit strength? The current assets and current liabilities sections of the balance sheet contain the data from which to gauge the bill-paying ability of the customer, for the current assets show the amount of ready funds available with which to meet the current liabilities. The excess of the current assets over the current liabilities is known as the "working capital" of the business.* Since financial statements obtained from an applicant for credit are generally a "window-dressed" portrayal of the financial condition of the company, the reliability of the figures

* The term "working capital" is sometimes applied by businessmen to all the current assets, and the term "net working capital" to the excess of current assets over current liabilities. In this discussion, working capital refers to the difference between the current assets and the current liabilities.

must be proved. Each item in the current assets and current liabilities must therefore be examined and analyzed before judgment can be passed upon the financial standing of the credit applicant.

Place of fixed assets in credit analysis. The fixed tangible assets and the capital liabilities through which they were secured are of secondary importance in the analysis of financial statements for the purpose of determining credit strength alone. The intangible assets, such as goodwill, patents, and the like, have no place in a credit analysis.

The attention to be given to fixed tangible assets depends upon the following factors:

1. The nature of the business of the credit applicant. The fixed assets of a retail establishment may be an inconsequential factor in the determination of credit strength, whereas the fixed assets of a manufacturing concern may have a direct bearing upon working capital.

2. The prosperity or lack of prosperity experienced in the immediate past. The item of fixed assets in a manufacturer's statement should be given greater attention after a period of low earnings such as is experienced during an economic depression than need be given to it during or immediately after a period of profitable activity. The reason for this is that in many industries, as a result of decreased earnings, the fixed assets are permitted to run down; they become obsolete and in order to be maintained require greater asset strength. In many cases a part of the decrease in earnings suffered by the business is due to the fixed overhead cost that must be met while plant and machinery stand idle.

A disproportionate amount of fixed assets would indicate an investment in property beyond the strength of the organization and a need for more working capital than would be required if less were invested in plant and equipment. If a financial statement shows large investment in plant and equipment, greater attention must be given to the earning power and management of the business.

Place of prepaid expenses in credit analysis. Prepaid expenses such as prepaid taxes, insurance, supplies, and the like, are not considered as current assets in an analysis of financial statements for

credit purposes. The argument is sometimes raised, however, that the practical effect of excluding them is to show less credit strength than actually exists.

Need for comparative data. An adequate analysis of financial statements requires comparison with previous years; it is therefore highly desirable that the financial statements for several years be available. The conclusions reached from an analysis of a single financial statement may be quite different from those drawn from an analysis of the same statement in comparison with other years, and may present a misleading picture of the applicant's affairs.

The comparative statement. Since many business houses ask regularly for financial statements from their customers, they are in a position to have available comparative figures without asking their customers for comparative statements. Figure 74 illustrates a comparative statement taken from the files of a large chemical concern. The credit department of a large textile manufacturer uses the form shown in Figure 75. The comparative statement is made up as soon as comparative figures become available.

In transcribing to the comparative statement the balance sheet offered by the customer, no changes are made in the amounts to give effect to the findings upon an analysis of the statement. Thus, if a study of the accounts receivable reveals that many of the accounts are doubtful and that the reserve for bad debts is insufficient, no indication of this conclusion is made on the comparative statement. The working papers of a particular analysis show the results of the analysis. The comparative statement is used principally to show trends in the customer's business and is referred to whenever the most recent statement is examined.

It will be noticed that in Figure 74 columns are provided to show the percentage that each item in the balance sheet bears to the total. Such percentages are known as "analytical percentages." They are not indispensable in an examination of financial statements and are frequently omitted.

Procedure in analyzing financial statements. A thorough analysis of financial statements cannot be made by merely scanning the statement and drawing conclusions from the impressions gathered.

A procedure of analysis that will yield all the pertinent information with a minimum of effort should be adopted. No method of procedure can be offered as suitable for every examiner of credit risks. Credit men work as individuals; the practice of one efficient individual may be quite different from that of another equally efficient person. One individual may go rather far in making written notes of his analyses of the financial statements submitted; another may leave no written evidence of the analysis. The latter method is subject to criticism if credit decisions are to be reviewed by a superior. The following procedure is suggested as one that will accomplish the purposes of any analysis of financial statements to determine credit strength.

1. Rearrange all data to facilitate the analysis.
2. Reduce the figures to simplify the study.
3. Analyze each current asset and each current liability.
4. Make ratio tests.

Rearrangement of the data in financial statements. Financial statements obtained from customers may be submitted in various forms, with the items grouped in sundry ways. For purposes of analyzing the statement to determine the credit strength of the applicant, the balance-sheet items should be grouped in the order shown in Figure. 75. All assets that are not current should be removed from the current group, and all liabilities that are current should be included in that classification.

The determination of what is current and what is not current depends upon:

1. A general knowledge of accounting (see pages 861 and 880 for an explanation of current assets and current liabilities).
2. An understanding of the credit applicant's business.
3. The answers to questions that have been put to the applicant.
4. Specific inquiry in the absence of information.

Simplification of figures. In the analysis of statements it is sometimes convenient to reduce the figures in the balance sheet to their simplest terms by omitting the minor digits. After such a reduction, the current assets would appear in the working papers as follows:

NAME.....ANALYZED BY.....
 ADDRESS.....DATE.....
 COMMENT.....

<i>Assets</i>	<i>19—</i>	<i>Per Cent</i>	<i>19—</i>	<i>Per Cent</i>
Cash.....	5,679.36	2 78	1,574.98	.89
Accounts Rec. (less Reserve).....	37,963.17	18.58	31,179.16	17.65
Notes and T. A. Rec.....	11,692.70	5.72	9,753.07	5.52
Mdse. Inventories.....	69,619.03	34.07	54,504.40	30.86
Misc. A/R (claims and agreements) ..	321.48	.16	2,256.50	1.28
Total Current Assets.....	125,275.74	61.31	99,268.11	56.20
Investments (listed)				
Stocks and Bonds.....			2,932.86	1.66
Real Estate.....	8,000.00	3.91	8,000.00	4.53
Buildings and Machinery (less Dep.)	61,686.83	30.19	56,990.01	32.26
Delivery Equipment (less Dep.)....				
Fur. & Fix. (less Dep.).....				
Total Fixed Assets.....	69,686.83	34.10	67,922.87	38.45
Goodwill and Org. Exp.....	5,400.00	2.64	5,400.00	3.06
Patents, Formulae, etc.....				
Prepaid Items ..	3,962.85	1.93	4,049.21	2.29
Total Intangible Assets.....	9,362.85	4.57	9,449.21	5.35
Deficit.....				
Total Assets.....	204,325.42	100.00	176,640.19	100.00
<i>Liabilities</i>	<i>19—</i>	<i>Per Cent</i>	<i>19—</i>	<i>Per Cent</i>
Taxes and Int. Pay.....	2,394.09	1.27	2,492.36	1.41
Accounts Payable.....	40,870.98	20.00	34,270.26	19.41
Notes and T. A. Payable.....			4,000.00	2.26
Loans Payable (Bank).....	6,000.00	2.94	8,000.00	4.53
Total Current Liabilities.....	45,465.07	24.21	48,762.62	27.61
Mortgage Payable.....	12,000.00	5.87	4,000.00	2.26
Bonds Payable.....				
Total Fixed Liabilities.....	12,000.00	5.87	4,000.00	2.26

Figure 74. Form of Comparative Statement.

<i>Liabilities</i>	<i>19—</i>	<i>Per Cent</i>	<i>19—</i>	<i>Per Cent</i>
Sinking Funds.....				
Special Reserves.....				
Total Reserves.....				
Capital Stock (Common).....	183,000.00	89.56	91,500.00	51.80
Capital Stock (Preferred).....			12,000.00	6.79
Surplus and Undivided Profits.....	40,139.65	19.64	20,377.57	11.54
Total Net Worth.....	142,860.35	69.92	123,877.57	70.13
Total Liabilities.....	204,325.42	100.00	176,640.19	100.00
Contingent Liabilities.....				
<i>Analysis</i>	<i>19—</i>	<i>Per Cent</i>	<i>19—</i>	<i>Per Cent</i>
Current Assets.....	125,275.74		99,268.11	
Current Liabilities ..	49,465.07		48,762.62	
Working Capital.....	75,810.67		50,505.49	
Investments.....			2,932.86	
Available Working Capital.....	75,810.67		53,438.35	
Equity in Fixed Assets.....	57,686.83		60,990.01	
Actual Net Worth.....	133,497.50		114,428.36	
Consisting of Capital Stock.....	183,000.00		103,500.00	
Surplus (Deficit).....	49,502.50		10,928.36	
<i>Ratios</i>	<i>19—</i>		<i>19—</i>	
Cur. Assets to Cur. Liabilities.....	2.53 to 1		2.03 to 1	
Fixed Assets to Fixed Liabilities.....	5.80 to 1		16.98 to 1	
Avail. Working Cap. to Cur. Liabilities	1.53 to 1		1.03 to 1	
Total Assets to Total Liabilities.....				
Sales to Total Assets.....				
Net Profits to Total Assets.....				
Net Profits to Net Worth.....				
Days Sales Outstanding.....				
Sales to Net Profits.....				

Figure 74 Continued.

NEW YORK

LIABILITIES									
Rule Payable Merchandise									
Rule Payable to own Bank									
Rule Payable otherwise									
Accounts Payable									
Deposits									
Accrued Liabilities									
Reserve for Taxes									
TOTAL CURRENT LIABILITIES									
Bonded Debt									
Mortgage Loans - due									
Reserve for Depreciation									
Other Liabilities									
Total Liabilities and Reserves									
Capital Account									
Preferred Stock Issued									
Common Stock Issued									
Surplus and Undivided Profits									
TOTAL LIABILITIES									
TOTAL QUICK ASSETS									
" CURR. LIABILITIES									
EXCESS QUICK									
Ratio									
Sales									
Net Profit									
Dividends									
Depreciation									
Contingent Liabilities									
Insurance									

Figure 75. Form of Comparative Statement Used by a Large Textile Manufacturer.

	(000.00 omitted)	
Current Assets	19.	19 .
Cash	\$150	\$216
Marketable securities	69	104
Accounts and notes receivable . .	23	29
Inventories	97	91
	\$339	\$440

Or, the amounts may be set up in the working papers in round figures, without omitting the digits.

Reducing figures to ratios. In the credit analysis of financial statements, certain ratios are helpful in throwing light upon the credit strength of the applicant. A ratio, which is the relationship that one amount bears to another, or the proportion which one amount is of another, is found by dividing the first amount by the second. Thus, to find the ratio of current assets to current liabilities, divide the current assets by the current liabilities. Suppose the result obtained is 2.73. This would mean that for each dollar of current liabilities there are \$2.73 of current assets.

In noting the ratio on the financial statement or in the working papers, it may be entered as: (1) 2.73; (2) 273 per cent; or (3) \$2.73.

Present-day use of ratios in determining credit strength. Most books on the subject of credit analysis go into a detailed explanation of analysis of financial statements by means of ratios. They present perhaps a dozen ratios that may have some significance in determining the credit worth of a business organization. The authors recognize, however, that the ratios have limitations and that too great reliance cannot be placed upon their efficacy.

Much less importance is attached to ratios today than was the case several years ago. In certain trades the use of ratios in statement analysis has been entirely eliminated, while in others they are resorted to sparingly. Where the use of ratios, other than a few fundamental ones, has not been abandoned, no rigid rule is followed in the application of the ratios; in some analyses many ratios are calculated in arriving at judgment of the financial strength of the credit applicant; in others, only a few ratios are calculated. The comparative statement illustrated in Figure 74 (pages 908-909) shows some of the ratios in use; it will be noticed that in the case presented only three of the ratios were computed.

Among banks the same variation in the use of ratios in statement analysis exists. Some banks have so little faith in the soundness of ratio analysis that they never calculate any other than the current ratio and the ratio of quick assets to current liabilities (see page 932); while others, in some analyses, calculate many ratios before accepting or rejecting an application for a loan. On the whole, it may be said that ratios are used more extensively by the banks than in the trade.*

In the following discussion only ratios that are useful in an average credit analysis are explained. They include:

- Accounts Receivable to Sales (see page 916).
- Sales to Inventories (see page 922).
- Accounts Payable to Raw Material Purchases (see page 927).
- Current Assets to Current Liabilities (see page 928).
- Quick Assets to Current Liabilities (see page 932).
- Sales to Working Capital (see page 932).
- Sales to Net Worth (see page 932).

* Prochnow and Foulke, in *Practical Bank Credit*, published by Prentice-Hall, Inc., mention the following fourteen comparisons of specific items and groups of items that should invariably be made in the internal analysis, the objective of which is to determine whether the receivables, the inventory, the fixed assets, the payables, the sales, and the profits are in satisfactory proportions.

- (1) Three important capital ratios
 - (a) Fixed assets to tangible net worth (Per Cent)
 - (b) Total debt to tangible net worth (Per Cent)
 - (c) Net working capital represented by funded debt (Per Cent)
- (2) Three important inventory ratios
 - (a) Net sales to inventory (Times)
 - (b) Net working capital represented by inventory (Per Cent)
 - (c) Inventory covered by current debt (Per Cent)
- (3) Three important sales ratios
 - (a) Average collection period (Days)
 - (b) Turnover of tangible net worth (Times)
 - (c) Turnover of net working capital (Times)
- (4) Three important net profit ratios
 - (a) Net profits on net sales (Per Cent)
 - (b) Net profits on tangible net worth (Per Cent)
 - (c) Net profits on net working capital (Per Cent)
- (5) Two important supplementary ratios
 - (a) Current assets to current debt (Times)
 - (b) Total debt to tangible net worth (Per Cent)

Dun & Bradstreet, Inc., publish tables annually showing the above fourteen average important ratios over five-year periods for some seventy-two different lines of industry and commerce, including manufacturers, wholesalers, and retailers. These ratios give a fairly wide basis of comparison in analyzing statements for companies in the lines covered.

Analysis of Working Capital

Scrutinizing the items that make up the current assets. The items that commonly make up the current assets are: cash, accounts receivable, trade notes receivable, inventories, and securities representing investment of idle cash and not those held for control or long-term investment. Each of these items requires separate analysis to determine the correctness and significance of the amounts shown. Before each item is studied, the following question must be considered, for upon its answer depends the conclusions that will be drawn in the analysis: Does the statement show the influences of seasonal activity or inactivity? The answer is available from general knowledge of the conditions in the industry and from the date of the statement.

Examination of cash. The correctness of the cash item can be checked by inquiry at the banks in which the company whose statement is under consideration keeps its funds; or, if this procedure cannot be followed, by inquiry directly of the applicant for credit to determine the following:

1. Whether any I.O.U.'s are included in the cash balance.
2. Whether the balance has been distorted by the addition of amounts received after the close of the period for which the balances are shown.
3. Whether any of the cash has been set apart for a specific purpose; for example, a sinking fund.

The inclusion of foreign bank balances, or any suspicion that the cash includes such balances, should lead to further inquiry as to the exchange rates that have been applied in reducing the balance to dollars and the availability of the funds. Obviously, the state of the foreign-exchange market at the time that the analysis is made should be considered in checking the cash.

Since the amount of cash required by a business varies with the nature of the business and the season, no rule can be offered as to the proportion which should exist between cash and other items.

Examination of accounts receivable. The following questions arise in the analysis of the accounts receivable:

1. Are the accounts receivable as stated all customers' accounts? If the answer is not furnished with the statement, it must be ascertained by inquiry.

2. What portion of the accounts receivable represents debts due from subsidiaries, and when are payments generally made by subsidiaries? The answer to this question must also be determined by direct questioning.

3. Have any of the accounts been pledged or assigned? This question is important because any property that is pledged to one creditor is not available to others. Furthermore, the pledging of assets may be evidence of financial weakness. If the balance sheet does not show by footnote or other indication that any of the accounts have been pledged, the information must be obtained by direct inquiry. In the absence of information in the financial statement, inquiry should also be made to ascertain whether there is included in the accounts receivable amounts that are not collectible because they have been assigned. In case any of the accounts have been assigned, inquiry should be made as to what contingent liability has been assumed through the guaranty of the accounts upon their assignment.

4. Is collection of any part of the accounts receivable likely to be adversely affected by regional or local conditions? To answer this question information must be available as to the location of the customers of the credit applicant and as to business conditions in various parts of the country.

5. Are the accounts receivable low in amount because the statement was prepared at the end of a fiscal period that coincides with the end of the natural business year? Accounts receivable are smallest at that time. Unless this factor is taken into account, the unusually small amount of receivables might give a false impression of good collections.

6. What is the quality of the accounts receivable? The purpose of looking into the quality of the accounts receivable is to determine whether adequate provision has been made for bad debts. The following methods are available for testing the quality of the accounts receivable:

(a) Obtain the names of the accounts receivable outstanding with amounts in excess of a certain sum. This procedure is, however, not usual.

(b) Ascertain the age of the accounts receivable.

Ascertaining the age of accounts receivable. The firm that has submitted the financial statement is frequently asked for a statement showing the age of the accounts receivable outstanding. The following illustrates the form of aging schedule that may be offered in answer to such a request:

					DECEMBER 31, 19	
					Amount	Per Cent
Less than 30 days old	—	from	date of	invoice	\$30,000	30.93
31 to 60 days old	—	"	"	"	24,000	24.74
61 to 90 days old	—	"	"	"	16,000	16.50
91 to 120 days old	—	"	"	"	12,000	12.37
Over 120 days old	—	"	"	"	15,000	15.46
					\$97,000	100.00

The valuation of the accounts receivable on the basis of their age and in relation to the usual terms of sale will show the amount that should be deducted from the accounts receivable as reported, for purposes of estimating credit strength. The percentage of value to be applied to each group of accounts depends upon:

1. The nature of the business.
2. The usual credit terms of sale.
3. The collection experience of the company whose statement is being analyzed.

Thus, in one business where the credit terms were thirty days, the valuation was made on the following basis: All accounts less than 30 days old (from date of invoice) were taken at their face value; those in the 31-to-60-days-old class, at 85 per cent of their face value; those in the 61-to-90-days class, at 50 per cent of their face value; and those over 90 days old, at zero.

Determining age of accounts receivable through ratio of accounts receivable to sales. In the absence of an aging schedule of accounts receivable, the average length of time that accounts are outstanding can be estimated by applying the following formula:

$$\frac{\text{Accounts Receivable Outstanding}}{\text{Net credit sales for the period}} \times \text{days in the period} = \frac{\text{Average collection period}}{\text{period}}$$

Assume the following facts to be shown by the financial statement and that the term of credit granted is 30 days.

Net credit sales	\$1,383,866.42
Accounts Receivable—customers at end of year	129,665.14
Reserve for Bad Debts	3,780.12

The item of reserve for bad debts is omitted in the computation but is tested as to adequacy after the age of the accounts receivable has been determined. If we apply the formula as indicated above, the average age of the outstanding accounts receivable is 33.73 days, as compared with 30 days, the term of credit allowed.

$$\frac{\$129,665.14}{\$1,383,866.42} \times 360^* = 33.73 \text{ days}$$

The above ratio may also be read as the number of days' sales outstanding. With net credit sales for the year of \$1,383,866.42, the average daily sales would be \$3,844.07 (\$1,383,866.42 ÷ 360), and accounts receivable outstanding of \$129,665.14 would show 33.73 days' sales outstanding. If the credit terms are 30 days, the fact that 33.73 days' sales are outstanding would indicate that a very few of the accounts are overdue.

If the average age of the outstanding accounts greatly exceeds the normal credit period, the following may be the reasons:

1. The company has been too liberal in extending credit.
2. Its collection department has been too lax in following up slow customers.
3. Included in the accounts receivable are amounts due from officers, directors, salesmen, and others.
4. Collections have slowed up due to general abnormal business conditions. The comparison of average age of accounts outstanding with the average terms of credit serves as a guide in estimating the amount that should be reserved for bad debts.

Another method of applying the test of accounts receivable is to multiply the annual sales by the fraction of the year represented by the credit terms. Thus, if the annual sales were \$800,000 and the terms of credit were 60 days, the sales would be multiplied by $\frac{1}{6}$. The result, \$133,333, shows the amount of accounts receivable that would be outstanding at the end of the month if collections were made on time. If the accounts receivable outstanding are far in excess of this figure, and the excess is not accounted for by seasonal

* In practice 360 days rather than 365 days is generally used.

conditions, the conclusion may be drawn that many of the accounts are past due.

Weaknesses in test of ratio of accounts receivable to sales. The calculation made above assumes the following three facts, which, if nonexistent, will render the ratio misleading:

1. That there is an even flow of sales during the year. Suppose the business is a seasonal one and that a quarter of the year's sales are made during the month of December. If the ratio is calculated from the balance sheet of December 31, the ratio will show a longer period for collection of accounts receivable than is actually the case. The seasonal movements in the business and the date of the balance sheet and income statement must therefore be taken into consideration.

2. That there is uniformity of collectibility during the year. Suppose sales have an even flow during the year but that December collections are normally slower than other months. The ratio calculated from a December 31 balance sheet and income statement would show accounts to be older than they would appear if the ratio were calculated for any other twelve months' period.

3. That all sales are made on the same terms of credit. The income statement ordinarily does not divide the sales into cash sales and credit sales. If the figure for credit sales is not available and it is known that a large proportion of the sales is made for cash, the ratio calculated by the use of total sales figures will not give a reliable index of the quality of the accounts receivable.

Comparison of age of accounts shown by ratio with percentages in the industry. Any specific information on the general subject of collections of open-credit accounts in the industry may help in the judgment of the quality of the accounts receivable in the particular company under consideration.

Almost all of the industries of the country have their own trade associations. Many of these associations can provide information on average collection periods and monthly fluctuations.

Another source of information pertaining to average collection periods in various industries is the Dun & Bradstreet, Inc., tables referred to on page 913. One of the ratios given in these tables is "average collection period." The following table shows the average collection period for 34 manufacturing lines in 1954.

<i>* Line of Business (Number of Concerns in parentheses)</i>	<i>Average Collection Period (Median)</i>	<i>Line of Business (Number of Concerns in parentheses)</i>	<i>Average Collection Period (Median)</i>
Automobile Parts and Accessories (71)	36	Hardware and Tools	37
Bakers (36)	11	Hosiery (72)	31
Bedsprings and Mattresses (63)	36	Machine Shops (148)	33
Bolts, Screws, Nuts, and Nails (48)	30	Machinery, Industrial (333)	41
Breweries (42)	17	Meats and Provisions, Packers (68)	10
Chemicals, Industrial (69)	33	Metal Stampings (85)	30
Clothing, Men's and Boys' (200) ..	48	Outerwear, Knitted (62)	25
Coats and Suits, Women's (70) ..	36	Overalls and Work Clothing (54) ..	28
Confectionery (43)	19	Paints, Varnishes, and Lacquers (132)	37
Cotton Cloth Mills (48)	36	Paper (60)	27
Cotton Goods, Converters, Non-Factored (44)	55	Paper Boxes (64)	25
Curtains, Draperies, and Bedspreads (47)	39	Petroleum, Integrated Operators (40)	31
Dresses, Rayon, Silk, and Acetate (82)	31	Printers, Job (67)	38
Drugs (39)	42	Shirts, Underwear, and Pajamas, Men's (58)	45
Electrical Parts and Supplies (77) ..	36	Shoes, Men's, Women's, and Children's (106)	37
Foundries (107)	31	Steel, Structural Fabricators (Sell on Short Terms) (76) ..	42
Furniture (149)	38	Stoves, Ranges, and Ovens (53) ..	39

Examination of notes receivable. The presence of the item of notes receivable among the current assets raises the following questions:

1. Is the presence of notes receivable in the statement unusual? In many lines of business, sales are made on open account, and notes are taken only to close out a past-due account. Notes receivable originating in this way represent an inferior asset and should be excluded from current assets.

Notes received at the time of a sale, in accordance with an established practice of accepting notes in payment for merchandise, such as exists in industries which market high-priced units, represent better assets than open accounts receivable, for the reasons given on the following page.

* From *14 Important Ratios in 72 Lines of Business, Retail, Wholesale, Manufacturing*, prepared by Dun & Bradstreet, Inc., 1956.

- (a) The note receivable is written evidence of a promise to pay.
- (b) It can be discounted and converted into cash at lower cost and more readily than the account receivable.
- (c) It usually bears interest.

2. Do all the notes receivable represent customers' accounts? Notes received from officers, stockholders, employees, and others for transactions outside the regular trade should not be considered as current assets.

3. Are any dishonored or discounted notes included in the total? If any notes receivable include instruments that have been discounted, assigned, or transferred, the contingent liability must be taken into account.

Examination of trade acceptances. In evaluating the asset "acceptances receivable," consideration should be given to the following points:

1. The trade acceptance, when properly used, represents an acknowledgment of a debt incurred by the purchase of a particular bill of goods.

2. Trade acceptances are sometimes misused in connection with past-due accounts, loans, or renewals and accommodations, where no transfer of goods is immediately involved.

3. It is the practice of some concerns to use the trade acceptance only in transactions with their less reliable customers; those whose credit standing is regarded more favorably are sold on open account. Furthermore, strong customers generally prefer to buy on open account and pay their bills in time to secure a cash discount, if any.

Before the value of the asset "acceptances receivable" can be determined, therefore, inquiry may have to be made of the company whose statement is being analyzed, to ascertain:

1. Whether the acceptances originated from current transactions that represent the purchase of goods.

2. Whether, if the first question is answered affirmatively, the company follows the procedure of selling on acceptances only to risks considered doubtful.

Trade acceptances arising through a proper use of the instrument in a business which customarily uses the trade acceptance in selling constitute an asset of ready convertibility, for the acceptances can

be discounted or sold in the open market through acceptance dealers. Trade acceptances that arise in other ways may have no superiority as an asset available to meet current debts and may, in fact, be inferior to open accounts receivable.

Testing the adequacy of the reserve for bad debts. A minimum reserve for bad debts, varying with the line of industry, is generally considered necessary, regardless of the condition of the receivables. The two methods by which a provision for doubtful accounts is established are: (1) as a percentage of sales. Under this plan a relationship is established between sales and bad debt losses by analysis of historical data. This percentage is then applied to current sales to determine the current additions to the provision for doubtful accounts. (2) By analysis of receivables to determine specific items where losses are likely to be incurred.

The valuation of the accounts, notes, and acceptances receivable on the bases explained above will indicate whether adequate provision has been made in the balance sheet for bad debts.

Examination of inventories. The following are the chief points to be considered in appraising the worth of inventories, determining whether too much capital is tied up in them, and detecting misrepresentations.

1. How the inventory was determined. The amount of inventories should represent a valuation of stocks on hand ascertained, where practicable, through an actual count, and not a sum arrived at from records of perpetual book inventories or an amount estimated by guesswork. Statements prepared by public accountants generally indicate what check the accountants have made to substantiate the inventories shown in the statement. If the statement does not disclose whether a physical inventory was taken, and if there is no accountant's verification thereof, direct inquiry must be made of the applicant as to how the valuation was made.

2. How the merchandise is valued. One of the purposes of scrutinizing the method of valuing inventories is to discover whether sufficient allowance has been made for declines in value due to such causes as changes in styles, deterioration, spoilage, waste, and other losses. (See page 865 for further discussion of this subject.)

3. What part of the inventory represents prepaid expenses that rightfully belong with the deferred charges. Supplies, for example,

that will never become a part of the finished product, eventually to be sold on account and finally converted into cash, should not be included with the merchandise inventory.

4. What the nature of the inventories is. The financial statement of a manufacturer should show what portion of the inventory is raw materials, what part is goods in process, and what amount represents finished goods on hand. Each of these has different values from the standpoint of convertibility into funds for debt-paying purposes. In the event of insolvency, raw materials consisting of stable commodities may be disposed of with greater facility than other merchandise; goods in process are practically valueless in case of forced sales to raise funds; finished goods have a more limited market than raw materials. A division of the inventory into these items is furthermore required to show whether, in view of market conditions and the volume of business done, too much capital is tied up in raw materials.

5. The seasonal influences. In analyzing the inventory item of the balance sheet, the seasonal factor must not be overlooked. A balance sheet drawn up at the close of a season should show a reduction in inventories, whereas one prepared at the beginning of a season, or in the midst of it, may disclose heavier inventories.

6. Whether merchandise has been pledged as collateral. Information should be obtained relative to this question, if the balance sheet does not contain the answer.

7. What conclusions can be drawn as to the condition of the stock from information contained in the balance sheet and income statement. Some light can be thrown upon the valuation of inventories and the probable salability of the goods by applying certain tests to the inventory.

Determining quality of inventory from ratio of sales to inventories. An estimate of whether the inventories are out of proportion to the demand being made upon the firm for its products can be determined by applying the following formula:

$$\frac{\text{Sales}}{\text{Average Inventory (at Sales Price of Finished Goods)}} = \frac{\text{Number of times finished stock turns over}}{\text{Number of times finished stock turns over}}$$

The figures shown by an application of this formula indicate how many times the finished goods on hand are turned over during the

course of a year. The figure can be converted to show how much time is consumed in converting inventories to sales. Thus, if the ratio of sales to inventories is 3, indicating that inventories turn over three times in the year, it is clear that 4 months are consumed in converting inventories to sales. The normal period in which stocks should be converted into cash or receivables through sales varies with the particular industry and must be known before the significance of the merchandise turnover becomes clear. In comparison with the normal figure the higher the turnover, the better the inventory control and the more favorable generally the condition of the firm; the lower the turnover, the poorer the control of inventory and the more costly the price of converting inventories to cash, for the longer it takes to move merchandise, the greater is the financial burden of doing so.

A slow turnover of merchandise may indicate that the inventories are overvalued and that they have not been properly depreciated; that they contain unsalable goods; or that the business has overbought. An unusually rapid turnover might indicate that all purchases of material received before the preparation of the statement had not been included in the balance sheet.

Another method of calculating merchandise turnover is given in the following formula:

$$\frac{\text{Cost of Goods Sold}}{\text{Average Inventory of Finished Goods at Cost}} = \text{Finished goods turnover}$$

The disadvantage of employing this ratio in testing the inventory is that usually the financial statement shows the cost of goods sold, including operating expenses; in order to obtain a true turnover, the cost of goods sold before the addition of operating costs should be used.

Difficulties in applying the merchandise-turnover test. Two difficulties are encountered in using the ratio of sales to inventories as a test of the inventories:

1. The ratio, in order to be accurate, should make use of average inventories for the year. These are generally not available to one who is analyzing a financial statement for purposes of determining credit strength. An average of the inventories at the beginning and end of

the year, if both figures are available, or only the inventory at the end of the period, must of necessity be substituted.

2. The balance sheet usually shows the inventory at cost (or market, whichever is lower). It is therefore necessary to obtain the sales markup and to multiply the inventory value by the appropriate factor, before applying the formula. Thus, if the markup is 50 per cent, the inventory would be multiplied by two. Another method is to reduce the sales in the numerator to a cost of sales figure, and to divide by the average inventory at cost.

Possible explanations of excessive inventories and slow turnover of merchandise. If the inventory is found to be too large, and the merchandise turnover consequently slow, certain unusual factors such as the following may account for the condition:

1. The inventory may reflect increases in purchases in anticipation of seasonal demand.

2. The trend of prices may be upward, and the large inventory may represent a deliberate stocking up in anticipation of a further rise in prices.

3. The inventory may be high because a larger volume of business is anticipated.

4. The turnover of merchandise may be slow because the firm engages in functions that lengthen the period between the acquisition of inventories and their sale. For example, one manufacturer may be engaged largely in assembling parts produced by others; another may undertake the manufacturing of parts as well as their assembling. Obviously, the second firm will have larger inventories than the first.

5. Large inventories may be required because of the distance of the firm from the market. Thus a firm located at a great distance from the source of its supplies would require larger inventories than one that can replenish its stock at short notice. Inventories that are excessive because of overbuying, excessive costs, or slow-moving stock are frequently the cause of financial embarrassment.

Examination of marketable securities. In analyzing the item of marketable securities, three steps are necessary:

1. Determine whether it is the policy of the company in whose statement the item appears to treat marketable securities as available for meeting current debts. If the company does not follow this

policy, the item should be removed from the current assets and placed among the investments.

2. Secure a list of the stocks and bonds that make up the marketable securities, in order that their current value may be checked against that shown in the balance sheet. Stocks and bonds that are not listed on a stock exchange are likely not to be readily convertible into cash and may, with justification, be omitted from the current assets.

3. Inquire whether any of the investments have been pledged.

Examination of current liabilities. Examination of the current liabilities is the next step in the analysis of working capital. The review of current liabilities should be made with the following objects in view:

1. To see that all of the current debts, including accruals for salaries, wages, and interest, are included among the current liabilities. Inquiry should be made as to the following:

(a) Whether all bills for goods received prior to the preparation of the statement have been included as liabilities.

(b) The maturity date of any mortgage outstanding, in order to be certain that the debt is included among the current liabilities if the mortgage matures in the current year.

(c) Whether any dividends are to be paid or withdrawals are to be made that will materially reduce the current assets shown on the statement; if dividends are cumulative, inquiry should be made as to the amount in arrears on the statement date. This information will indicate whether the company's dividend policy is jeopardizing the interests of creditors. Thus, if dividends are being paid while working capital is inadequate, or for more than the amount warranted by the current income statement, caution is indicated.

(d) The nature of reserves, if that is not clearly indicated in the statement. Any reserves which represent liabilities that will mature within a short period, such as a reserve for taxes, should be included among the current debts.

2. To determine whether there are any contingent liabilities that may, upon the happening of the contingency, increase the liabilities. (See page 884.) If the balance sheet gives no evidence of contin-

gent liabilities in footnotes to the balance sheet, direct inquiry should be made to ascertain if there are any.

3. To discover, through a study of the nature of the liabilities, any implications reflective of the credit standing of the applicant. For example, the item of loans payable to banks, commercial paper houses, or notebrokers implies that the company's credit capacity has been tested by the bank or other institution that has extended credit.

4. To ascertain the promptness with which bills are paid.

Examination of accounts payable. The following information should be ascertained concerning the accounts payable:

1. What amount of the accounts payable, if any, represents debts due for money borrowed from officers, stockholders, friends, and others? The answer to this question must be learned by direct inquiry.

2. What are the names and addresses of the firm's principal suppliers? This information is obtained by direct inquiry from the applicant for the purpose of inquiring of each supplier the line of credit offered to the applicant, how many years the account has been sold, the terms of sale, what the applicant owes, and his paying habits.

3. Are the accounts payable unusually large or very small because of seasonal influences? Information as to the months in which the accounts payable are at their maximum and minimum, and the totals at such times, obtained by direct inquiry, will enable the analyst to make allowances for seasonal factors in analyzing the accounts payable.

4. Is the company paying its bills promptly? Information regarding this question may be obtained in the following ways:

(a) A schedule of the age of the accounts payable, similar to that requested for the accounts receivable (see page 916), may be requested of the customer. If obtained, this report will show the volume of past-due accounts and the extent to which the company is failing to take advantage of cash discounts.

(b) An estimate of the age of the accounts payable may be made by comparing the number of days' purchases unpaid with the credit terms, as explained below.

(c) Credit agencies may be asked to make reports upon the **payment** record of the credit applicant, in which case it will be unnecessary either to ask for an aging statement of the accounts payable, or to estimate the promptness with which the company is paying its

bills. Additional investigation should be made in cases where the credit agency information is obviously not complete.

Estimating the age of accounts payable. In the absence of definite information as to the age of outstanding debts incurred in the purchase of materials, some indication of the promptness with which the applicant for credit pays his bills may be obtained by determining, through the following formula, the number of days' purchases unpaid:

$$\frac{\text{Accounts Payable}}{\text{Raw Material Purchases}} \times 360 = \text{Number of days' purchases unpaid}$$

A comparison of the number of days' purchases unpaid, with the average terms of credit, which are ascertained by direct inquiry if the information is not available from other sources, may reveal the promptness with which bills are paid. Suppose that the application of the formula to a particular financial statement indicates that 60 days' purchases remain unpaid and that the average credit terms are 30 days. It would appear that half of the accounts payable are past due. This conclusion would, of course, be unsound if seasonal purchases were reflected in the amount of accounts payable.

The formula should not be applied if bank loans appear in the balance sheet, for such loans may have decreased the amount of accounts payable outstanding. If the bank loans were used for the payment of purchases of merchandise, they could be added to the accounts payable in making the calculation; however, the balance sheet does not reveal to what use the bank loans were put, and direct questioning on this point may be necessary.

Examination of notes, bills, and acceptances payable. Notes payable should be broken down into the following classifications to reveal various factors as to the financial standing of the credit applicant.

1. Amounts representing notes given to merchandise creditors. The following inquiries must be made in order to judge the significance of the total:

(a) Is it the custom in the particular line of industry for notes or acceptances to be given in the normal course of trade, or have they been given by the applicant for credit in settlement of overdue ac-

counts? Obviously, if they have been given in settlement of past-due accounts, the credit applicant is a less attractive risk.

(b) Do the instruments carry any outside endorsement? If the notes bear outside endorsements, the applicant's name on the notes has not been regarded as sufficient and consideration should be given to this fact.

(c) Are the obligations past due?

(d) Have earlier notes been partly paid when due, and do those at present outstanding represent notes tendered for the balance?

2. Amounts representing notes discounted by banks. A company that has discounted its own notes at the bank has passed the bank's test for extension of credit. This is clearly a point in favor of the credit applicant, unless the loan has had to be renewed and carried along by the bank after the borrower completed the season's business. Inquiry should therefore be made to discover the bank's experience with its loans to the credit applicant.

3. Amounts representing notes sold through notebrokers. The ability of the company to sell its notes through notebrokers is a sign of strength, for only companies of high credit standing can raise funds in this way.

4. Amounts representing notes given to friends and relatives who have loaned money to the business. Determine the type of note and conditions of repayment. The fact that the owners of the business have had to borrow from friends and relatives should be regarded as a signal to move cautiously in granting credit.

WORKING CAPITAL RATIO

Ratio of current assets to current liabilities. In estimating the ability of the applicant for credit to meet his debts promptly, it is essential to discover from the financial statement how many dollars of current assets there are for each dollar of current liabilities. This figure, which is known as the current ratio or working-capital ratio, is found by applying the following formula:

$$\frac{\text{Current Assets}}{\text{Current Liabilities}} = \text{Current ratio.}$$

A company that has the following working capital setup would have a current ratio as indicated below.

December 31, 19 .

CURRENT ASSETS

Cash on deposit and on hand	\$145,141.17
Marketable securities (Less reserve, \$16,105; value at market quotations, Dec. 31, 19)	23,132.91
Accounts and notes receivable	223,996.17
Inventories of raw materials, supplies, work in process, and finished products (Less reserve, \$77,334)	478,007.59

Total current assets \$870,277.84
CURRENT LIABILITIES

Notes payable	\$ 18,941.87
Accounts payable	132,327.97
Accrued taxes	20,869.65
Accrued payrolls	23,694.61
Advances received on sales contracts	20,869.65

Total current liabilities \$216,703.75

Working capital \$653,574.09

Current ratio, or dollars of current assets per
dollar of current liabilities 4.01

For many years a current ratio of 2 to 1 was taken as the standard, and credit men concluded that if there were two dollars of current assets for each dollar of current liabilities, the company had sufficient working capital. It is now recognized, however, that this rule of thumb cannot be applied indiscriminately. Current ratios vary considerably in different lines of trade. They vary also within a particular line for manufacturers, wholesalers, and retailers. And they vary from year to year depending upon whether the country is experiencing prosperity or depression. For the current ratio to have real meaning, the credit man must know how it compares with the normal current ratio for companies similar to the one that he is studying, and with the current ratios of the same company in previous periods.*

Importance of current ratio. The relative importance of the current ratio and of working capital as factors in determining credit strength is clear from the following illustrations of the working capital of a company at two different periods:

* See reference to Dun & Bradstreet tables in footnote on page 913.

FIRST PERIOD	
Current Assets	\$3,000
Current Liabilities	2,000
Working Capital	\$1,000
SECOND PERIOD	
Current Assets	\$2,000
Current Liabilities	1,000
Working Capital	\$1,000

In both periods the working capital is \$1,000; but in the second period the current ratio is 2 to 1, while in the first it is 1.50 to 1. The company has a better working-capital position in the second period than in the first, because in the second period it has \$2,000 of shrinkable assets with which to pay non-shrinkable liabilities of \$1,000, while in the first period it had \$3,000 of shrinkable assets with which to meet \$2,000 of non-shrinkable liabilities.

Consideration to be given to the current ratio. The current ratio can be accepted as an indicator of the credit strength of the firm whose statement is being analyzed only after consideration is given to the following factors:

1. An analysis of the nature of the items that are reflected in the current ratio. This is clear from the preceding analysis of current assets and current liabilities. A strong current ratio, for example, carries little weight in favor of the credit applicant if examination of the inventories shows them to be overvalued and if an analysis of the accounts receivable reveals a large volume of doubtful accounts.
2. Seasonal influences. A statement that reflects the financial status of a company during an inactive period may show a more favorable current ratio than would a statement of the same concern a few months later when purchases have been made in anticipation of new seasonal demand and merchandise has not yet been converted into accounts receivable and cash.
3. The proportions which the various items that make up the current assets bear to the total current assets. Since some of the assets are more liquid and more stable than others, it is necessary to study the current ratio in the light of this consideration. The importance

of the distribution of current assets is discussed further in the next paragraph.

4. The outlook for expansion or contraction of operations after the date of the balance sheet.

5. Changes that are known to have taken place.

6. Significance of changes in the company's current assets and current liabilities over a period of time. (See page 933.)

Distribution of current assets. A study of the distribution of the current assets is important in the analysis because certain assets are more liquid than others. A company may have maintained a current ratio of 2 to 1 for two years, and yet may be considerably weaker in the second than in the first year, and vice versa. This can be readily seen from the following comparative statements of working capital:

	DECEMBER 31			
	Second Year	Per Cent	First Year	Per Cent
CURRENT ASSETS				
Cash	\$ 40,000	16%	\$120,000	50
Receivables	80,000	33½	80,000	33½
Inventories	120,000	50	40,000	16%
Total Current Assets .	\$240,000	100	\$240,000	100
CURRENT LIABILITIES	120,000		120,000	
Working capital	\$120,000		\$120,000	
Current ratio	2 : 1		2 : 1	

In both years the company has a current ratio of 2 to 1. In the second year, however, it is in a less liquid condition than it was in the first year, for in place of \$40,000 of inventories and \$120,000 of cash, it now has \$40,000 of cash and \$120,000 of inventories. However, if it is expected that the inventories will be converted into sales at a profit and that the eventual value of the current assets will increase as inventories are converted into accounts receivable and ultimately into cash, the apparent weakness may be no barrier to the extension of credit. Ordinarily, the shift from assets of greater liquidity to those of lesser liquidity is regarded unfavorably in analyzing credit strength.

It is not essential in the analysis of working capital to reduce the distribution of the current assets to percentages of the total if the correct conclusions can be drawn from a study of the figures as they

appear in the statement. Many credit men make their analyses directly from the figures.

The "acid-test," or "quick," ratio. A test often applied to determine the immediate ability of the applicant to meet current liabilities is to find the ratio of cash, receivables, and marketable securities ("quick-current" assets, "dollar" assets, or "liquid" assets) to current liabilities. This ratio is called the "acid-test," or "quick," ratio. Inventories are omitted on the principle that they are not liquid assets. If the marketable securities are stocks that fluctuate violently, they should be omitted from the acid-test ratio. Ordinarily a company that has its working capital temporarily invested in marketable securities purchases the highest-grade bonds; such securities may be regarded as dollar assets. The analyst determines the generally accepted standards for the line of business and compares the applicant's "quick" ratio with it.

Other Factors in Financial Analysis

Sales volume as a factor in financial analysis. The relationship of the volume of sales to working capital and to net worth must be watched for signs of strain due to overtrading. An increasing volume of sales must be accompanied by sufficient working capital and adequate net work.

The first ratio is determined as follows:

$$\frac{\text{Net Sales}}{\text{Working Capital}} = \text{Working capital turnover}$$

The second ratio is determined as follows:

$$\frac{\text{Net Sales}}{\text{Tangible Net Worth}^*} = \text{Capital turnover}$$

The ratio tests are useful when compared with the turnovers of the same company for previous periods and with average ratios for a

* In a corporation, the net worth is the total of the capital stock, surplus, and reserve accounts that represent surplus. (See page 887.) In a partnership, the net worth is the sum of the partners' capital accounts. In a single proprietorship, the net worth is represented by the proprietor's capital account. For purposes of credit analysis, however, the tangible net worth is used; this is found by subtracting from the net worth as above determined the goodwill, copyrights, trademarks, patents, leaseholds, mailing lists, and any other intangible fixed assets.

group of companies in the same line of business. Average ratios for various industries are available from time to time in such publications as the *Dun & Bradstreet Monthly Review*.

When the working capital turnover and the capital turnover are much higher than the average for the same line of business, it may indicate a capital insufficient to do the volume of business; when much smaller, the capital is not active enough.

Importance of the sources of working capital. The sources from which the credit applicant has acquired its working capital are extremely important in analyzing its credit strength, for the following reasons:

1. The sources have a direct relation to the control that the firm has over its inventories and other current assets. For example, if all the sources for borrowing have been exhausted and among the liabilities are debts representing loans that are likely to be pressed for payment at maturity, the company will find itself in an awkward position sooner than if it had not tapped all the sources of working capital and if its current debts represented only purchases on account.

2. The costs of raising working capital vary with the source. Borrowing from banks and commercial finance companies is more costly than long-term borrowing; however, the latter involves more permanent and rigid obligations.

3. The responsibility for payment varies. A company that has increased its working capital through additional investments by owners of the business is in a better position than one that has improved its position by borrowing for the obvious reason that the obligation to pay dividends to investors is not as pressing as the definite responsibility to repay on a certain day the loans made at banks or from other lenders.

4. The shifts made from one method of raising working capital to another reflect the activity of the firm in maintaining an adequate supply of working capital and should be considered.

Determining the sources of the credit applicant's working capital. The sources of working capital used by the enterprise whose statement is being analyzed can be learned from:

1. The nature of the liabilities shown in the financial statement.
2. Direct questioning of the credit applicant.

3. The changes in working capital revealed by a study of the comparative statements of the credit applicant. (See page 906.)

By tracing any increase in working capital to the following conditions, the analyst can decide the degree of improvement in the working-capital position, for each source has obvious strength or weakness.

1. Application to working capital of new contributions of capital by the owners of the business.

2. Application to working capital of funds received upon the sale of long-term obligations.

3. Earnings that have been reinvested in the business and that are reflected in the current assets.

4. Reserves against taxes, contingencies, depreciation, maintenance, and sinking funds or amortization of debts that are reflected in the current assets.

5. Writing up of merchandise inventories and marketable securities.

Similarly, by tracing any decrease in working capital to the following causes, the analyst can weigh the seriousness of the decline.

1. Losses incurred.

2. Distribution of earnings, or withdrawal of capital.

3. Use of current funds in the acquisition of fixed and non-current assets.

4. Use of current funds to fund reserves, to use reserves for maintenance and other purposes.

5. Marking down of inventory values and marketable securities.

6. FALSE FINANCIAL STATEMENTS

Laws providing punishment for false financial statements. A person or firm that has been defrauded by one who submitted a false financial statement in an effort to obtain credit may look to the following three classes of laws under which to prosecute the wrongdoer:

1. State larceny laws providing for punishment of persons who obtain money or property by means of false pretenses or misrepresentations.

2. State "false statement laws."

3. Federal laws providing punishment for those who use the mails for fraudulent purposes.

Prosecution under larceny laws. All of the states have laws making it a crime to obtain money or property under false pretenses. Prosecution under the larceny laws, of persons who obtain credit through the presentation of false financial statements, has proved unsatisfactory, for in order to obtain a conviction it is necessary to prove that:

1. The person accused intended to deprive or defraud the true owner of his property.
2. The accused obtained the property.
3. The statement contained fraudulent or false representations or pretenses.
4. The defrauded person relied upon the false statement.
5. The money or property was delivered to the person charged with the crime.

The difficulty of legally proving that the above elements existed has frequently resulted in the acquittal of persons who were undoubtedly recipients of goods obtained from a creditor who relied upon a false financial statement. The court decisions yield many examples of acquittal handed down because the defrauded creditor could not supply satisfactory evidence that the merchandise actually was received by the accused, or because he could not prove to the satisfaction of a jury that the purchaser did not intend to pay for the merchandise.

The inadequacy of the larceny laws as a basis for prosecuting the maker of a false statement gave rise to the passage of the false-statement laws.

Prosecution under the false-statement laws. A majority of the important commercial states have enacted a false-statement law, sponsored by the National Association of Credit Men, that overcomes the difficulties encountered in prosecuting the maker of a false statement under the larceny laws. In states that have such a false statement law, all that need be proved against a defendant is:

1. That he made or caused the statement to be made.
2. That the statement is materially false.

3. That the statement was made for the purpose of securing credit.
4. That the statement was made with the intent that it should be relied upon.

Who can be punished under the false-statement laws? The New York law, which is typical of those enacted in most of the states, and is in the form of the model law, provides for the punishment of any person who commits the following crimes:

1. Makes or causes a false statement regarding financial condition to be made in writing, for the purpose of procuring property or credit, and with the intent that it shall be relied upon.
2. Procures property or credit upon the faith of the false statement, knowing that the statement is false, regardless of whether the person procuring the property or credit made the statement.
3. Falsely represents, orally or in writing, that a financial statement theretofore made continues to be true, and procures property or credit upon the faith thereof.

Superiority of protection afforded by false-statement laws. The superiority of the protection afforded by the false-statement laws as compared with the larceny laws may be summarized as follows:

1. It is unnecessary to prove that any property was obtained upon the strength of the statement; it is unnecessary to prove the physical delivery of the property. In Alabama, Colorado, Florida, Georgia, Idaho, Nevada, and Virginia, there are special statutory provisions for the punishment of persons who, on the strength of false reports, get possession of money, property, credit, or some other valuable thing.
2. It is unnecessary to prove any intent to defraud.
3. Whereas under the larceny laws mere extension of time in which to pay a debt cannot be made the basis of a charge of larceny, under the false-statement laws the giving of a false financial statement for the purpose of obtaining an extension of time is a crime.
4. It is not essential that the maker of the false statement and the receiver of the credit or property be the same person. Thus a partner in a firm who receives credit or property on a false statement rendered by another partner may be liable for punishment; and a director who receives credit or property for the benefit of a corporation may be liable under the statute.

Prosecution under the Federal mail-fraud statute. The Federal laws against using the mails to defraud are a valuable weapon against a debtor who has secured merchandise on credit by mailing a false financial statement. To obtain a conviction under the Federal law, the prosecution must be prepared to prove the following:

1. That the statement is false.
2. That it was made for the purpose of securing money or property.
3. That it was made with the intention that it should be relied upon.
4. That the statement was mailed.
5. That money or property was obtained by means of the false statement.

The punishment provided under the Federal law is more severe than that imposed by the State laws. Furthermore, difficulties sometimes encountered in prosecution under the State laws are overcome by prosecution under the Federal law. For example, under the New York statute, cases must be prosecuted in the county in which the statement was made, regardless of where the statement was delivered, and proof must be furnished that the statement was made in the county in which the prosecution is sought. Under the Federal law, the action may be begun either in the district in which the statement was made, or in that in which the statement was delivered.

The National Association of Credit Men recommends the use of a self-mailing form of financial statement in order to make it easy to prosecute under the Federal mail-fraud statute. The self-mailing form is a combination statement and envelope; when folded, the financial statement is contained within the envelope, and the address of the one to whom it is being sent is on the back of the statement. See Figure 73, pages 902-903.

Some tests in determining whether prosecution should be undertaken. Before deciding to prosecute on an alleged false financial statement, the firm or person contemplating such action must consider whether the statement was materially false. A test to apply is to ask the question: Would credit have been extended if the items that are believed to be false were correctly stated? If the answer is "no," the falsity is probably material.

The difficulty that will be encountered in proving the falsity of

a statement must also be considered. Certain items in the balance sheet, such as inventories, machinery, furniture and fixtures, and land and buildings represent estimated values that are subject to fluctuations, different methods of appraisal, and honest differences of opinion. Great difficulty is likely to be experienced in convincing a jury that the valuations set forth in these items are false. However, the valuation of such items as cash, accounts receivable, notes and acceptances receivable, accounts payable, notes and acceptances payable, and mortgages payable are based upon ascertainable facts, and falsification of these items can be more readily proved to a jury. It is well to remember that the jury must be convinced beyond a reasonable doubt that the items alleged to be false, are in fact falsely stated.

Can an accountant be held for an incorrect statement? A person or firm that has extended credit, relying upon a financial statement prepared by a public accountant, which later proves to have been erroneous, has no claim against the accountant if the errors are due to ordinary negligence, not fraud, on the part of the accountant or his assistant, even though the accountant is aware that the statement will be used to obtain credit, provided that no contractual relation exists between the accountant and the firm that extended credit.

If the accountant has perpetrated fraud in the preparation of the statement, he can be held liable by persons who extended credit on the strength of the statement, even though there was no contractual relation between the accountant and the third person, and even though the report was not especially prepared for such third person.

Gross negligence in failing to ascertain facts before making a statement, even when not equivalent to fraud, is none the less evidence to sustain an inference of fraud. Thus, where accountants had knowledge that a large amount of accounts receivable of a firm whose accounts they were auditing were dead and that reserves for bad debts were inadequate, and the accountants failed to note this condition on the balance sheet, the accountants were held liable to a trust company which loaned money relying upon the accountants' certified balance sheet. In this case the accountants knew that the statement would be used to obtain credit.

SECTION 9

Raising Capital to Finance Current Needs

Need for regular, cushion, and variable working capital	941	Federal Reserve banks as a source of loans	952
Scope of chapter	942	FHA loans	953
1. QUALIFICATIONS FOR SHORT-TERM BORROWING		Industrial banks as a source of loans	953
Factors affecting qualification for credit	942	Personal finance companies as a source of loans	954
Strengthening the qualification for credit	943	3. TYPES OF LOAN ARRANGEMENTS AND HOW THEY WORK	
Collateral	944	Unsecured bank loans	954
Endorsement and guarantee	944	Discount and interest	955
Subordination of debts	944	Line of credit established at a bank	955
Restrictive loan agreement	945	Revolving credit arranged by bank	956
2. SOURCES OF SHORT-TERM LOANS		Term loans	957
Sources, types of loans, and methods of financing	945	Loans secured by pledge of stocks and bonds	957
Sources of short-term loans	946	Loans secured by assignment of life insurance	958
Trade creditors	946	Loans secured by commodities or inventory items	958
Commercial banks as a source of loans	947	Advances against bill of lading	959
Types of loans made by a bank	947	Trade acceptance	959
Choosing a bank	948	Banker's acceptance	960
Commercial finance companies as a source of loans	948	Loans secured by warehouse receipts	961
Types of financing offered by finance companies	949	Loans secured by trust receipts	962
Companies that use the services of commercial finance companies	949	Factors lien	963
Choosing a commercial finance company	950	Loans secured by accounts receivable	964
Factors as a source of funds	950	Factoring of accounts receivable	966
Commercial paper houses as a source of funds	951	Sale or discount of notes or contracts receivable	966
Acceptance dealers or discount houses as a source of funds	951	Loans secured by pledge of notes or contracts receivable	968
Government institutions as a source of loans	952	Installment financing of income-producing equipment	968
		Liens on fixed assets	968

940 RAISING CAPITAL TO FINANCE CURRENT NEEDS

4. HOW TO PRESENT THE REQUEST FOR A LOAN		Relationship with a bank	974
Preparing to apply for a bank loan	969	Relationship with finance com- pany	975
Interview with the loan officer	974	Applying to finance companies for funds	976

SECTION 9

Raising Capital to Finance Current Needs*

Need for regular, cushion, and variable working capital. Every business has need for a minimum amount of liquid capital sufficient to keep up the circulation of the capital from cash to inventories to receivables and back again to cash. This might be termed "regular" working capital. It is the irreducible minimum of capital necessary to keep up the healthy circulation of current assets, or the amount of circulating capital that will always be found in the business.

Every business also needs liquid capital over and above the regular working capital to provide for contingencies that arise at unstated periods. These contingencies are rising prices, business depressions, emergencies, and special operations. Rising prices call for more money to carry inventories and receivables or to increase inventories. Business depressions raise the amount of cash required to ride out unusually stagnant periods. Emergencies such as strikes, fires, and unexpectedly severe competition use up extra supplies of cash. Inauguration of extensive marketing campaigns, experiments with products or with methods of distribution, contracts to supply new businesses, and the like, require additional funds. This excess over regular working capital might be termed "reserve margin" or "cushion" working capital.

Beyond the regular and cushion working capital, a business may require working capital to take care of seasonal needs and expansion of sales. The working capital required for these purposes is called "variable" working capital because it changes with the volume of business.

Regular working capital and reserve margin working capital are

* Acknowledgment is made to Edward F. Gee, "Financing Working Capital Needs," and Theodore H. Silbert and Robert Andrew Klein, "Seeking and Obtaining Short-Term Credit," Chapters 3 and 4, in *Business Finance Handbook*; New York, Prentice-Hall, Inc., 1953.

fixed or permanent requirements and should therefore be supplied by the owner or owners of the business. Variable working capital is needed for temporary periods and therefore may be supplied by the creditors of the business. In other words, the business may borrow for its short-term needs.

Scope of chapter. This chapter covers (1) the qualifications necessary for short-term borrowing, (2) the sources of temporary borrowing, (3) types of short-term loan arrangements and how they work; and (4) how to present the request for a loan. From the explanation of points (2) and (3) the businessman can see which sources are most likely to be available to him and which methods of financing are suitable for his particular situation.

1. QUALIFICATIONS FOR SHORT-TERM BORROWING

Factors affecting qualification for credit. Every lender takes into account the following factors when an application is made for a short-term business loan:

1. *The human element.* The lender wants to know whether the owners and top executives are trustworthy. He therefore looks into the previous record of these individuals, their education, training and experience, and their habits and morals. The efficiency and adequacy of the productive, non-productive, and supervisory personnel are also important to the lender. He wants to be sure that there will be an adequate working force with the skills necessary for efficient operation. He also wants to know whether the employees are contented with their wage rates, working conditions, and labor relations. The provision the business has made for training understudies to fill important managerial posts is also given attention by a lender.

The borrower will not qualify for a loan if the lender is not satisfied with the results of his investigation of the human element.

2. *The financial factor.* The capital invested in the business must be sufficient to assure some protection to the lender. The lender is concerned about the excess of the total assets of the business over its debt. Does it offer enough leeway for shrinkage in the value of assets, the possibility of subsequent operating losses, and hazards to the business? The lender wants to know the nature and quality of the assets, the reliability of the asset valuation, and whether all of the

liabilities have been included. He wants to be sure that the company's physical properties and liquid assets are adequately protected by insurance, and that the company is protected against liability exposures.

To appraise the financial strength of the business, the lender calls for financial statements for a definite period of years. These include the balance sheet, profit and loss statement, surplus or capital statement, and sometimes supplementary details or schedules, such as aging of accounts receivable, breakdown of inventory, and cash budgets for the succeeding fiscal period. Statements certified by a public accountant, known and respected by the lender, carry more weight than those without such evidence of responsibility. The lender, at any rate, wants to be sure that accurate and adequate accounting records have been and are being maintained.

The financial factor in a particular instance may be unsatisfactory to one type of lender and acceptable to another. It may be sufficient to support one method of financing and insufficient to justify another. These statements will become clearer when sources of loans and methods of financing are discussed.

3. *The economic factor.* The ability of a business to repay a loan it is seeking depends upon the economic environment in which the business will operate during the period that the loan is outstanding. Business generally passes through alternate periods of expansion and contraction, known as the business cycle. The lender has to consider whether business generally is headed for prosperity, recession, depression, or recovery, and how the general business outlook will affect the particular business that is applying for a loan. Such economic factors as taxation, government regulation, restrictions, and controls may also have a bearing on the ability of the particular business to operate successfully during the period of the loan. The conditions and prospects within the industry in which the borrower is engaged are also considered by the lender, as well as the stability and economic soundness of the function performed by the particular business. The lender is interested, too, in the use to which the credit will be put and the sources from which the repayment will be made.

Strengthening the qualification for credit. The lender may feel that a loan is justified by the applicant's management record, its capital strength, and the general economic outlook. In that case the

borrower may obtain the loan on his simple promise to repay at some future date. On the other hand, the lender may be willing to make the loan only if he is given additional protection against the borrower's inability to repay the loan when due. The additional protection may take the following forms:

1. Collateral.
2. Endorsement and guarantee.
3. Subordination of debts due principals.
4. Restrictive agreement.

Collateral. Assets, or rights to assets, that can be readily sold or turned into cash by the lender are turned over to the lender to protect the loan. A loan thus protected is called a collateral loan. Stocks and bonds, accounts receivable, life insurance policies, commodities, or inventory items are examples of assets frequently used as collateral. A detailed explanation of the use of these and other assets to secure loans is given in the section beginning at page 957.

By furnishing collateral, the borrower may (1) obtain more credit than the lender would otherwise be ready to extend; (2) obtain credit for a longer period than would otherwise be available; (3) avoid an extensive credit investigation and disclosure of financial details that might otherwise be demanded by the lender; (4) obtain a lower interest rate in some instances.

Endorsement and guarantee. A lender may be willing to make a loan if the officers or stockholders of the borrowing corporation, or some other financially responsible third person will add his personal promise to pay to that of the borrower, by personally endorsing the loan, or becoming a co-maker. The same result can be obtained by having a financially responsible officer, stockholder, or individual guarantee a specific trade accounts payable or other corporate obligation. If the borrower is a weak subsidiary of a strong parent corporation, the guarantee of the parent corporation may be offered or requested to protect the loan. Because the lender may look to the borrower or his endorser or guarantor for payment, the credit risk is reduced.

Subordination of debts. If the applicant for a loan owes money to its officers or stockholders, the debt may stand in the way of obtaining a loan. To overcome this barrier, the officers or stockholders

can subordinate their claims against the corporation to the claim of the lender, or to the claims, in general, of all outside creditors. The subordination is effected by an agreement, executed by the corporation and the individuals to whom the money is owing. The agreement is filed with each of the creditors concerned.

Restrictive loan agreement. The uncertain credit position of the borrower may cause the lender to ask the borrower to enter into a restrictive loan agreement. Such an agreement includes provisions designed to prevent a dissipation of financial strength. The provisions may be promises by the borrower to maintain a certain net working capital, to keep inventories below a certain amount, to maintain the property in good condition, to keep a required amount of insurance in force, and to render financial statements at fixed intervals (monthly, quarterly, or, more rarely, semi-annually). There may be prohibitions against other borrowing, except for trade credits in the usual course of business. The borrower may be required by the agreement to limit salaries, dividends, or investments in fixed assets. The violation of any of the restrictive provisions by the borrower terminates the agreement and makes the entire loan payable immediately.

Such agreements are most commonly used by banks and insurance companies in arranging revolving credits, term loans, and standby agreements (see page 957). The loans are frequently on an unsecured basis, but they may be secured by collateral.

2. SOURCES OF SHORT-TERM LOANS

Sources, types of loans, and methods of financing. A businessman in need of working capital might first think, "Where shall I go for a loan?" The sources, when listed, may appear numerous, but actually few of them may be available to him. He should know what kinds of businesses make use of a particular source in order to judge whether the source is one he can possibly use. He should know something about the types of loans the different classes of lenders make and how those loans are arranged. Some types of loan arrangements might be entirely suitable to his particular situation; others might not. Also, the type of loan he can obtain may be made by different classes of lenders, but one class might be more ready than another to make it for him.

Thus, sources of loans, types of loans, and methods of short-term financing are interrelated subjects. However, to clarify the explanation of short-term borrowing, sources of loans will be discussed separately from types of loans and methods by which they are carried out. Although the explanation of the latter subject is reserved for the next section, types of loans made by each source will be indicated in the discussion of the various sources.

Sources of short-term loans. Each of the following sources will be examined briefly from the standpoint of its use by large and small businesses:

- | | |
|---|---------------------------------|
| 1. Trade creditors. | 7. Government institutions. |
| 2. Commercial banks. | 8. Federal Reserve banks. |
| 3. Commercial finance companies. | 9. FHA loans. |
| 4. Factors. | 10. Industrial banks. |
| 5. Commercial paper brokers. | 11. Personal finance companies. |
| 6. Acceptance dealers or discount houses. | |

Trade creditors. No source of current business credit is more frequently used than trade credit. Most suppliers offer small businesses as well as large ones reasonable short-term payment terms as a matter of trade custom. After a good credit relationship has been established, and conditions warrant it, the business may seek larger credit lines or negotiate more liberal terms than those usually offered.

A trade creditor must have reasonable assurance of the integrity and ability of business management and of the financial condition and prospects of the business before he can be expected to part with his merchandise or services upon the strength of an understanding that payment for such purchases will be made at a later date. A newly established business that is seeking trade credit should therefore contact the principal sources of prospective supply and acquaint them with the managers of the business, its financial condition, prospects, and trade credit requirements. A visit in person, if practicable, is more effective than a letter. The prospective trade creditor should be told something of the background and experience of the principals in the business and should be furnished with a complete financial statement.

The businessman who extends credit to his own customers has

merely to put himself in the place of the firm that asks him for credit to realize the importance of maintaining good relationships with suppliers. The best way to do this is to settle all accounts on their terms and take advantage of cash discounts.

Commercial banks as a source of loans. The commercial bank is the first institution the businessman thinks of when he is in need of a short-term loan. All loan transactions are handled by the bank's loan department, which is under the direction of loan officers. The bank also has a credit department which obtains and compiles information about borrowers and potential borrowers.

Because a bank's funds are available only for comparatively safe short-term loans, banks have developed over the years a set of standards to guide them. An ideal borrower, from the bank's viewpoint, is a concern run by a competent management of sound reputation. It has substantial net worth compared to the amount of the loan sought, has earned profits for a reasonable period of time by handling a standard product of proved value or by rendering a necessary service, and gives every indication of continuing to operate profitably in the future. Many companies cannot meet all of these standards and hence must offer security or an outside guarantor.

The lending officers determine whether the bank's requirements have been met from a personal interview with the borrower, a study of the financial and operating statements and other written material he submits, and from the credit information independently obtained by the bank's credit department.

A businessman should try to obtain as much information as possible about a bank's lending policy. Some banks are known to specialize in making loans to certain industries. If the concern falls into these categories, it is likely to find the bank not only willing to extend funds liberally but also ready to give valuable advice. If a bank has had unfavorable experience with a few firms in a particular industry, it may become reticent about making further loans to such firms or to other firms in the industry. A small business should find out whether the bank is interested in making loans to small enterprises.

Types of loans made by a bank. The types of loans generally made by commercial banks are: (1) unsecured, (2) endorsed or co-maker, (3) secured by collateral. Collateral might consist of (a)

stocks and bonds, (b) life insurance, (c) bills of lading, warehouse receipts, trust receipts, and factors liens for inventory loans, (d) accounts receivable, (e) notes and contracts receivable, (f) real estate mortgage or chattel mortgage on other fixed assets.

The explanation of these types of loans begins at page 957. Not all banks care to make all of the types of loans mentioned or have facilities for doing so. Sometimes a bank that does not handle the type of loan desired by a customer will be able to make arrangements for the desired loan with a correspondent bank.

Choosing a bank. The bank a business uses for deposits, check-collecting, and other everyday bank services is the one that it will ordinarily go to for short-term seasonal credit or other business financing requirements. If the company is likely to need large credit lines at certain periods of the year because of seasonal fluctuations, it should select a bank whose typical customers receive loans of a size comparable with the company's needs. If the firm is engaged in import and export trade, it should choose a bank that is equipped to handle foreign exchange and letters of credit. If it wants to borrow on field warehousing agreements, or other special credit instruments, it should select a bank that can and will handle such types of loans. In addition, it should consider the attitudes of the directors and officers of the bank. The ultra-conservative bank may have too stringent a credit policy; the bank with an aggressive new-business policy may be lending too close to its limits and thus be unable to help its old customers in times of general business stress.

Such factors as convenient location, facilities for safe deposit boxes, collecting coupons, payroll, and other special services may also have to be given weight.

Commercial finance companies as a source of loans. The commercial finance companies include a group of companies specializing in the extension of secured credit to business firms. They are variously known as commercial credit companies, credit companies, accounts receivable finance companies, factors, and sales finance companies. All are engaged in granting self-liquidating collateralized credit. Through specialized knowledge and techniques, and willingness to take risks, they can supply funds that often cannot be obtained through other channels. They have pioneered in the development of new forms of lending, some of which have been

perfected to the point where more conservative lenders, like banks, now employ them. Their ability to take risks lies in thorough screening and detailed supervision of accounts and the charging of somewhat higher rates, to compensate for the overhead arising from multitudinous bookkeeping transactions and for losses.

Types of financing offered by finance companies. The following types of financing are available through commercial finance companies: (1) open accounts receivable financing, (2) factoring, (3) inventory financing, (4) consumer and sales financing, (5) installment financing of income-producing equipment, and (6) import and export financing.

Companies that use the services of commercial finance companies. Commercial finance companies are more tolerant of a borrower's financial position than banks. If the business applying for credit can show that it is well managed and has good prospects for success, commercial finance companies will give the application serious consideration. Of course, it must have sufficient net worth, working capital, and earning power to ensure that it can stay in business and operate successfully. Also, it must be able to offer acceptable collateral. Companies that use the services of commercial finance companies often fall into the following categories:

1. A young undercapitalized company that does not have sufficient working capital at the time of application, but expects in the near future to increase such funds through larger sales volume and retention of earnings.

2. A growing company whose increased sales volume has temporarily overextended its working capital resources.

3. A company whose capital has been reduced through a change in capital structure, such as buying out of a principal.

4. A company whose working capital has been depleted by adverse business, a condition that has since then been corrected.

5. A company whose management lacks experience in its present venture but has high character and ability, and can present sound collateral for secured financing while it improves its management.

6. A company in an industry with large seasonal peaks, such as the bathing suit, winter outerware, and sporting goods industries.

7. A company that for other reasons does not meet the technical

requirements for a bank loan; its progress is retarded by lack of working capital, but it possesses acceptable accounts receivable or other security.

Choosing a commercial finance company. Because of the great variations among finance companies, it is important to choose one that is equipped to handle the type of financing desired. Finance companies are not subject to the statutory restrictions and governmental supervision that apply to banks. For this reason, greater reliance must be placed upon the reputation of the finance company and the integrity of its managers. A well-established company should be selected. In general, the older firms have high standards of conduct. Many of the younger companies, however, are also reliable. The businessman should check into the history of the company and its personnel. He may go to his commercial banker for help in this investigation and to others in the business community, such as credit and trade associations, attorneys, accountants, and clients of the finance company. It must be remembered, however, that the opinions of individuals may be biased. The businessman should not hesitate to get acquainted with the executives of the finance company he is considering, for such direct contact is most helpful in forming an opinion about the company.

Since the commercial finance industry is a competitive one, rates of reputable companies tend to be in the same range for similar services and for borrowers of comparable financial strength. Nevertheless, it is advisable to make inquiries of several companies to establish what is a fair rate.

Factors as a source of funds. A factor is a specialized type of commercial finance company. For the most part a factor makes funds available by buying outright the accounts receivable of a company. The seller is then relieved of the risk of loss due to a debtor's insolvency or inability to pay. The factor performs all credit and collection service, leaving the client free to concentrate on other problems of his business.

Factoring companies seek borrowers of good character, relying upon them to assign bona fide sales. The product must be well accepted, for return merchandise wipes out the collateral and forces the factor to rely upon the general financial standing of the client. Factoring companies offer their services to manufacturers, distrib-

utors, and jobbers in such lines as textiles, shoes, furniture, equipment and appliance trades, and certain foodstuffs. Progressive factors who seek to expand into other fields may handle other products as well.

In addition to purchasing accounts receivable, billing, ledgering, collecting the receivables, and guaranteeing the seller against customer credit losses, the factor may also extend credit to its clients against merchandise on hand or in process of manufacture, against liens on plants or machinery, or on an open note, unsecured basis.

Commercial paper houses as a source of funds. A fairly large, well-established industrial or mercantile concern might issue short-term unsecured notes to finance part of its seasonal or temporary working capital requirements, using commercial paper houses to market them. The commercial paper house either acts as a broker between the company issuing the notes and the purchaser of the notes, or it buys the paper from the issuing company and sells it in the open market to banks, insurance companies, and private investors as prime risk, low-rate, short-term investments. The interest rate to the borrower is usually nominally lower than the prime commercial rate on a direct bank loan.

Only firms in a strong financial position, with good earnings for a number of years, ample working capital, and the highest credit standing can make use of commercial paper brokers.

Commercial paper houses, or note brokers as they are sometimes called, are usually large financing institutions that also act as securities dealers, stock brokers, and investment bankers.

Acceptance dealers or discount houses as a source of funds. A business that receives bankers' acceptances in payment of such commodities as cotton, coffee, and other staple goods sold to domestic buyers or importers, may want to convert those bankers' acceptances into cash rather than hold them until maturity. It may discount the bankers' acceptances at its own bank or sell them to a discount house. In either case two charges are involved—the bank's charge for accepting the draft, and the charge for discounting the paper. This latter charge varies with money market conditions and with the maturity. However, bankers' acceptances command the lowest rate of discount because the risk is practically eliminated by the direct responsibility of the accepting bank to make payment at

maturity. If the business can borrow on its own notes, it usually prefers to do so and hold the bankers' acceptances until maturity.

Like commercial paper houses, discount houses perform other financing functions. For example, Discount Corporation of New York also buys and sells United States Treasury bills, certificates of indebtedness, and other government securities.

Government institutions as a source of loans. The principal agency for businesses in need of working capital is the Small Business Administration. Any business enterprise that cannot obtain credit through its normal sources, on reasonable terms, can as a last resort apply to the SBA for a loan. Usually a loan application must have been declined by a bank before it will be considered by SBA.

All loans made by SBA must be secured by collateral adequate to afford reasonable assurance of repayment when considered with other factors. These factors include integrity and ability of management, prospective earning power of the business, whether granting the loan will increase employment or have other favorable effects on the economic life of the community, the soundness of the business and its long range possibilities, and the like. The collateral may consist of (1) a mortgage on fixed assets, (2) a mortgage on chattels, (3) assignment of accounts receivable, (4) a pledge of inventories (preferably stored in bonded warehouses), or (5) a pledge of other assets.

The SBA is restricted as to the amount it may lend one borrower and as to the maximum maturity of any loan. Strict provisions with reference to salaries, dividends, and similar matters are often included in the loan agreement.

Federal Reserve banks as a source of loans. Under the Banking Act of 1934, the regional Federal Reserve Banks and their branches are empowered to make loans directly to business firms. Federal Reserve loans can only be made to meet working capital requirements of established firms, and the term cannot be longer than five years. Since these powers were granted to the Federal Reserve as an emergency measure to help businesses over the bad spots during the great depression, the banks today are reluctant to make loans except under unusual circumstances in which a deserving borrower cannot obtain funds elsewhere. There are no restrictions on the size of the loan. In the past, however, the banks have tended to favor small and medium-sized businesses.

Generally speaking, all direct loans made by Federal Reserve Banks must be secured. Acceptable security may include: (1) a first mortgage on real estate, plant, and equipment, (2) a pledge of chattels, (3) an assignment of accounts receivable, (4) a pledge of notes receivable, trade acceptances, or warehouse receipts for merchandise stored in acceptable warehouses, (5) an assignment of moneys due or to become due under United States government or other contracts, or (6) such other collateral as may be acceptable to the bank.

FHA loans. The Federal Housing Administration will guarantee, under certain circumstances, the loans made by approved private institutional lenders. Small contractors and others dealing in materials or equipment used for modernization or new constructions may increase their volume of business without increasing their accounts receivable by using the financing offered under the FHA program.

Industrial banks as a source of loans. The industrial banks in this country include Morris Plan banks and other lending institutions that specialize in consumer installment loans. Many of them resemble ordinary commercial banks in that they accept deposits and do a general banking business. However, they are not an integral part of the commercial banking system but rather are collateral to it. The term "industrial" grew out of the emphasis that was originally placed upon loans to industrial workers. Although industrial banks make loans to individuals, some of them make a great many business loans.

The size of the loan that can be made, the terms, and the charges are regulated by state law and vary from state to state. Amounts range from \$1,000 to \$5,000, depending upon the state law. The term generally is from one to two years. Usually a charge of 6 to 8 per cent of the entire loan is deducted in advance and since the loan is on an installment basis, payable on a regular schedule, the effective annual interest rate is about 12 to 16 per cent. Besides, there may be a charge for credit investigation. Inquiry in a particular area may show that because of competition with commercial banks less than the maximum legal rate is charged. Loans from industrial banks may be secured by collateral or made on the guaranty of two or more responsible persons as co-makers.

Since installment loans are a relatively expensive way to obtain

business funds, this source would be used by the small businessman only if less costly borrowing from other sources were not available.

Personal finance companies as a source of loans. As a general rule, personal finance companies, or small loan companies, as they are commonly called, confine their activities to consumer financing; that is, they make loans to individuals payable in monthly installments over a ten to twenty-four month period. Most of the loans are character loans, without endorsement and without marketable collateral. Chattel mortgages on household goods are quite commonly taken and foreclosures are rare. Some loans are made for business purposes.

In most states the small loans companies are regulated by small loans laws patterned after the Uniform Small Loans Law. These loans set the maximum loan that be made by licensed lenders. In most states the maximum loan is \$300; in some it is \$500; and in a few it is \$1,000. The laws also set the maximum rate of interest that may be charged on unpaid balances. The legal rate varies from state to state. In some states the rates run from 2 to $3\frac{1}{2}$ per cent per month on very small loans, but are graduated downward to 2 or $2\frac{1}{2}$ per cent on loans up to \$300. In states that permit loans over \$300, the monthly rates on amounts over \$300 run from $\frac{1}{2}$ to $\frac{3}{4}$ per cent per month. Prepayment without penalty is usually permitted.

Before utilizing the small loan company as a source of business funds, the small businessman should carefully consider the costs which, as indicated, are very high.

3. TYPES OF LOAN ARRANGEMENTS AND HOW THEY WORK

Unsecured bank loans. The most desirable and most economic method of financing working capital requirements is through unsecured credit. The business whose management, past operating record, financial condition, and future prospects are sufficiently strong to enable it to borrow from its bank or banks of account on an "open note" or "plain note" basis enjoys a financing advantage that should be carefully protected and maintained.

When credit on this basis is established, borrowings are effected

simply by filling in and signing a promissory note in the name of the business entity by a properly authorized representative.

Discount and interest. Discount is interest paid in advance to maturity rather than subsequently paid at intervals or at maturity. On short-term bank loans, discount to maturity at an agreed annual rate negotiated by the borrower is deducted from the face amount of the note and the proceeds are credited to the borrower's account. When such loans, by mutual agreement, are made payable on demand, interest at the agreed annual rate is computed and billed to the borrower by the bank at stated intervals, perhaps quarterly, and/or is paid in full to date at the time of the payment in full of the principal.

Line of credit established at a bank. Businessmen who anticipate having to finance current operations by bank loans usually ask their banks for a "line of credit" in order that they may know in advance how much they can borrow at a particular bank, without collateral, should the need arise. A bank will establish a line of credit up to the amount it feels it can safely extend to the business, on the basis of its knowledge of the firm's business and strength. A line of credit is an advance commitment by the banker to lend up to the indicated amount. While the line is open, the business must keep the bank informed of its operations and financial condition and must continue its deposit account there. Also, to keep the line open, the business must make some use of it, for the bank cannot afford to maintain unused loan commitments indefinitely.

The bank generally requires all loans made within the line of credit to be paid off within the period of a year and the borrower to remain free of debt for at least a 30-day period. At or near the end of the credit year, the business negotiates again with the bank for a line of credit for another year. Many companies are steady borrowers from banks on lines of credits. Total lines exceed the actual amount borrowed and they rotate their clean-ups with the various banks throughout the year. The line-of-credit loans are made at interest rates prevailing at the time of the loan.

For example, a business might arrange with its bank in January to obtain a line of credit for \$200,000 to run for one year. This means that the business can borrow as many times as necessary during the year as long as the loan balance due does not exceed the line of

credit, that is, \$200,000. The company may borrow the full amount in February, repay it in, say, 90 days, and borrow again, say, \$100,000 in May to be paid off in 90 days. In August it could borrow as much as it needs up to \$200,000, have that amount paid off before the period for which the line of credit was arranged expires, and still have a 30-day period during which it will be free of debt to the bank.

Revolving credit arranged by bank. Large corporations frequently finance their current operations by arranging a revolving credit for a term of from two to three years. Often several banks participate in the credit arrangement, though the deal is usually negotiated with one bank. Revolving credits are established under written loan agreements of the type referred to at page 945. The agreement stipulates the maximum amount that can be borrowed, the interest rate at which all loans under the agreement will be made, and the requirements that the borrower must meet. The agreement binds the bank to make loans to the borrower any time within the period of the agreement that the borrower wants funds, provided, of course, that the borrower meets the conditions set forth in the agreement.

To illustrate, a corporation might arrange for a revolving credit of \$1,000,000 for 2½ years at 2½ per cent interest. The company could then borrow as many times as circumstances required during the 2½ years as long as the total of loans outstanding at any one time does not exceed \$1,000,000. All loans will be made at 2½ per cent as fixed in the agreement, regardless of market changes in interest rates. The bank will, however, require the recipient of the revolving credit to pay a small fee, about ½ of 1 per cent per annum, on the unused balance of the credit.

Revolving credit arrangements may provide for either secured or unsecured loans. Four types of collateral are used as security: (1) negotiable bills of lading, covering goods in transit; (2) warehouse receipts, covering readily salable staple commodities in warehouses; (3) trust receipts; (4) assignments of accounts and notes receivable. The procedures for financing with these types of collateral, whether under a revolving credit or not, will be explained below.

The revolving credit agreement specifies a maximum percentage of the value of the assets offered as security which the bank will lend.

Thus, the agreement may fix 80 per cent of the value of pledged accounts receivable, or 75 per cent of the invoice price of goods as the maximum for each of these classes of loans respectively. Each invoice for goods may be a source of a loan. When any of the pledged assets is withdrawn, the borrower must make repayment of the loan equivalent to the amount withdrawn. Because of this feature, the loan is said to revolve.

Term loans. A term loan is one with a maturity usually of not less than two and not more than ten years, repayable in monthly, quarterly, semi-annual, or annual installments over the specified period. Before term loans came into common use, the practice was for businessmen to borrow on short-term notes. The notes were often renewed again and again, and payment frequently was not made until several years later. Term loans thus are simply a frank recognition of this condition.

Term loans are used for working capital purposes or for any other specified business purpose, including plant improvements or additions. They are made by banks and insurance companies, under restrictive loan agreements.

When a business foresees the need of additional funds it may negotiate a term loan to be available under certain contingencies or at a predetermined time. The loan and its agreement do not become operative until the stated time arrives or unless the state event occurs. This arrangement is called a *standby commitment*, or *standby credit*.

Loans secured by pledge of stocks and bonds. If the business owns stocks or bonds they may be accepted as collateral for short-term loans by a bank, finance company, or other lender. Securities listed on a national exchange are the most acceptable as loan security. A bank will lend from 60 to 75 per cent of the market value of a listed security, perhaps going as high as 80 to 90 per cent when the security consists of high-grade bonds or United States Government securities. For securities that have a local and more or less active over-the-counter market the lender may limit the loan to 50 per cent or less of the last indicated bid price. For securities that are closely owned and for which there is no determinable market, the amount loaned is determined by the lender's appraisal of the financial condition, management, earnings record, and prospects of the firms which issued the securities.

In turning over collateral for a loan, the registered owner of stock endorses it in ink to effect its pledge as collateral. Usually this endorsement is supplied on a separate power of attorney. Registered bonds are deposited with the lender in a similar way. Coupon bonds require nothing more than physical delivery to effect their pledge as collateral. The dividends and interest payments continue to go when paid, directly to the owner unless otherwise specifically restricted by the lender.

The borrower signs a collateral note form. This note gives broad powers to the lender, including the right to demand additional collateral, if in its judgment additional collateral is needed and to hold the collateral for any other debt due the lender. The collateral note provides that in the event of loan payment default, bankruptcy, or failure to deposit additional collateral upon request, the lender may sell the collateral at public or private sale for the satisfaction of the debt. Upon any such sale, the excess, if any, of the proceeds over the amount of the debt would be returned to the borrower.

Loans secured by assignment of life insurance. A business that carries life insurance on one or more of its officers or principals may find that it has, in the cash surrender value of these policies, a highly acceptable form of collateral security. A loan secured by an assignment of the policy may be obtained from the insurance company, a bank, a loan broker, a finance company, or other lending agency. The cash surrender value of the policy, if any, may be computed from a table of values set out in the policy.

The assignment to the lender of all rights, claims, and values of the policy is effected by the use of an instrument of assignment supplied by the insurance company or the lender. The assignment must be properly executed by the owner of the policy and perhaps also, if required, by the insured and the beneficiary, if other than the owner. Physical possession of the policy and of the original of the instrument of assignment is retained by the lender until the loan is paid. A duplicate of the assignment, properly executed, is sent to the insurance company by the lender.

A bank or other lender may be willing to lend close to 100 per cent of the cash surrender value of the policy as set out in its terms.

Loans secured by commodities or inventory items. A bank, finance company, factor, or any other lending agency may arrange

a loan secured by commodities or inventory items. The instruments used in such loans include: (a) bill of lading, (b) trade acceptance, (c) banker's acceptance, (d) public warehouse receipt, (e) field warehouse receipt, (f) trust receipt, (g) factors lien, (h) chattel mortgage, deed of trust, or conditional sale contract. The nature of these instruments and how they are used in inventory financing will be brought out in the following paragraphs.

Advances against bill of lading. While goods are in transit, the title to the goods may be evidenced by a bill of lading. A bill of lading is a receipt given by the railroad or other carrier to the shipper. It serves also as a contract to deliver the goods and as documentary evidence of title to them. When properly endorsed, it may be pledged with a lender as loan security. Upon arrival of the goods, the purchaser may obtain the bill of lading from the lender under trust receipt, sell the goods, and pay the lender. Or, the purchaser may place the goods in a public warehouse and return warehouse receipts to the lender to cancel the trust receipt.

A seller may ship merchandise under a negotiable bill of lading made out in its own name, draw a sight draft on the purchaser for the amount of the sale, endorse the bill of lading in blank and attach it to the draft. It may then either (1) discount the draft with a bank, receiving the cash proceeds immediately, or (2) enter the draft for collection through a bank, receiving the cash proceeds when the draft is paid by the purchaser. The bank is protected, if it discounts the draft, by recourse on the seller and by a negotiable title, evidenced by the bill of lading, to the goods in transit. The seller is protected, in either event, by being assured of the payment of the draft by the purchaser before title to the goods is transferred to the purchaser by release to the purchaser of the bill of lading. If the draft is dishonored, the draft and the attached bill of lading will be returned to the seller and the seller will be able to recall the shipment of goods or to dispose of them elsewhere.

Trade acceptance. A trade acceptance is a draft drawn on the purchaser of a shipment of merchandise by the seller of the merchandise for the purchase price of the merchandise, payable on a specified future date or on a determinable future date after delivery of the merchandise and presentation to and acceptance of the draft by the pur-

chaser. By an arrangement with a trade supplier, a business may use such a device to finance inventory purchases.

For example, a purchaser may arrange with a seller to ship an order of merchandise for \$5,000 on a time draft or trade acceptance basis, payable sixty days after sight with interest at 6 per cent. The seller ships the merchandise, obtains and endorses a negotiable bill of lading, and attaches the bill of lading to a draft drawn on the purchaser for \$5,000, payable sixty days after sight with interest at 6 per cent. He delivers the draft and attached bill of lading to the seller's bank, to be forwarded to a bank in the purchaser's city, with instructions to release the bill of lading to the purchaser upon the purchaser's acceptance of the draft. Upon presentation of the draft, the purchaser writes the word "Accepted" across its face, together with the date, the name of the bank at which payment is to be made, and the purchaser's signature. The bill of lading is then released to the purchaser, enabling the purchaser to obtain delivery of the merchandise and to have a period of sixty days, from the date the draft was accepted, in which to dispose of the merchandise before payment for the purchase price has to be made.

The accepted draft, or "acceptance," is returned to the seller's bank, and, at the request of the seller, the bank may discount the acceptance (on which both the purchaser and the seller are obligated) at a mutually satisfactory rate, giving the seller the cash proceeds immediately. A few days before the maturity of the acceptance, the bank forwards the acceptance for collection to the bank at which it is payable. On the maturity date, the purchaser, having sold and collected for the merchandise in the meantime, pays the collecting bank \$5,050 (the amount of the original draft plus the agreed interest for sixty days at 6 per cent) and receives the cancelled acceptance. After deducting its collection charges, the collecting bank remits the proceeds to the seller's bank and the transaction is closed.

Banker's acceptance. By negotiation between the seller and the purchaser and between the purchaser and the purchaser's bank, it may be agreed that the draft (with bill of lading attached) for the purchase price of the merchandise will be drawn on (and accepted by) the purchaser's bank rather than on (and for acceptance by) the purchaser. In all such instances, the purchaser must qualify as an acceptable credit risk to the bank since, under an acceptance agreement

between the purchaser and the bank, the bank agrees to accept the draft upon presentation, when accompanied by specified documents of title to specified goods. By the terms of the acceptance agreement, the title documents are assigned and transferred to the bank, in return for the agreement of the purchaser to place funds for the payment of the acceptance, plus the bank's commission for its service at an agreed rate, in the hands of the bank prior to the maturity date of the acceptance. Since banker's acceptances are prime risks and have a ready market, the seller will have no difficulty in disposing of the acceptance immediately at a relatively low rate of discount.

Loans secured by warehouse receipts. A warehouse receipt is simply a receipt for goods placed in a warehouse. At one time all goods financed by warehouse receipts had to be stored in independent public warehouses. Since these were often not near the borrower's place of business, inconvenience and extra expense resulted. To avoid this, a form of service known as "field warehousing" was developed by means of which the warehousing is done on the premises of the borrower. A warehousing company takes a lease of a part of the borrower's premises on which it displays its sign as occupant. The borrower makes written application for storage space therein and a representative of the warehousing company signs and issues warehouse receipts to cover the deposited goods and then takes custody of them. Since the agents of the warehousing company are bonded against "any act or acts of fraud, dishonesty, forgery, theft, larceny, embezzlement, wrongful extraction, or willful application or misappropriation or breach of trust," there is little danger of loss through collusion between the operatives of the warehousing company and the agents of the borrower. The types of commodities most commonly field warehoused are: canned food products; miscellaneous groceries; lumber and building supplies; coal and coke; grain, feed, seeds, and other agricultural products; fuel oil and gasoline; wine, liquor, and beer; textiles and clothing; steel and other metals; household appliances; chemicals and drugs; and industrial machinery and equipment.

Procedure. A purchase financed with warehouse receipts as security would be accomplished as follows. The buyer advises his bank that he is ordering goods from the seller and arranges to have the bank pay the draft the seller will forward to the bank with the bill of

lading covering the shipment. The seller ships the goods and sends the draft and bill of lading to the buyer's bank. Upon arrival of the shipment, the bank pays the draft, after first having obtained a note from the buyer covering the cost of the goods. To get the goods, the buyer must obtain the bill of lading from the bank. In exchange for the bill of lading (which represents title to the goods), the buyer gives the bank a trust receipt covering the goods. With the bill of lading, the buyer can get the goods and have them stored in a warehouse, taking the warehouseman's receipt. This warehouse receipt he turns over to the bank, which cancels the trust receipt. The warehouseman will release the goods only upon surrender of the warehouse receipt by the bank, or upon proper notice from the bank ordering partial release. The bank will not give up the warehouse receipt or order a partial release of the goods unless the borrower reduces the loan in proportion to the value of the goods released, or gives the bank a trust receipt covering the goods withdrawn. When the goods covered by the trust receipt are sold, the proceeds are used to pay off the loan and the trust receipt is cancelled.

Loans secured by trust receipts. A trust receipt is a financing instrument in the form of an agreement between the lender, called the entruster, and a borrower, called the trustee. It shows that certain goods or property, or evidence of title to these goods or property, having been acquired for financing purposes by the lender, are released by him for a specified purpose under specified conditions to the borrower. While they are in the borrower's possession, the lender retains ownership until the goods or property, or the evidence of title to goods or property, are properly accounted for by the trustee to the entruster. This accounting is through payment or otherwise, as set out in the instrument.

The trust receipt is used most widely in the domestic field to finance the purchase of durable goods such as automobiles, radios, refrigerators, and the like, that are sold to consumers on the installment plan and that are easily identified by a serial number. It is also used extensively for interim financing of staple commodities when it is necessary to release pledged goods from a warehouse in order to sell or process them.

Procedure. The method of arranging a short-term loan with a trust receipt as collateral can best be explained by illustrating how it oper-

ates in the case of an automobile dealer who does not have the cash to acquire the cars from the manufacturer without financial help. The dealer applies to his bank and there arranges a credit for whatever amount is needed to pay for the cars. The dealer then places the order with the manufacturer and instructs him to draw on the bank for payment and to forward to the bank the bills of lading to order or in the bank's name. When the cars arrive, the bank pays for them. The manufacturer's interest in the transaction ceases when he receives payment from the bank. The bank gives the dealer the bill of lading so that he can get the cars and in exchange has the dealer execute a trust receipt. Generally, the trust receipt recites that the borrower has received certain goods that are the property of the bank and that the borrower will hold them, or the proceeds of their sale, "in trust" for the bank. When the dealer makes a sale, the car is released from trust, the proceeds are used to repay the bank, and the trust receipt for the particular car is cancelled. If the cars are sold on the installment plan, the dealer will obtain the cash with which to repay the bank by selling the installment sales contract either to the bank or to a finance company. The sale of the installment contract to a finance company is described at page 966.

Factors lien. A number of states have enacted laws authorizing the creation of factors liens. By complying with these laws, a factor, bank, finance company, or other lending agency may lend to manufacturers (and, in some states, to other forms of business) against the pledge of all raw materials, goods in process, finished goods, and any and all other materials which the borrower may own in connection with the operation of its business. The lien is a continuing one and applies to the entire inventory that may be on hand at the time of the necessity for enforcing the lien.

The statutory requirements for the creation of a factors lien must be adhered to strictly. These requirements vary from state to state. A common requirement is the posting of a sign in a conspicuous location in the main place of business of the borrower, or near the pledged merchandise, giving the name of the factor (and thus notice of the lien). Many states also require filing a notice with the county clerk or other official, giving the names of the borrower and lender, the type of merchandise subject to the lien, and other information.

Procedure. A written agreement is entered into between the

lender and the borrower, establishing a factors lien in favor of the lender as security for advances made or to be made by the lender to the borrower upon merchandise. Under this agreement, the borrower prepares and signs a schedule describing the merchandise pledged and its value. The schedule acknowledges the general lien of the lender upon the merchandise in its present form or as it may be manufactured, and also upon the proceeds of the sale of the merchandise. It gives the lender control over the merchandise and all records pertaining to it, as well as the right to approve sales of merchandise.

The borrower notifies the lender daily of the amount of merchandise that has been shipped. As the inventory collateral is reduced through shipments, the factors lien attaches to the accounts receivable created by the sale and its proceeds. The lender also requires periodical reports of inventory. It renders monthly statements showing the balance of funds advanced to the client, the amount of inventory collateral held by the lender, changes in these balances occurring during the month, and the monthly charges. Interest is generally charged on the amount of funds advanced.

Financing inventory by means of a factors lien agreement is often effected as a supplement to accounts receivable financing and factoring. It is also used in conjunction with chattel mortgage financing of equipment sales.

Loans secured by accounts receivable. The method of financing accounts receivable used by banks, and generally by finance companies, is carried out through a formal agreement, referred to as the *underlying agreement* or *working plan*, which is a continuing arrangement for advancing funds against open accounts. The accounts receivable are assigned to the finance company or purchased by it with full recourse to the client in the event of non-payment when due. The agreement specifies what percentage of the value of the assigned accounts receivable will be available to the borrower (usually from 75 per cent to 80 per cent, though in some cases the margin runs from about 65 per cent to 85 per cent). It also sets forth the rights and liabilities of the parties and the over-all conditions by which each assignment shall operate. Assignments of accounts are made from time to time as the business needs funds. At such times the company prepares a schedule of the assigned accounts, and, in the case

of a loan, executes a demand note in the amount of the loan. Duplicate invoices and shipping receipts are attached to the schedule of accounts as further evidence of the assignment. Upon acceptance of the schedule, the finance company prepares a pay statement and check for the amount to be advanced to the client on the accepted accounts.

The assignee (lender) usually stamps the assigned accounts in the company's accounts receivable ledger, indicating that the account has been assigned. (A few states require this book-marking to validate the assignment.) The manner in which the assigned accounts are collected depends upon whether the accounts are transferred under the notification or non-notification plan.

Notification and non-notification plan. Banks and most finance companies use the non-notification type of assignment. Under this plan the debtors of the borrower are not notified of the assignment of their debts. The borrower collects the accounts and (1) remits the proceeds to the lender in their original form, or (2) deposits them in a special agency account, which is subject to withdrawal by the lender only. The borrower prefers the non-notification method because it makes for better relationships between it and its customers. The debtor dislikes being told that he is to pay his account to a third person. He suspects that the company to whom he owes the money is financially weak and unreliable and he realizes that if his account is not paid promptly, a third person, the bank or finance company, will know about his delinquency and thus his credit standing will be jeopardized.

Under the notification type of plan, which is used by factoring concerns (see below) and some finance companies, the original invoice or bill is sent to the customer stamped with a notation "Assigned to....." The debtor pays directly to the finance company. The purpose is to protect the finance company from collection and fraudulent appropriation by the borrower.

If accounts are not paid promptly, they are usually carried from thirty to sixty days at the stipulated cost. Then, in the case of a sale, the borrower buys back the slow or unpaid accounts; in the case of a pledge, it substitutes other accounts or repays the amount loaned against the unpaid account.

Charges for accounts receivable financing. The charges vary not only from financing agency to financing agency but from customer to

customer of the same agency. The agreement stipulates the charges. The loan may be made at interest, computed on the average daily outstanding balance during a specified period. Or the amount borrowed may be discounted. Or a service charge may be levied based upon the total number of accounts and the face amount of the receivables. Some finance companies have both an interest and a service charge.

Factoring of accounts receivable. A continuing agreement is made between the seller of merchandise and a factoring company under which the factor contracts to buy all of the accounts receivable as they arise out of sales by the seller. The factor assumes all the risk and has no recourse if the accounts receivable prove uncollectible. The factor, therefore, passes upon the credit standing of the customer to whom the goods are sold. Most factors operate on a notification basis. In fact, the invoice for the goods is sent to the factor and mailed by it to the customer. The invoice shows that payment is to be made to the factoring company.

The factor is paid a fee of 1 or 2 per cent each month on the face amount of all accounts bought the previous month. This charge is for assuming the credit risk. In addition, the factor charges at the rate of 6 per cent per year. However, this charge is deducted from the payment for the accounts. For example, if an invoice of goods for \$1,000 is sold on 60 days' credit and the seller wants cash immediately, the factor will give the seller \$1,000 less 6 per cent for 60 days, or \$990. The following month the fee on the \$1,000 will be billed to the seller or deducted from future advances. Although factoring is an expensive method of raising funds, it eliminates the need for a credit and collection department by the seller who has his accounts factored.

Sale or discount of notes or contracts receivable. A business engaged in the sale of goods on the installment basis may convert the notes or contracts it receives from such sales into working capital by selling them to, or discounting them with a bank, finance company, or other lender. This method of financing is appropriate and necessary when a business sells motor vehicles, household appliances or other consumer goods, or machinery, fixtures and equipment, or other capital goods on an installment plan basis.

A conditional sale contract is concluded between the dealer and his

customer. This contract specifies the terms of sale and payment and provides that the title to the product or products sold is to remain with the seller until the full purchase price has been paid. The contract is placed on record in a court of proper jurisdiction, and assigned by the seller to the lender (which succeeds to the rights of the seller). The lender notifies the purchaser that his contract is now held by the lender and that all installment payments should be made direct to the lender from that point on. A coupon payment book, showing the amount and maturity of each payment is usually enclosed with the notice.

Instead of using a conditional sale agreement, the sale may be effected by a series of separate notes payable at specified intervals or a single note payable in specified installments, secured by a chattel mortgage or deed of trust on the product or products sold. Whether a chattel mortgage or deed of trust is used depends upon which is the preferable form of security in the particular state. Either instrument must be properly recorded. The note or notes are signed by the purchaser, placed on record in a court of proper jurisdiction, and endorsed by the seller to the lender. If a place of payment is specified in each note, the lender must present the note at the place for payment at maturity. Otherwise, the lender may notify the purchaser of the maturity of each note or of the agreed installments, in the latter case through the use of a coupon payment book similar to that used with conditional sales contracts.

Recourse arrangements. A business may sell to, or discount with, a lender its notes or contracts receivable on any one of the three bases: (1) with full recourse to the seller; (2) without recourse of any kind on the seller; (3) with limited recourse on the seller. Generally speaking, in the negotiation of arrangements for the sale or discount of notes or contracts receivable, it is desirable for a business to endeavor to consummate an arrangement which calls for no recourse of any kind upon the seller or for recourse to only the minimum extent acceptable to the lender.

Under a full recourse arrangement, upon any default in payments by the maker of the contract, the seller must repurchase the contract from the lender. Under an arrangement without recourse, the seller assumes no responsibility whatsoever for the payment of the instrument. Under a limited recourse arrangement, losses are shared by the seller of the product and the financing agency.

Loans secured by pledge of notes or contracts receivable. A direct loan may be made from a bank, finance company, or other lender by a pledge of notes or contracts receivable. Under an arrangement of this kind, the business will issue its own note to the lender, on a collateral note form listing the receivables pledged, payable on demand or on some specified or determinable maturity date. The listing may be made on the collateral note form or on an attached schedule. The amount borrowed, as evidenced by the collateral note, may be moderately or substantially less than the unpaid balance, or the aggregate of the unpaid balances, on the receivables or receivables pledged as security. The extent of the difference depends upon the quality of the receivables, the needs of the borrower, or, in general, upon negotiation between the borrower and the lender. For similar reasons, the interest or discount rate charged by the lender may be greater or less than the financing rate being charged by the borrower on the notes or contracts pledged.

Installment financing of income-producing equipment. Ordinarily, a business will use permanent capital to purchase machinery and equipment needed in the production of its products or for the services it renders, since the item is a fixed asset. If capital is not available for this purpose, the purchase may be made from the manufacturer on the installment plan, with funds furnished by a commercial finance company.

The commercial finance company will either finance the seller of the equipment or the buyer. The choice of which party to the transaction is to be financed is influenced in some states by the statute. Financing the seller has already been explained under loans secured by pledge of notes or contracts receivable.

In a direct arrangement between the buyer of the equipment and the finance company the seller has no part in the financing. The buyer signs a note or series of notes calling for regular installment payments, and executes a chattel mortgage on the equipment as security. The mortgage must be recorded as required by the statute. It provides for foreclosure by the finance company in the event of non-payment of installments due. The charge usually takes the form of a discount deducted in advance.

Liens on fixed assets. In some instances, to supplement other security, or in the absence of other acceptable security, a business

may give a bank or other lender a lien on the real estate or other fixed assets of the business as collateral security for a short-term loan for working capital purposes. To secure a current loan, for example, a deed or trust or real estate mortgage may be given on a store or plant property, or a chattel mortgage or deed of trust may be given on machinery, equipment, fixtures, motor vehicles, or other capital assets of this kind used in the business. Usually, however, loans against such security are payable over a longer term although they have been obtained for working capital purposes.

4. HOW TO PRESENT THE REQUEST FOR A LOAN

Preparing to apply for a bank loan. The applicant for a bank loan should anticipate that the bank will have certain routine procedures for handling the application, that various data will be required, and that certain questions will have to be answered. The bank, it must be remembered, is always interested in the purpose of the loan, the borrower's plans for repayment, and the sources from which it expects to be able to liquidate the loan. Although applicants are not always asked to fill out a long form of financial statement such as that shown in Figure 76, the form is reproduced here to illustrate the extent of the information that might be called for. Familiarity with this form, plus an understanding of analysis of financial statements (see page 901) will help the applicant present his request intelligently.

Advance preparation by the one who is to negotiate the loan is advisable because incompleteness and lack of clarity in the presentation may result in refusal of the loan. The material should be presented in a way that will give the bank the impression that the borrower knows what facts are important under the circumstances. It should include the following, as far as possible.

1. Balance sheets and profit and loss statements for the past five years, or since the origin of the concern if it has been functioning for a shorter period. If possible, these statements should be certified by a public accountant.
2. Trends in sales, expenses, profits, and so forth.
3. Names of a representative group of customers (debtors).
4. Names of a representative group of suppliers (creditors).

FD-362 (2-5-59)

CORPORATION **FINANCIAL STATEMENT** (LONG FORM)

FORM DESIGNED AND APPROVED BY
BANK MANAGEMENT COMMITTEE
AMERICAN BANKING ASSOCIATION

NAME _____ (DATE) _____

BUSINESS _____ ADDRESS _____

TO _____ (NAME OF BANK)

FOR THE PURPOSE OF OBTAINING ADVANCES FROM TIME TO TIME ON BILLS, NOTES AND OTHER COMMERCIAL PAPER SIGNED OR ENDORSED BY THE UNDERSIGNED, AND OF OBTAINING CREDIT GENERALLY, THE UNDERSIGNED MAKES THE FOLLOWING STATEMENT OF _____ FINANCIAL CONDITION AS OF THE CLOSE OF BUSINESS ON THE _____ DAY OF _____, 19____, AND CERTIFIES TO THE ABOVE-NAMED BANK THAT THE INFORMATION HEREINAFTER SET FORTH IS IN ALL RESPECTS TRUE, ACCURATE AND COMPLETE AND CORRECTLY REFLECTS THE FINANCIAL CONDITION OF THE UNDERSIGNED ON THE DATE AFOREMENTIONED (FILL ALL BLANKS, WRITING "NO" OR "NONE" WHERE NECESSARY TO COMPLETE INFORMATION)

ASSETS		LIABILITIES	
CASH—ON HAND : _____	IN BANK : _____	NOTES PAYABLE	
(SEE SCHEDULE)		TO BANKS	
NOTES RECEIVABLE OF CUSTOMERS		FOR MERCHANDISE	
(SEE SCHEDULE)		FOR MACHINERY, EQUIPMENT, ETC.	
ACCOUNTS RECEIVABLE OF CUSTOMERS		TO OTHERS FOR BORROWED MONEY	
(SEE SCHEDULE)		TRADE OR BANK ACCEPTANCES PAYABLE	
MERCHANDISE—FINISHED (SEE SCHEDULE)		ACCOUNTS PAYABLE—NOT DUE	
—IN PROCESS _____		—PAST DUE _____	
—RAW _____		DUE TO SUBSIDIARIES AND AFFILIATES	
SECURITIES OWNED (OTHER THAN IN SUBSIDIARIES AND AFFILIATES) (SEE SCHEDULE)		DUE TO STOCKHOLDERS	
OTHER CURRENT ASSETS (ITEMIZE)		DIRECTORS OFFICERS, AND EMPLOYEES	
		DIVIDENDS DECLARED BUT UNPAID	
		RESERVED FOR, AND ACCRUED TAXES	
		ACCRUED EXPENSES—WAGES, INTEREST, INSURANCE	
		CHattel MORTGAGES _____	DUE WITHIN 1 YEAR {
		MORTGAGES _____	
		BONDED DEBT _____	}
		OTHER CURRENT LIABILITIES (ITEMIZE)	
TOTAL CURRENT ASSETS _____		TOTAL CURRENT LIABILITIES _____	
INVESTMENTS IN SUBSIDIARIES AND AFFILIATES (EXCLUDING LOANS, ADVANCES, ETC.) (SEE SCHEDULE)			
DUE FROM SUBSIDIARIES AND AFFILIATES (SEE SCHEDULE)			
DUE FROM STOCKHOLDERS			
DIRECTORS, OFFICERS, AND EMPLOYEES			
LIFE INSURANCE—CASH SURRENDER VALUE			
(DO NOT DEDUCT LOANS) (SEE SCHEDULE)			
GOODWILL, PATENTS, TRADEMARKS, COPYRIGHTS, DESIGNS, PATTERNS, ETC.			
LAND—USED IN BUSINESS (SEE SCHEDULE)			
BUILDINGS—USED IN BUSINESS	BEFORE DEPRECIATION RESERVES {	CHattel MORTGAGES _____	DUE AFTER 1 YEAR {
MACHINERY AND EQUIPMENT		MORTGAGES _____	
FURNITURE AND FIXTURES		BONDED DEBT (SEE SCHEDULE)	}
TRUCKS, AUTOS, HORSE, WAGONS, ETC.		LOANS ON LIFE INSURANCE	
LAND AND BUILDINGS—NOT USED IN BUSINESS (SEE SCHEDULE)		OTHER LIABILITIES (ITEMIZE)	
PREPAID EXPENSES—INTEREST, INSURANCE, ETC.		TOTAL LIABILITIES _____	
OTHER ASSETS (ITEMIZE)		RESERVES FOR DEPRECIATION	
		BUILDINGS	
		MACHINERY AND EQUIPMENT	
		FURNITURE AND FIXTURES	
		TRUCKS, AUTOS, ETC.	
		RESERVE FOR CONTINGENCIES	
		OTHER RESERVES (ITEMIZE)	
		TOTAL RESERVES _____	
		CAPITAL AND SURPLUS	
		PREFERRED STOCK _____	(SEE SCHEDULE)
		COMMON STOCK _____	
		EARNED SURPLUS _____	
		CAPITAL SURPLUS _____	
TOTAL _____		TOTAL _____	

(BE SURE ALL SCHEDULES ARE FILLED OUT)

SUPPLEMENT, 1958, AMERICAN BANKING ASSOCIATION

Figure 76. Long Form of Financial Statement (page one).

CONTINGENT LIABILITIES				QUANTIFY FOR OTHERS ON			
NOTES RECEIVABLE, TRADE ACCEPTANCES, OR DRAFTS DISCOUNTED OR SOLD				NOTES ACCOUNTS OR CONTRACTS			
NOTES RECEIVABLE OR TRADE ACCEPTANCES PLEDGED OR ASSIGNED				MAXIMUM LIABILITY FOR PROPOSED ADDITIONAL INCOME TAXES			
CUSTOMERS' ACCOUNTS DISCOUNTED OR SOLD				BONDS OR UNFINISHED CONTRACTS			
CUSTOMERS' ACCOUNTS ASSIGNED OR PLEDGED				PURCHASE COMMITMENTS OUTSTANDING			
ACCOMMODATION PAPER ENDORSEMENTS OR NOTES EXCHANGED WITH OTHERS				LITIGATION IN PROCESS OR THREATENED			
				OTHER CONTINGENT LIABILITIES			

STATEMENT OF PROFIT AND LOSS							
FOR THE PERIOD BEGINNING _____ 19____ AND ENDING _____ 19____							
GROSS SALES LESS: RETURNS AND ALLOWANCES NET SALES COST OF GOODS SOLD: TOTAL INVENTORIES AT BEGINNING OF PERIOD ADD PURCHASES DURING PERIOD FOR MANUFACTURED ONLY } DIRECT LABOR } DEPRECIATION } OTHER FACTORY OVERHEAD TOTAL DEDUCT: TOTAL INVENTORIES AT CLOSE OF PERIOD GROSS PROFIT SELLING EXPENSES SALARIES COMMISSIONS TRAVELING ADVERTISING TOTAL ADMINISTRATIVE AND GENERAL EXPENSES OFFICERS' SALARIES OTHER SALARIES RENT NOTES AND ACCOUNTS CHARGED OFF DEPRECIATION (NOT APPLICABLE ELSEWHERE) TOTAL				TOTAL ADMINISTRATIVE, GENERAL AND SELLING EXPENSES OPERATING PROFIT OTHER INCOME INVESTMENTS CASH DISCOUNTS RECEIVED RECOVERIES FROM NOTES AND ACCOUNTS PREVIOUSLY CHARGED OFF OTHER TOTAL OTHER EXPENSES INTEREST CASH DISCOUNTS GIVEN OTHER TOTAL NET PROFIT OR LOSS BEFORE INCOME TAXES ACCRUED FEDERAL INCOME TAXES ACCRUED STATE INCOME TAXES TOTAL NET PROFIT OR LOSS CARRIED TO SURPLUS AMOUNT OF DIVIDENDS DECLARED AND/OR PAID SINCE STATEMENT DATE			

RECONCILIATION OF EARNED SURPLUS				RECONCILIATION OF CAPITAL SURPLUS			
EARNED SURPLUS AT CLOSE OF PREVIOUS FISCAL YEAR AND NET PROFITS (FROM PROFIT & LOSS STATEMENT) OTHER ADDITIONS (ITEMS) TOTAL ADDITIONS LESS DIVIDENDS PAID CASH—PREFERRED, RATE _____ % —COMMON, RATE _____ % STOCK—PREFERRED, RATE _____ % —COMMON, RATE _____ % OTHER DEDUCTIONS (ITEMS) TOTAL DEDUCTIONS EARNED SURPLUS AT END OF PERIOD (SEE BALANCE SHEET)				CAPITAL SURPLUS AT CLOSE OF PREVIOUS FISCAL YEAR ADDITIONS (ITEMS) TOTAL ADDITIONS DEDUCTIONS (ITEMS) TOTAL DEDUCTIONS CAPITAL SURPLUS AT END OF PERIOD (SEE BALANCE SHEET)			

WAS AN AUDIT MADE? _____ NAME OF INDEPENDENT ACCOUNTANTS? _____
 THE FISCAL PERIOD OF THIS CORPORATION CLOSERS ON THE _____ DAY OF _____

BANK ACCOUNTS				
NAME AND LOCATION OF BANKS	CASH BALANCE	CURRENT LIANS	AMOUNT OF LIANS	ON WHAT BASIS? (ENDORSEMENTS, RECEIPTS, COLLATERAL, ETC.)

Figure 76. Long Form of Financial Statement (page two).

Figure 76. Long Form of Financial Statement (page three).

BOND ISSUES (describe each issue separately)					
DESCRIPTION OF ASSETS (INCLUDING CURRENT ASSETS, IF ANY) PLEDGED TO SECURE BOND ISSUES:					
SUMMARY OF INDENTURE PROVISIONS, INCLUDING SINKING FUND REQUIREMENTS:					
THERE ARE NO DEFAULTS IN CONNECTION WITH ANY OF THE PROVISIONS OF THE INDENTURES, EXCEPT AS FOLLOWS:					
NAME AND ADDRESS OF TRUSTEE(S):					
CAPITAL STOCK					
PREFERRED _____ % PAR VALUE \$ _____ CUMULATIVE _____			SUMMARY OF PREFERRED STOCK PROVISIONS _____		
AUTHORIZED \$ _____					
UNISSUED \$ _____					
OUTSTANDING \$ _____					
COMMON PAR VALUE \$ _____			VOTING POWERS OF PREFERRED STOCKHOLDERS: _____		
AUTHORIZED \$ _____					
UNISSUED \$ _____					
OUTSTANDING \$ _____					
COMMON NO PAR VALUE—SHARES OUTSTANDING _____			AMOUNT OF PREFERRED STOCK DIVIDENDS ACCUMULATED AND UNPAID \$ _____ REPRESENTING A PERIOD OF _____		
LIABILITY INSURANCE (automobile, trust, general public liability, etc.)					
NAME AND ADDRESS OF INSURANCE COMPANY		TYPE OF POLICY	AMOUNT OF COVERAGE PERSONAL INJURY, ETC. \$ _____ PROPERTY DAMAGE \$ _____		EXPIRATION DATE
OTHER INSURANCE					
FORM	CARRIED ON	NATURE	ASSURED	AMOUNT	
FIRE	MERCHANDISE			\$ _____	
"	BUILDINGS				
"	MACHINERY AND EQUIPMENT				
"	FURNITURE AND FIXTURES				
"	TRUCKS, AUTOS, WAGONS, ETC.				
CREDIT USE AND OCCUPANCY FIDELITY BONDS	ACCOUNTS AND NOTES RECEIVABLE				
OTHER					
OFFICERS					
	NAMES IN FULL	NUMBER OF SHARES HELD PREFERRED COMMON		ANNUAL COMPENSATION	ADDRESS
PRESIDENT				\$ _____	
VICE-PRES.					
VICE-PRES.					
SECRETARY					
TREASURER					
DIRECTORS					
	NAMES IN FULL	NUMBER OF SHARES HELD PREFERRED COMMON		ANNUAL COMPENSATION	ADDRESS
				\$ _____	
IN SUBMITTING THE FOREGOING STATEMENT THE UNDERSIGNED GUARANTEES ITS ACCURACY WITH THE INTENT THAT IT BE RELIED UPON BY THE APPOINTEE BANK IN EXTENDING CREDIT TO THE UNDERSIGNED AND WARRANTS THAT _____ HAS NOT KNOWINGLY WITHHELD ANY INFORMATION THAT MIGHT AFFECT CREDIT RISK; AND THE UNDERSIGNED EXPRESSLY AGREES TO NOTIFY IMMEDIATELY SAID BANK IN WRITING OF ANY MATERIAL CHANGE IN FINANCIAL CONDITION WHETHER APPLICATION FOR FURTHER CREDIT IS MADE OR NOT AND IN THE ABSENCE OF SUCH WRITTEN NOTICE IT IS EXPRESSLY AGREED THAT SAID BANK IN GRANTING NEW OR CONTINUING CREDIT MAY RELY ON THIS STATEMENT AS HAVING THE SAME FORCE AND EFFECT AS IF DELIVERED UPON THE DATE ADDITIONAL CREDIT IS REQUESTED OR EXISTING CREDIT EXTENDED OR CONTINUED.					
SIGNED AT _____			SIGNATURE OF CORPORATION _____		
THIS _____ DAY OF _____ 19____			OFFICER _____		
			TITLE _____		

Figure 76. Long Form of Financial Statement (page four).

974 RAISING CAPITAL TO FINANCE CURRENT NEEDS

5. Information on working capital, such as aging of accounts receivable, receivables turnover, and inventory turnover.

6. Credit and character references.

7. Evidence of planning for the future, such as (a) budget of estimated sales, expenses, and profits, (b) a cash or working capital budget, and (c) plans for use of the loaned funds.

8. Personal history and history of the business. In composing the history, it is important not to suppress negative information. If there has been a bankruptcy, criminal action, or other blot on the record, the borrower should ask a lawyer or prepare a memorandum setting forth the facts objectively. Such a statement presented on the borrower's own initiative will be far less damaging than discovery of the undisclosed facts by the lender.

Advance preparation enables the applicant to analyze the weak spots of his business and to be ready to answer questions and criticisms during the interview with the loan officer.

Interview with the loan officer. Complete frankness should mark the personal interview as the borrower gives the lending officer a bird's-eye view of the business, its achievements, possibilities, and problems. If the banker obtains the impression that facts are being hidden, or that the whole story is not being told, he will be antagonistic toward the borrower's point of view. The bank should be made to feel that it has the borrower's full cooperation in whatever procedures are requested. Offering to show the banker the firm's plant and operations is bound to create a favorable impression. The impression made by the borrower is as important as meeting the technical requirements for obtaining a loan.

Relationship with a bank. Full disclosure is basic in the relationship of a business with its bank. By keeping its bank fully informed of its progress, problems, and plans, a business will find that negotiations for bank credit are materially expedited when and if the need for credit arises. Thus, when a change in operations occurs, such as an addition of a new plant, a major change in personnel, or some other important change develops, a visit or telephone call to the banker is advisable. This is particularly true in the event of any unfavorable development.

Periodical financial statements should be supplied at regular inter-

vals, whether or not the business is borrowing. Plans or policies that may lead to a need for bank credit should be discussed with the bank before their adoption and not after the need has become irrevocable. Other needs that arise unexpectedly should be discussed with the bank as soon as they become apparent, without waiting to apply for a loan until the day the funds are needed.

Businessmen should also be aware of the function performed by banks in the interchange of credit information to facilitate business transactions. Banks give credit information to those to whom a firm has given the bank as a credit reference. They also answer credit inquiries received by letter, telephone, telegraph, or in personal interviews, from trade creditors, commercial agencies, or others, and give credit information, upon request, to those to whom a business may sell. A business should guard well its credit standing with its banks. The borrower should make available audited financial statements for a number of years, and other written material relating to the type of financing he seeks. For example, if he is interested in assigning accounts receivable, he should submit an aging statement of his accounts receivable.

During the interview with the finance company executive, the businessman creates a favorable impression by demonstrating knowledge of the affairs of his own company and of the industry. He should have at his fingertips a knowledge of the operational and financial aspects of his business. He should demonstrate readiness to cooperate and give the lender the information he wants. An attitude of frankness is of the utmost importance.

Relationship with finance company. Relations between the borrower and the commercial finance company are conducted informally and with a minimum of official routine. As in the case of relationships with banks, the borrower should inform his financing agency of any major development occurring in the business. If a serious financial crisis should develop, the borrower should let the finance company know about the condition immediately. The finance company may be able to obtain the cooperation of other creditors in working out the problem or under proper circumstances, to advance the necessary funds. The maintenance of good accounting records and the conscientious filling out of necessary forms help to build and sustain cordial dealings.

Applying to finance companies for funds. Before making a request for advances from a finance company, the borrower should make advance preparations just as he would in applying for a bank loan. He should be prepared to explain the following:

1. Why he needs the amount of funds he seeks.
2. How he expects to use the funds.
3. How the business will benefit by them.
4. How the loan will be repaid.

SECTION 10

Credit and Collections

I. INVESTIGATING TO REDUCE CREDIT RISKS		Hooper-Holmes Bureau	1003
Classification of sources of credit information	981	Retail Credit Company	1004
General Mercantile Agency		Proudfoot's Commercial Agency, Inc.	1005
Information from mercantile agencies	981	Bishop's Service, Inc.	1006
Dun & Bradstreet, Inc.	981	Hill's Reports, Inc.	1006
The Dun & Bradstreet Reference Book	982	Publications	1007
Nature of Dun & Bradstreet ratings	983	Salesmen as Credit Reporters	
How to use Dun & Bradstreet ratings	983	Value of salesmen as credit reporters	1007
Limitations in the use of credit ratings	985	Nature of information obtainable through salesmen	1008
Dun & Bradstreet reports	985	Objections to salesmen as credit investigators	1008
Occasions for use of a Dun & Bradstreet report	994	A form of salesmen's reports	1008
Special services of Dun & Bradstreet	994	How to get the salesmen to cooperate	1009
Supplementary agency services	997	Attorneys as Credit Reporters	
Special or Trade Agencies		Nature of information obtainable through attorneys	1010
Two kinds of special agencies	998	Objections to attorney's reports	1011
Special agencies confined to a single industry	998	Banks as Credit Reporters	
Services of special agencies	999	Availability of credit information from banks	1011
Credit Interchange		Information that may be obtained from banks	1011
The use of credit interchange	1000	Information that is not obtainable from banks	1012
Credit-interchange bureaus	1000	Getting information from the credit man's bank	1012
Credit Interchange Service of the National Association of Credit Men	1000	The Personal Interview	
Trade-group interchange	1002	Value of the personal interview	1013
Agencies Reporting on Individuals and Making Special Investigations —Published Services		Special need for a personal interview	1013
Difference between mercantile agencies and agencies reporting on individuals	1003	Traveling credit representatives	1014
		2. MERCANTILE CREDIT TERMS	
		Classes of credit terms	1014
		Prepayment terms	1014

Cash terms	1016
Individual-order terms	1016
Lumped-order or end-of-month terms	1017
Season dating	1018
Consignment terms	1018

3. LAW RELATING TO CHECKS, NOTES AND DRAFTS

Law Relating to Checks

Post-dated check not invalid	1019
Unsigned check received; how to handle	1020
Check received on which amount in writing and amount in figures disagree; how to handle	1020
Effect of certification of a check	1020
Time within which a check must be presented for payment	1021
Check returned marked "insufficient funds"; how to handle	1022
Effect of the death of the drawer of a check	1022
Check given in full settlement of a claim	1023
Payment of a forged check by a bank; is the bank liable to the drawer of the check?	1023

Law Relating to Notes

Note accepted for an old debt	1024
Note executed on Sunday is generally invalid	1024
Note executed by a minor is voidable	1025
Interest payable on a note	1025
Note obtained fraudulently; is the maker liable thereon?	1026
Purchase of a note which has been lost or stolen	1027
Effect of alteration of a note	1028
Effect of signing a note, leaving blanks to be filled in	1028
Forgery of signature on a note	1029
Effect of failure to make timely demand for payment of a note	1029

Effect of failure to give timely notice of non-payment of a note	1030
--	------

Law Relating to Drafts or Bills of Exchange

What is a draft or bill of exchange?	1031
Difference between a draft and a check	1031
Difference between a draft and a note	1032
Necessity of presenting a bill of exchange for acceptance	1032
Necessity of presenting a bill of exchange for payment	1033
Necessity of protesting an inland bill of exchange, dishonored for non-acceptance or non-payment	1033
If a drawee accepts a forged bill of exchange, has he any recourse?	1034

4. HOW TO WRITE CREDIT LETTERS

Letters asking customers for credit information	1034
Letter of inquiry to customer's credit references	1036
Letters granting credit	1037
Letter to husband of credit applicant	1037
Letters refusing credit	1038
Letters suspending charge privilege before credit period expires	1040
Letters of reply to credit inquiries	1041

5. HOW TO WRITE COLLECTION LETTERS

Two essentials of the effective collection letter	1041
Classification of delinquent debtors	1041
Fundamental principles for writing collection letters	1042
Suggestions for writing collection letters	1043
Stages in collection procedure	1043

Collection Reminders

Forms of reminder	1044
-------------------------	------

Letters for the Early Stages of Collection

Second stage: letters of inquiry	1049
Examples of letters in the second stage	1049
A sharper tone for a second letter	1050

Letters for the Middle Stages of Collection

Third stage: Letters of appeal	1051
--------------------------------	------

Letters for the Late Stages of Collection

Fourth stage: Letters of demand	1055
Action to be taken if the fourth letter brings no response ..	1057
Stunt collection letters	1059

6. MISCELLANEOUS COLLECTION PROBLEMS HANDLED BY LETTER

Letters on small past-due accounts	1061
Letters educating the customer in the use of discounts ..	1062
Letters on the taking of unearned discounts	1062
Letters on time extensions ..	1064
Selling through collections; letters combining collections and sales	1065

7. HOW TO USE FORM COLLECTION LETTERS

Use of form letters	1067
Form-paragraph manuals ..	1067
Form-letter files and manuals	1067
Grouping delinquents to assure applicability of collection procedure	1068
Rules governing use of form letters	1069
Timing collection correspondence	1069
Eight-letter sequence	1070

8. COLLECTION METHODS

Guide for collection procedure	1072
Effect of statutes of limitations in collection of accounts	1073
How the statute of limitations operates	1073
Age analysis	1075
Follow-up from aging records	1076
Informing customer of age analysis of account	1077
Aging statement sent to salesmen	1078
Systems for watching accounts	1078
Punched ledger card	1079
Vertical visible ledger cards ..	1079
Collections by telephone	1081
Collections by telegraph	1082
Examples of collection telegrams	1082
Collections by personal call ..	1083
Collections by salesmen	1084
Aids for the collector	1085
Placing an account with a collection agency	1086
House collection agencies	1087
Placing an account with an attorney	1087
Settlement by note	1088
Collections by draft	1089

9. DEALINGS WITH EMBARRASSED DEBTORS

How should a creditor deal with an embarrassed debtor?	1090
Considerations in dealing with embarrassed debtors	1091
Methods of dealing with embarrassed debtors	1092

Collection of Claim by Suit

Suing to collect an account	1092
Rights after recovery of judgment-execution, supplementary proceedings, and garnishment	1094

Out-of-Court Agreements

What is an out-of-court agreement?	1095
--	------

How to start an out-of-court adjustment	1095	Sales	1103
Adjustments through credit bureaus	1096	Election of trustee in bankruptcy	1103
When creditors cannot agree	1097	Filing proofs of claims	1104
Assignment for Benefit of Creditors		Assets acquired by the trustee	1104
What is an assignment for benefit of creditors?	1097	Duties of the trustee	1105
Statutory provisions governing assignment for benefit of creditors	1098	Referee's duties	1105
Qualifications and duties of an assignee	1098	Examination of the bankrupt	1106
Personal liability of assignee for obligations created by him	1099	Discharge of the bankrupt	1106
Participation of creditors in assignment	1100	Grounds for denial of discharge	1106
Assignment as an act of bankruptcy	1100	Investigation of fraud	1107
Equity Receiverships		Voluntary Arrangement Proceeding Under Chapter XI of the Bankruptcy Act (Extension or Modification of Unsecured Debts)	
Equity receiverships supplanted	1100	What is an arrangement?	1108
Ordinary Voluntary or Involuntary Petition in Bankruptcy (Liquidation)		Filing a petition	1108
Policy of the bankruptcy law	1101	Creditors' meeting	1108
Kinds of bankruptcy proceedings	1101	Confirmation of arrangement	1109
What the petition in bankruptcy alleges	1101	Termination of proceedings	1109
Acts of bankruptcy	1102	Involuntary or Voluntary Corporate Reorganization Under Chapter X of the Bankruptcy Act (Extension or Modification of Secured and Unsecured Debts)	
Petition for appointment of receiver	1102	Corporate reorganizations	1109
Creditor's right to interpose answer to involuntary petition	1102	Filing petition in involuntary reorganization	1110
Adjudication of the bankrupt	1103	Appointment of trustee	1110
Examination before 1st meeting	1103	Plan of reorganization	1111
Filing of schedules by the bankrupt	1103	Acceptance of plan of reorganization	1111
		Voluntary Wage Earners' Plans	
		Dealing with embarrassed wage earners	1112
		Procedure under Chapter XIII	1112
		Confirmation of plan	1112

SECTION 10

Credit and Collections

1. INVESTIGATING TO REDUCE CREDIT RISKS

Classification of sources of credit information. The sources to which a credit man can turn for information concerning an applicant for credit may be classified as follows: (1) general mercantile agency; (2) special or trade agencies; (3) agencies reporting on individuals and making special investigations; (4) published services; (5) salesmen; (6) attorneys; (7) banks; (8) personal interviews. Each of these sources is discussed in the following pages.

General Mercantile Agency

Information from mercantile agencies. Mercantile agencies have been established to ascertain the credit position of persons and concerns in business and to provide prompt and reliable information for subscribers to the agency services. Agencies ordinarily try to anticipate inquiry and provide subscribers with either a book of ratings, giving a general capital and credit appraisal, or with a detailed report, or both. Mercantile agencies are both general and special. The general agency covers a vast field and extends its services to foreign countries. The special agency limits its field to a particular branch of business and specializes within an industry.

Dun & Bradstreet, Inc. The general mercantile agency of Dun & Bradstreet, Inc., maintains a central office in New York City and branch offices throughout the country. It has offices and correspondents in foreign countries in which there are trade facilities. Its system of reporting covers the entire country by dividing it into regions, districts, suboffices and reporting stations. An attempt is made to reach every merchant, no matter how remote his location. The agency maintains a nation-wide network of trained reporters and correspondents. The credit reporter interviews the merchant at his

place of business, discusses his financial condition and operating trend, and observes his merchandising methods, his stock, his location, and competition. The investigator also calls upon local sources of credit information, including the banker.

The agency provides subscribers with both Reference Books and special reports. Because of the nature of its service, Dun & Bradstreet requires that all reports be held in strict confidence. Moreover, it does not sell its books, but lends them as property of the agency to be returned to the agency for disposal upon the issuance of a new edition.

The Dun & Bradstreet reference book. Dun & Bradstreet ratings, which appear on the credit reports, along with other pertinent information, are compiled in the famous "D & B" Reference Books. These books, the larger editions of which contain the names of about 2,900,000 manufacturers, wholesalers, and retailers in the United States and Canada, are issued every two months by the Agency to its subscribers. In addition, sectional editions of the Reference Book are published for sellers with a localized market. The names of the companies are arranged alphabetically by state and city, and most of the names are followed by a letter and a number which represents Dun & Bradstreet's appraisal of the estimated financial strength and the composite credit appraisal. The Reference Book, however, does not include some service and professional establishments such as stock brokers, beauty and barber shops, and real estate brokers, even though credit reports are compiled on those businesses.

As an aid to credit men, to sales managers, and to salesmen, the Reference Book shows population figures, banking and postal facilities, and county location for trading communities. Also, as a part of each Reference Book listing, a four-digit Standard Industrial Classification number appears before the name and classifies businesses precisely as to function and products. Whenever a "C" precedes the code number, the rating of the business has been changed in that particular issue of the Reference Book and whenever an "A" precedes the code number, the name is a new one and has been added. A numeral shown immediately preceding the rating represents the last digit of the year, within the past ten years, that the business was started or came under its present ownership.

For convenience of salesmen and traveling executives, the Agency

publishes twice a year, in January and July, small or state editions of the Reference Book.

Nature of Dun & Bradstreet ratings. A Dun & Bradstreet rating presents condensed conclusions in symbol form and classifies relatively all of the elements of character, capacity, and capital of a business enterprise, and the trend of its current position. The rating reflects, as accurately as possible, the facts and the analysis of the facts given in the credit report. The letter portion of the rating indicates the estimated financial strength and the numerical portion of the rating reflects the composite credit appraisal in cases where the letter and numeral are used together. In practice, the most commonly used measure for estimated financial strength is the tangible net worth of the business. In some instances, however, the tangible net worth of the business is not the same as the net worth as shown by the financial statement due to the elimination of intangible items such as good will, patents, and the like. There are four degrees of composite credit appraisal, namely, high, good, fair, and limited.

The blank (—) symbol is assigned when no other symbol applies to the circumstances and is used regardless of the size of the business reported. The blank (—) symbol informs the credit man that circumstances exist which makes it difficult to classify the account within condensed rating symbols and, as brought out in the Key to Ratings reproduced in Figure 77, suggests to the subscriber of the Agency the advisability of obtaining additional information.

Dun & Bradstreet, as shown in its Key to Ratings, has two additional classifications for subjects of reports, namely, the numeral classification and the sales classification. An explanation of both of these classifications and the four brackets or ranges which they cover are shown in Figure 77, the Key to Ratings.

A rating, or the absence of a rating, on any concern listed, is not intended to be more, nor should it be inferred to be more, than a reflection of the tenor of the information assembled. Nor should it be construed as suggesting or intimating that credit should be restricted or withheld, or granted.

How to use Dun & Bradstreet ratings. The Dun & Bradstreet ratings may be used as follows:

1. As a means of passing small rush orders that have to be acted on immediately.

KEY TO RATINGS

ESTIMATED FINANCIAL STRENGTH

COMPOSITE CREDIT APPRAISAL

			High	Good	Fair	Limited
AA	Over	\$1,000,000	AI	1	1 1/2	2
A +	Over	750,000	AI	1	1 1/2	2
A	\$500,000 to	750,000	AI	1	1 1/2	2
B +	300,000 to	500,000	1	1 1/2	2	2 1/2
B	200,000 to	300,000	1	1 1/2	2	2 1/2
C +	125,000 to	200,000	1	1 1/2	2	2 1/2
C	75,000 to	125,000	1 1/2	2	2 1/2	3
D +	50,000 to	75,000	1 1/2	2	2 1/2	3
D	35,000 to	50,000	1 1/2	2	2 1/2	3
E	20,000 to	35,000	2	2 1/2	3	3 1/2
F	10,000 to	20,000	2 1/2	3	3 1/2	4
G	5,000 to	10,000	3	3 1/2	4	4 1/2
H	3,000 to	5,000	3	3 1/2	4	4 1/2
J	2,000 to	3,000	3	3 1/2	4	4 1/2
K	1,000 to	2,000	3	3 1/2	4	4 1/2
L	Up to	1,000	3 1/2	4	4 1/2	5

CLASSIFICATION AS TO BOTH

ESTIMATED FINANCIAL STRENGTH AND CREDIT APPRAISAL

FINANCIAL STRENGTH BRACKET			EXPLANATION
1	\$125,000 to	\$1,000,000 and Over	When only the numeral (1, 2, 3, or 4) appears, it is an indication that the estimated financial strength, while not definitely classified, is presumed to be within the range of the (\$) figures in the corresponding bracket and that a condition is believed to exist which warrants credit in keeping with that assumption.
2	20,000 to	125,000	
3	2,000 to	20,000	
4	Up to	2,000	

NOT CLASSIFIED OR ABSENCE OF RATING

The absence of a rating, whether as to estimated financial strength or as to credit appraisal, and whether expressed by the hyphen (-), the dash (—), or by the (x) sales listing (see below), or by the omission of any symbol, is not to be construed as unfavorable but signifies circumstances difficult to classify within condensed rating symbols and should suggest to the subscriber the advisability of obtaining additional information.

LISTINGS ONLY AS TO ESTIMATED ANNUAL SALES

When, after investigation has been made, the information obtained regarding concerns listed in the Reference Book is not sufficiently conclusive to permit the assignment of any of the symbols in the above Key to Ratings, in preference to listing these names with no indication of their relative importance, the symbols (1x, 2x, 3x, and 4x) may be used to express, in wide ranges, the stated or estimated annual sales as an index to assist in appraising size. These sales symbols have no other significance; credit appraisal is neither inferred nor implied. The sales bracket ranges are as follows:

ESTIMATED ANNUAL SALES BRACKET

1x \$500,000 and Over Annual Sales	3x \$10,000 to \$75,000 Annual Sales
2x 75,000 to \$500,000 " "	4x Up to 10,000 " "

INVESTIGATING

"Inv." in place of the rating is an abbreviation of "investigating." It signifies nothing more than that a pending investigation was incomplete when this book went to press.

Dun & Bradstreet, Inc.

Figure 77. Key to Ratings.

2. As a preliminary sales guide in screening sales prospects.
3. As a check upon other credit information.
4. As a source of information when a periodical revision of the credit file is being made. A change in rating, either up or down, indicates the possible need to review the credit file.
5. As a guide to determine whether a credit report is necessary.

Limitations in the use of credit ratings. Ratings by Dun & Bradstreet are intended to serve mainly as a summary index to the content of the reports. As each credit transaction involves not only the situation of the buyer but also the problems of the seller, the credit man should not be guided solely by the ratings when he is considering a risk of any great amount. He wants to know all the details and to reach his own conclusions in the light of his own particular business.

The credit man should recognize that a rating, while representative when assigned, may not be representative a month later because of the dynamic nature of business. The Reference Book is subject to constant revision in many particulars besides ratings. New names are added, old names removed, and addresses kept up to date. About 5,000 changes occur daily. Hence, in the case of a fairly large account, the credit man will need to supplement the rating with more current information.

Dun & Bradstreet reports. When a subscriber desires more information than is afforded by the Dun & Bradstreet Reference Book, he may ask the agency to give him a detailed report on the individual or concern. The subscriber may receive a full analysis of an account over the telephone by calling a special number. This analysis includes all information in the report. The subscriber's contract with the agency makes provision for a certain number of reports during the year. Inquiries in excess of the contract figure are charged for additionally.

Reports are sent to subscribers in response to inquiry. The reporting department prepares and edits two types of commercial credit reports, namely, the Analytical Report and the Regular Report. These two types of reports have the same basic format and are illustrated on subsequent pages of this section.

1. *Analytical Reports.* Analytical Reports are edited by highly trained specialized reporters on the larger and more complicated

business enterprises. These reports are featured by complete method of operation information and by comparative detailed financial statements. They include an analysis of the business based upon these comparative figures in the light of method of operation, financing methods, and other supplementary data.

The information in the Analytical Report is presented under seven captions, namely, summary, history, operation-location, subsidiaries (where applicable), financial information, trade investigation, and banking relations.

The History of the business from inception down to the present time is carefully traced under this caption. Each change that had an important effect on the business is also outlined. Then follows a brief description of the management and control of the business, including the background and business career of each officer or partner and the capacity in which he serves the business.

The nature and scope of operations are comprehensively covered under the caption Operation-Location. The products sold or manufactured, the trade to which distribution is made, sales territory, number of accounts, selling terms, number of salesmen, seasonal aspects of the business, number of employees, facilities, and location are all carefully reported under this caption.

The Subsidiary caption is one of the outstanding features of the Analytical report. Under this caption, the name and location of subsidiaries and the percentage of stock ownership by the parent concern are given. A brief description of the subsidiaries is also given, including a summary of financial condition, nature of operations, and comprehensive coverage of inter-company relations, such as merchandise transactions, loans, advances, endorsements, and guarantees with the parent company and with other related concerns.

Financial Information presents the comparative financial statements for three years, including operating details such as net sales, net profits, and dividends or withdrawals. Under the analysis portion of Financial Information, the trend of operations and financial position of the business are carefully reviewed in the light of the operational characteristics of the business.

Under the caption Trade Investigation, the paying record of the business is reflected by a tabulation of ledger experiences. The Banking Relations section of the Analytical Report outlines clearly and in detail the nature and scope of the relations of the business with its

ANALYTICAL REPORT — RATING CHANGE
(Dun & Bradstreet, Inc.)

2071
BRISTOL CANDY CORP

(A) CD 4 AUGUST 18 19—
MFG

BRISTOL 3 PA
BUCKS COUNTY
100 EGGLEY ROAD

Chester G. Hoover - President F. Charles Young - Vice President
Henry T. Conroy - Secretary & Treasurer

DIRECTORS: The officers and Mrs. Mary S. Lawrence

RATING: B 1 to B+ 1

STARTED: 1916 (Present Control 1946) PAYMENTS: Discount
NET WORTH: \$312,817 SALES: \$1,106,165

SUMMARY

LAST MARCH THE PLANT WAS EXPANDED GREATLY TO INCREASE PRODUCTION AND LOWER COSTS. CURRENT FIGURES SHOW THE INITIAL RESULTS. SALES ARE UP ABOUT 40% AND EARNINGS ARE UP EVEN MORE. THE FINANCIAL POSITION CONTINUES STRONG.

HISTORY

STARTED: October, 1916 by F. Bradford Lawrence, who died in March, 1946. Under the provisions of his will, the three key employees were bequeathed a 50% interest in the business and the subject corporation was formed to carry out this provision.

INCORPORATED: June 29, 1946 under Pennsylvania laws.

Authorized Capital Stock: 250,000 shares Common \$1.00 per value.

Outstanding Capital Stock: 150,000 shares.

MANAGEMENT & CONTROL: Mary S. Lawrence, the widow of F. Bradford Lawrence, the founder, owns 50% of the outstanding capital stock. The remainder is owned by Chester G. Hoover (25%), Henry T. Conroy (15%), and F. Charles Young (10%). Life Insurance of \$25,000 is carried on each officer with the corporation as beneficiary.

Chester G. Hoover, born 1886, married. Employed sales department, Federal Biscuit Company, Philadelphia, 1913-1923. Since associated with this business as General Sales Manager to June, 1946 when he was elected President and General Manager.

Henry T. Conroy, born 1903, married. Cashier of Fidelity Trust Company, Baltimore 1924-1931. Then employed as Office Manager of this business to 1946 when he was elected Secretary and Treasurer.

F. Charles Young, born 1898, married, was employed in the plant from 1923 to 1935 when he became Plant Superintendent. Elected Vice President in June, 1946.

Mrs. Mary S. Lawrence takes no active part in the management.

OPERATION LOCATION

Products: Manufactures packaged confections, including chocolates, hard candies, and novelty sweets, (U.S. SIC #2071). Seventy-five percent of the volume is in chocolates which retail from \$1.25 to \$2.50 a pound. Brand Name: "Honey Crunch".

Distribution: To retail candy (35%), chain (25%), drug (20%), grocery (10%) and department stores (10%).

Number of Accounts: 2,000 active.

Terms of Sales: 2½-15-Net 30.

Territory: The Eastern Seaboard from Maine to Florida.

Seasons: Sales are highest in November and December (40%).

Salesmen: 10 on salary and commission.

Employees: 125.

Production Facilities: Owns and fully occupies a three-story brick building, sprinkler equipped, comprising 90,000 square feet of floor space. Also an adjacent two-story brick building which formerly housed the plant but is now used for warehousing. The buildings, machinery and equipment are in excellent condition.

(CONTINUED)

Figure 78. Dun & Bradstreet Analytical Report (page one).

ANALYTICAL REPORT — RATING CHANGE
(Dun & Bradstreet, Inc.)

BRISTOL CANDY CORP
Page 2 (A)

BRISTOL 3 PA
August 18, 19--

COMPARATIVE FINANCIAL STATEMENTS

	<u>June 30 19--</u>	<u>June 30 19--</u>	<u>June 30 19--</u>
Cash	\$ 78,171	\$ 72,913	\$ 87,486
U.S. Govt. Bonds	36,710	70,126	---
Accounts Receivable	38,040	29,584	68,640
Inventory	58,053	71,874	138,442
TOTAL CURRENT ASSETS	210,975	244,499	294,570
Fixed Assets	31,232	28,549	253,755
Cash Value Life Insurance	4,154	5,047	6,416
Prepaid Expense	2,036	1,947	6,496
TOTAL ASSETS	248,398	280,043	561,237
Due Banks	--	---	25,000
Accounts Payable	20,179	9,802	10,654
Federal Income Taxes	30,395	38,712	79,131
Accruals	18,049	12,816	8,635
TOTAL CURRENT LIABILITIES	68,624	61,331	123,420
Due Bank-Deferred	--	---	125,000
Common Stock	150,000	150,000	150,000
Earned Surplus	29,774	68,712	162,817
TOTAL LIABILITIES	248,398	280,043	561,237
NET WORKING CAPITAL	142,350	183,168	171,150
CURRENT RATIO	3.07	3.98	2.38
TANGIBLE NET WORTH	179,774	218,712	312,817
Net Sales	735,198	771,035	1,106,165
Net Profit	54,774	68,938	124,105
Dividends	15,000	30,000	30,000

CENTS OMITTED. The foregoing figures were prepared from annual financial reports of the auditors, James Whetton & Co., C.P.A.'s, Philadelphia, Pennsylvania. Statements were received by mail accompanied by transmittal letters signed by Henry T. Conroy, Treasurer. At June 30, 19--, Accounts Receivable were net of a reserve for bad debts of \$3,106. Fixed Assets were net of reserves for depreciation of \$31,612. Inventory consisting of finished goods \$44,106, In process \$14,719 and raw materials \$79,612, valued at the lower of cost or market under the "Lifo" method. Fire insurance: Inventory - Maximum coverage \$200,000 under a monthly reporting policy; Fixtures and Equipment - \$75,000, Buildings - \$200,000. Contingent Debt: None.

(CONTINUED)

Figure 78. Dun & Bradstreet Analytical Report (page two).

ANALYTICAL REPORT — RATING CHANGE
(Dun & Bradstreet, Inc.)

BRISTOL CANDY CORP.
Page 3 (A)

BRISTOL 3 PA
August 18, 19--

ANALYSIS

Annual sales volume has been at a high level since formation of the subject corporation. Net profits were correspondingly high and, except for moderate dividends, were retained and invested in Government bonds to finance a plan of plant modernization and expansion. Construction under this plan of fixed asset expansion was started early in the last fiscal year and completed in March. The cost of approximately \$250,000 was financed with an unsecured term bank loan of \$150,000 and liquidation of Government Bonds. The term bank loan is payable \$12,500 semi-annually for five years.

Net Sales were 43% larger in the last fiscal year. This increase in the dollar volume resulted from both a 25% price increase in August following a rise in raw material and labor costs and increased unit sales subsequent to March. Net Profit also was higher as a result of the sales expansion and lower unit production costs subsequent to March, when the plant and manufacturing improvements were completed.

In prior years, seasonal use was made of unsecured bank loans up to \$100,000. There has been no recourse to this type of financing during the last three years as inventories were turned rapidly and the collection experience was excellent. Financial position at the last fiscal closing was sound. Compared to Net Sales of that period, inventory comprised primarily of raw materials was equivalent to 45 days sales while accounts receivable were equivalent to 22 days sales.

TRADE INVESTIGATION

Sugar, the basic raw material used, is purchased on a sight draft basis under annual contract with one broker. Such drafts have been honored on presentation. Other raw materials, such as cocoa, flavorings, nut meats, and packaging materials are purchased from seven suppliers. Recent experience of the principal suppliers are included in the following results of a trade survey completed August 12, 19--:

	HIGH CREDIT	OWE	PAST DUE	TERMS OF SALE	PAYMENTS
1.	\$ 30,000	3,450	-0-	2½-10-Net 31	Discount
2.	25,000	---	---	2-10-30	Discount
3.	5,555	-0-	---	2-10	Discount
4.	5,399	---	---	2½-10-31	Discount
5.	5,000	---	---	2-10	Discount
6.	4,939	264	---	2-10-30	Discount
7.	3,000	---	---	2-10-Net 30	Discount
8.	659	---	---	2-10	Discount
9.	Requirements	---	---	Sight Draft	Prompt

BANKING RELATIONS

An account is maintained at a local bank. Balances average in medium to high five figures. In 19--, a five-year, unsecured, term loan of \$150,000 was granted. Other details of this loan are outlined under "Analysis." A low six-figure line of short term, unsecured, bank credit which is available has not been used in recent years.

8-18-19-- (803 + 29)

Figure 78. Dun & Bradstreet Analytical Report (page three).

depositories. An example of a Dun & Bradstreet "Analytical" report is illustrated on pages 987-989.

2. *Regular Reports.* These are written, generally, on smaller and less complicated concerns than those covered by Analytical reports. They cover the smaller manufacturers and wholesalers, and the small retail and service enterprises making up the majority of American business concerns. The outstanding feature of the report is the Summary section, which gives the reader of the report, right at the start, the highlights of the case. A "flash" is given regarding the following essential credit factors:

Starting date	Paying record
Net worth	Sales

Then follows a narrative summary describing the outstanding features of the case. In the simpler cases, the Summary provides a condensation of the information needed by the sales or credit manager to reach a decision regarding the desirability of a customer or prospect. In more complicated cases, where a careful study of the entire report is necessary, the Summary serves as an introduction to the detailed information in the other sections of the report.

A sample of a report on a medium-sized concern with a net worth of about \$250,000 is shown on pages 991 and 992. In this instance the reporter points out two weaknesses in the situation. First, the inventory is quite heavy for the sales, and at a time when working capital is needed to carry the inventories, the partners have withdrawn substantially more than they have earned.

A report on a smaller clean-cut retail concern is shown on page 993.

Each of the types of commercial credit reports issued by Dun & Bradstreet, Inc., is designed to give the reader a clear and concise picture of the over-all condition of the business and its management. Each commercial credit report carries a caption "Rating" following which is given the financial strength and the composite credit appraisal symbol, or the (—) symbol which reflects the absence of a specific classification, or a symbol which reflects only the estimated annual sales of the business. The symbol NQ is shown on reports on concerns and business styles not listed in the Reference Book. Financial information such as balance sheets and related financial state-

REGULAR REPORT — RATING UNCHANGED
(Dun & Bradstreet, Inc.)

5072-5251
ADAMSON HARDWARE CO.

CO 8 AUGUST 14 19—
WVCL & RET

LITCHFIELD, ILL.
MONTGOMERY COUNTY
294-300 MAIN STREET

Miss Joan M. Adamson, Partner

Miss Carol T. Adamson, Partner

RATING: —

STARTED: 1895 (present control 1947) PAYMENTS: Slow Generally
NET WORTH: \$249,540 SALES: \$889,650

SUMMARY

SALES EXPANSION AND LARGE PARTNERSHIP WITHDRAWALS HAVE BROUGHT ABOUT AN UNBALANCED CONDITION REFLECTED IN HEAVY DEBT AND SLOW MOVING INVENTORY. TRADE PAYMENTS ARE SLOW NOTWITHSTANDING STEADY BANK LOANS.

HISTORY

The business name was registered by the partners on March 15, 1947. This enterprise was started in 1895 as a retail hardware business by the late Carl H. Adamson, who subsequently expanded to include both wholesale and retail sales. On February 13, 1945, Adamson died, and his will bequeathed all his real estate, personal and business assets to his two daughters, Joan M. Adamson and Carol T. Adamson. The Estate continued the business until 1947, when the present partners assumed equal ownership. The partners, born in 1891 and 1893 respectively, are single, and are not active in the management of the business. The active management has been left in the hands of Robert Casey, born 1900, married. He was formerly employed as Sales Manager by Thomas Hardware & Supply Co. St. Louis, Mo., for twenty years until becoming employed here in 1946.

OPERATION-LOCATION

PRODUCTS: Wholesale (80% of sales) and retail (20%) hardware, paints, sporting goods, electrical appliances, linoleum, fire arms, cement and roofing materials. (U.S. Standard Industrial Classifications: # 5072 and #5251). Sales of hardware alone represent about 65% of the total volume.

DISTRIBUTION: At wholesale to dealers (50%), lumber yards (30%), factories (10%), and contractors (10%). Retail distribution is to local residents and farmers. Number of Accounts: About 400 active wholesale accounts are sold.

Territory: Within radius of about 80 miles.

Terms: 2 1/2-10th Prox and cash.

Salesmen: Four salaried salesmen.

Seasons: Peak sales in March, with low points during January and February and again in July and August.

Employees: In addition to the salesmen, there are fifteen store and office employees

FACILITIES: Store occupies the combined ground floor space of three adjoining buildings, with warehouse space being utilized in buildings to the rear. Four trucks are used for delivery purposes, and a siding connects the property which is owned by the firm, with tracks of the Illinois Central Railroad.

FINANCIAL INFORMATION

	<u>Dec 31 19—</u>	<u>Dec 31 19—</u>	<u>Dec 31 19—</u>
Current Assets	\$ 236,967	\$ 538,884	\$ 494,611
Current Liabilities	31,521	292,808	283,080
Net Working Capital	205,446	246,076	211,531
Net Worth	206,540	272,629	249,540
Net Sales	250,622	525,408	889,650

(CONTINUED)

Figure 79. Dun & Bradstreet Regular Report (page one).

REGULAR REPORT — RATING UNCHANGED
(Dun & Bradstreet, Inc.)

ADAMSON HARDWARE CO.

CD 8 AUGUST 14 19—
WHOL. & RET.

LITCHFIELD, ILL.
(PAGE #2)

FINANCIAL INFORMATION (Continued)

A financial statement at December 31, 19— — cents omitted:—

ASSETS		LIABILITIES	
Cash on Hand & in Banks	\$ 8,519	Accts. Pay.	\$148,949
Accts. Rec. (Whol.) (A)	46,622	Notes Pay. Bank	125,000
Accts. Rec. (Ret.) (B)	14,206	Notes Pay. Trucks	3,365
Merchandise	425,264	Accrued Wages & Taxes	5,766
	-----		-----
Total Current	494,611	Total Current	283,080
Fixed Assets	36,723		
Prepaid	1,286	Net Worth	249,540
	-----		-----
Total Assets	\$532,620	Total	\$532,620

Net Sales 19— \$889,650, gross profit \$179,604; net profit before withdrawals \$28,615, withdrawals \$51,704.

Accounts Receivable less bad debt reserves (A) \$8,516 (B) \$368. Fixed assets are net. Inventory valued at lower of cost or market. No contingent debt reported. Merchandise covered by reporting form fire insurance policy.

Signed: April 20, 19— Adamson Hardware Co., Joan M. Adamson, partner

Received by mail.

Public Accountant: William Kearns, CPA, Litchfield, Ill.

-----0-----

For a number of years, annual sales were fairly steady, but increased materially in 19—, and again last year through intensive promotional effort following the increase in post-war residential development. In expanding sales, however, inventories were considerably increased, a portion of which increase was financed through bank loans. The larger inventories also brought about increases in Accounts Payable, and the partnership became generally slow in meeting trade obligations.

It was stated on August 11, 19— by Robert Casey, General Manager, that steps are being taken to reduce inventories and to put trade payments on a current basis. Purchasing has been curtailed, prices have been reduced, particularly on items subject to reduced customer demand, and several employees have been released. He added that sales continue to hold even with last year, and that operations have been profitable. Partnership drawings, which last year greatly exceeded net profit, have been curtailed according to Robert Casey and are being kept in line with the earnings of the business.

Accounts are maintained at two local banks where balances average in high four to low five figures. Loans have been granted on own paper and borrowings have been steady since early in 19—.

				PAYMENTS	
HC	ONE	P DUE	TERMS	AUG. 12, 19—	
4850			1-10-30	Disc.	Sold 19— to 19—
2492			2-10-30	Disc.	Sold 19— to date
7740	2185		2-10-30	Prompt to Slow	Sold years to 19—
14803	10070	5875	1-10-30	Slow 6-7 Mos.	Sold years to date
7550	2650		2-10-60	Slow 30	Sold years
7550	2900	1900	2-10-30	Slow 60-90	Sold years to date
5000	5000	5000	1-10-30	Slow 120	Sold years to date
5000	1588	1588	2-10-30	Slow 150	Sold years to date
5000	1000	1000		Slow 60	Sold years
4475	1642	1642	2-15-30	Slow 18	Sold 19— to date
4134	2090	525	2-10-30	Slow 60	Sold years
3839			2-10-30	Slow 30-40	Sold years
2258	330		1-10-30	Slow 30-40	Sold years to date
1738	708	708	1-10 EOM	Slow 120	Sold years to date
1663	596	558	1-10-30	Slow 120	Sold years

8-14-55 (744 129)

Figure 79. Dun & Bradstreet Regular Report (page two).

REGULAR REPORT — SMALL CONCERN
(Dun & Bradstreet, Inc.)

5912
PENN PINES PHARMACY
GROSS, MILES, OWNER

CD JUNE 26 195-

BROOKLYN 19 N Y
1246 HAZEL ROAD

RATING: E 2

STARTED: 1950
NET WORTH: \$26,865

PAYMENTS: Discount
SALES: \$89,232 (Annual)

SUMMARY

THIS BUSINESS IS IN A GROWING NEIGHBORHOOD. SALES ARE INCREASING AND OPERATIONS ARE PROFITABLE.

HISTORY

The style was registered by the owner on April 30, 1950. Starting capital consisted of \$10,500 in savings, a \$3,500 bank loan, and a \$3,000 loan from members of the owner's family, making a total of \$17,000. All loans since repaid.

Miles Gross is 41, single, and native born. A registered pharmacist, he graduated from Columbia College of Pharmacy in 1937. Employed as a pharmacist by Liggett Drug Co. between 1937 and 1950, and by Ray Drug Co. until this business was started.

OPERATION-LOCATION

Operates a pharmacy with a soda fountain. Drugs and prescriptions afford 50% of sales; balance divided between fountain, sundries, and confectionery. Fixtures are new with a twenty-foot soda fountain. Two clerks employed.

Rents the first floor of a two-story building in good condition. Store measures 20 x 50 feet. Location is in a recently developed residential section.

FINANCIAL INFORMATION

A fiscal year-end statement at April 30, 195- cents omitted:

ASSETS		LIABILITIES	
Cash on Hand	\$ 304	Accts Pay	\$ 3,724
Cash in Bank	1,872		
Merchandise	<u>14,950</u>		
Total Current	17,126	Total Current	<u>3,724</u>
Fixts & Equip	10,913		
Station Wagon	2,464		
Deposits	<u>86</u>	NET WORTH	<u>26,865</u>
Total Assets	30,589	Total	30,589

Net sales from May 1, 195- to April 30, 195- \$89,232; gross profit \$26,181; net profit \$10,199; withdrawals \$3,732. Monthly rent \$150. Fire insurance on merchandise and fixtures, \$25,000.

Signed: June 26, 195- PENN PINES PHARMACY by Miles Gross, Owner
Received by mail. No accountant indicated.

After the war, residential construction stepped up in this section with the result that both sales and profits of this business have mounted steadily. Part of earnings have been re-invested in the business to finance its steady expansion.

PAYMENTS		MAY 20, 195-	
HC	OME	TERMS	
2431	2146	2-10	Disc
340	230	2-10-N30	Disc
250		2-10	Disc
136	136	2-10-Prox	Disc
75		2-10-EOM	Disc
15		30	Ppt
6-26-5-	(241 29)		

Sold 3 yrs. to date
Sold 1948 to 5-5-
Sold 3 yrs.
Sold yrs. to date
Sold 1-49 to 5-5-

Figure 80. Dun & Bradstreet Regular Report—Small Concern.

ments are issued immediately upon receipt, as is all other current information that may have an important effect upon the business.

In addition to the two types of commercial credit reports, the reporting department also investigates and produces Key Accounts and Cost-Plus reports. These reports provide a "made-to-order" reporting service designed to answer specific questions by subscribers about key customers whose orders are large or whose sales, collection, or inventory problems are unusual. This special and expanding service includes personal supervision by a staff analyst at frequent intervals and always keeps in mind the specific problem of the subscriber.

Occasions for use of a Dun & Bradstreet report. Some of the situations in which it is advisable to obtain a report are when:

1. The order is from a new account.
2. The order is of considerable size.
3. A change in rating has occurred.
4. The rating indicates that conditions exist which call for complete information.
5. Examination of the ledger indicates that unfavorable tendencies in the account are developing.
6. Adverse information is obtained from trade sources.
7. The credit requested is disproportionate to the usual amount.

Special services of Dun & Bradstreet. Besides the Reporting and Reference Book Departments, the activities of which have been previously described, there are seven other departments or divisions of the Agency that are devoted to the gathering, preparation, analysis, or dissemination of information pertaining to business and business enterprises. These seven departments, all of which contribute to one phase or another of the analysis of risks and the promotion of trade, are as follows:

1. *Marketing Services Company.* The Marketing Services Division performs a service which supplies data that help business men to launch a new product or find new markets for existing products. This division helps business (1) to determine the size of a potential market; (2) to establish sales quotas in any market or territory; (3) to determine the best channels of distribution; (4) to gauge the effect of new materials and processes on the lines handled; (5) to test trade or users' acceptance and attitude toward suppliers through representa-

tive sampling of opinion; and (6) to evaluate proposed price levels and trade discounts. In addition to these, continuing store audits, designed to reflect the rate of retail flow of many products and appliances, are conducted.

2. *Credit Clearing House.* The special credit information needs of manufacturers and wholesalers of men's and women's apparel and accessories are serviced by the Credit Clearing House Division of Dun & Bradstreet, Inc. Speed and accuracy in answering credit inquiries are the important factors in this highly competitive industry, with its style hazards and rapid turnover in retail outlets.

Subscribers to this service accompany their inquiry with details concerning the specific credit transaction involved, the amount of their order, selling terms, and ledger experience when previous transactions have occurred. In response to their inquiry, subscribers receive a recommendation slip that contains a condensed opinion. Recommendations furnished by Credit Clearing House are based on the judgment of trained analysts, familiar with the purchasing habits, trade customs, buying seasons, and credit problems in the apparel industry. The details of all inquiries on each account upon which a recommendation is furnished are recorded on a master card. The master card keeps the analyst informed of the day-to-day buying and paying pattern of accounts. The master card highlights for the analyst abnormalities in this pattern. Overactive buying, out of season purchases, and increasing slow payments are spotted by the analyst who reviews the master card as inquiries are placed.

The Division also supervises the publication of the *Apparel Trades Book*, issued four times a year, which covers all buying seasons in the apparel line. The volume lists outlets throughout the country with credit ratings and symbols indicating the principal lines of merchandise handled.

3. *Dun & Bradstreet Publications Corporation.* This subsidiary of Dun & Bradstreet publishes "Dun's Review and Modern Industry," and "International Markets," both monthly magazines. "Dun's Review and Modern Industry" is edited to the interests of business executives. Each issue places before approximately 120,000 key executives of American business concerns information about the effects on business of significant influences and developments. The information consists principally of (1) summaries of important economic studies, (2) frank statements of opinion on important and often controversial

questions by national leaders, and (3) reports of industrial and trade activity. "International Markets" is edited to the special interests of importers and exporters and each month lists hundreds of inquiries from companies all over the world who seek to buy from, sell to, or get agency connections with American manufacturers.

4. *Business Economics Department.* This department publishes statistical data on the national economy through business conditions releases, "Dun's Statistical Review," a monthly publication, and "Surveys of Business Men's Expectations." It also conducts "Cost of Doing Business Surveys" and "Ratio Studies" to provide business men information to help them conduct their business more successfully.

5. *International Division.* Dun & Bradstreet has foreign branches, affiliates, and correspondents in important trade centers of the world. Foreign trade analysts familiar with the business customs, language, and local selling conditions in the countries they cover, conduct on-the-spot investigations of local exporters, importers, and other commercial enterprises. These investigations are reflected to a great extent in the more than 250,000 reports on file at New York on leading foreign customers for American goods and services. This department annually publishes the Latin America Sales Index, which contains the listings with a trade code key of 150,000 industrial, commercial, and professional enterprises in Latin America.

6. *Mercantile Claims Division.* Commercial credit grantors, through the Mercantile Claims Division, are offered the following collection facilities:

(a) Reminders, which are attached to invoices and letters before accounts are placed for collections.

(b) A written demand for payment made by Mercantile Claims Division.

(c) A follow-up demand letter.

(d) Additional and more persistent efforts, consisting of various types of demand appropriate to the individual account, including the presentation of accounts by an experienced staff of collection specialists throughout the United States and Canada, whenever practicable.

(e) On accounts of \$500 or more, immediate personal demand when requested, with reports of efforts to collect submitted within 24 hours after receipt of account, whenever practicable.

(f) When further action is necessary, reference of accounts, in creditor's behalf, to experienced attorneys or others, the creditor retaining full right of selection. Accounts may be placed for collection

at offices in leading centers of trade throughout the United States and Canada.

7. Municipal Service Department. This department serves the dealer and investor in city, county, and state bonds. A staff of analysts, trained in municipal finance, prepares comprehensive credit surveys based on data obtained through personal investigations and interviews with local officials. Each survey presents a detailed analysis of the economic and social characteristics, management, debt, and current operations of the governmental unit covered. Surveys are prepared on any unit in the United States publicly selling a new general obligation issue of \$750,000 or more. At least two surveys are also issued annually on cities of over 50,000 population, counties of over 150,000, thirty-seven of the states, various special districts, and 50 leading revenue situations (such as Port of New York Authority) whose bonds are widely held. This "continuous service" enables investors to appraise their municipal holdings in a systematic manner each year. The surveys are used by commercial and savings banks, trust companies, municipal bond dealers, insurance companies, private estates, fraternal organizations, and individual investors.

Supplementary agency services. The Agency furnishes letters of introduction to its subscribers, upon request, to enable the subscribers' representatives, when traveling, to inquire for information at any of the Agency's branch offices. The Reference Book may be consulted, or a full report read. There is no extra charge for this service.

When a subscriber inquires about a name, the Agency supplies, in addition to the report then in its files or the report prepared as the result of the inquiry, continuous service on the name for a period of a year. This continuous service includes all new and additional information obtained during the year of service. When a new report is issued after the year of continuous service, a renewal notice is sent to the subscriber stating that the year of service has been completed and that a new report has been prepared and may be obtained by returning the renewal notice.

Consulting Reporters, who are top reporters in the business and who are "professional" consultative reporters, work very much on their own responsibility. They work closely with subjects of reports, their banks, and trade suppliers in handling the more complex credit problems and credit reporting situations.

Service Consultants have been set up in the offices of Dun & Brad-

street, Inc., for the purpose of effecting a broadened and more personalized relationship with subscribers to the service. The objective of the Service Consultant is to make certain that each subscriber receives the maximum value from his relationship with the Agency and makes the fullest possible use of the various Agency services.

The Building Trades Division has for its broad purpose the development of a service to meet the unique requirements of suppliers in the building industry.

The Business Library has facilities for the use of service subscribers, business executives, trade associations, banks, and others of the business world in locating published information. A competent staff handles inquiries by telephone and by mail; there is an attractive reference room for those who visit the library. The Business Library collection of standard business and economic literature is supplemented by up-to-date books, pamphlets, releases, reports, and clippings on subjects of special and timely interest. For instance, data are available on various aspects of business management, credit, commodities, industries, prices, statistics, and the like. The library maintains files of trade journals, newspapers, and government releases, as well as collections of current business and trade directories, biographical directories, business histories, operating and financial ratios. The library resources include about 14,000 volumes, 14,000 pamphlets, 200 periodicals, and 200 drawers of vertical files.

Special or Trade Agencies

Two kinds of special agencies. Special agencies are either mutual or privately operated. The former are voluntary associations of manufacturers, jobbers, and wholesalers, organized for the purpose of gathering and disseminating credit information among the members. Credit bureaus are set up, and the members contribute to the support of the agency. The private agencies are maintained for purposes of profit to their proprietors and sell their services to subscribers. Many maintain collection departments as a regular part of the organization.

Special agencies confined to a single industry. Special or trade agencies gather and distribute credit information about persons and firms engaged in a particular line of business, such as furniture, jewelry, lumber, millinery, shoes and leather, textile, and the like. A credit man in a particular line of business usually knows the agency

that serves his trade. Although from the standpoint of the agencies themselves, the general agency and the special agency consider each other as competitors, from the viewpoint of the credit man the two might well be looked upon as complementary.

Services of special agencies. The services and methods of operation differ in the various special agencies. The more important and more usual services are as follows:

1. *Special-agency ratings.* Most of the special agencies issue rating books, although some of the mutual agencies do not. The ratings used by special agencies are often somewhat different in form from general-agency ratings.

2. *Special-agency reports.* The reports supplied by the special agencies follow for the most part the pattern of the general-agency reports. They are likely, however, to contain more complete ledger information, especially where the co-operation of members is active. Subscribers are permitted a certain number of reports under their contracts, and they are required to pay an additional fee if they exceed that number.

3. *Special-agency "credit-recommendation" service.* A feature of the work of some of the special agencies is their so-called "credit-recommendation" or "credit-checking" service. Inquiry may be made either in writing, on a form supplied by the agency, or by telephone. The agency responds by making a definite recommendation as to whether or not the order in question should be shipped. The subscriber may request merely the recommendation, or may ask for a report. Where a report is obtained, a recommendation is appended to it.

4. *Special-agency weekly bulletins.* In addition to the rating books and reports, the special agencies, in practically every instance, issue weekly bulletins. These are sent to all subscribers and indicate, usually by states, facts such as the following about merchants in the line: change in firm name; change in rating; change in location; death of an officer; incorporation; robbery; fire; loss by swindle; attachments; assignments; claims for collection; and bankruptcy. In short, anything that would be of interest to a creditor of these merchants is included.

5. *Special-agency tracers.* Another feature of special-agency service is the so-called tracer, or clearing-house report. A creditor in doubt

about a certain account may request the agency to look up the recent information received from other creditors who have had experience with the account; the agency may also, from its own observation, deem it wise to initiate such an inquiry. The agency then circularizes its membership for information on the account in question, offering to furnish all those who supply information with a tabulation of the results. In this way there is made available to all who cooperate a complete statement of the status of the particular merchant's accounts with the trade in general.

6. *Collection service.* A collection department is operated for members by some of the special agencies.

Credit Interchange

The use of credit interchange. Credit interchange is the exchange among business houses of actual ledger experience with regard to customers. It is helpful in revising accounts, in eliminating undesirable buyers, and in granting or refusing extensions. It aids in checking special accounts, keeps the credit files alive and up to the minute, tells whether a customer is overbuying or buying outside his legitimate territory, or whether he is paying his new creditor promptly and allowing others to wait. Sometimes ledger credit-interchange reports reveal that a creditor house is mistaken in its belief that it is the principal creditor.

Credit interchange is also valuable to firms selling a small house whose rating is as yet unestablished. It is also useful when a former customer requests a reopening of his account.

Credit-interchange bureaus. To facilitate this exchange of credit information, credit-interchange bureaus have been organized. Some of the special mercantile agencies offer interchange as one of their services. In a number of industries interchange bureaus are operated by trade associations. The best-known and most widely used system of interchange of ledger information is that of the National Association of Credit Men.

Credit Interchange Service of the National Association of Credit Men. The National Association of Credit Men is the professional and service organization of the commercial credit managers and financial executives of the United States. It is a non-profit, co-operative corporation, founded in 1896, and owned and controlled by

its membership, which is made up of producers, manufacturers, wholesalers, financial institutions, and other firms in the commercial field. Its membership comprises firms in the above categories, locally organized in affiliated units throughout the country. These local credit associations are coordinated to make up the National Association of Credit Men.

Credit Interchange Service, approved and endorsed by the N.A.C.M. as the most practical and efficient medium for the exchange of ledger experience information, is conducted through a National Credit Interchange System. This system consists of fifty-four Bureaus, covering major and minor markets in the country, plus a coordinating unit, the Central Credit Interchange Bureau located in St. Louis, Mo. Each local Bureau participating in the National System is a member-owned-and-controlled institution under the supervision of a local Credit Men's Association or Associations. The principle of member direction and control, and service at cost, prevails. Bureaus serve only as mediums for assembling and disseminating information which is supplied and used by creditors. Each local bureau requires users of the Service to supply a list of the accounts on his ledgers, and to supplement this list with new accounts as they are opened.

How an inquiry is handled. When a member wants to know the experience others have had with a particular account, he makes out an inquiry ticket on a form supplied by the local bureau. On this form he indicates his own experience with the account and sends it to the local bureau of which he is a member. The local bureau knows from its file records who the local creditors of the firm under investigation are, and in what other markets throughout the country the firm is buying. The local bureau next sends out a form to locally known creditors of the firm under investigation. A different form is forwarded to other known affiliated bureaus throughout the country to clear their locally interested members and report their paying account. When the paying record information is received, the local bureau writes a report based on the information given by the interested sources. This report is described below.

What the inquiring member receives. An inquiring member receives, first, a copy of any report, more than one hundred and twenty days old at the time the inquiry is received. Second, it receives one or more preliminary reports containing revised information from local and other markets when available. Finally, it receives a report con-

taining information received from all known creditors, and from references supplied by it and other members. This report thus becomes an up-to-date review of the buying and paying habits of the customer with all creditors throughout the country whose interest it has been possible to discover.

What a Credit Interchange Report shows. A Credit Interchange Report is a clear, uncolored, impersonal statement of facts as recited by creditors, presented for quick, intelligent appraisal. The report shows: (1) the business classification of each contributor of information, together with a code date showing when members in that market were canvassed for information; (2) how long the firm reporting has sold to the firm under investigation; (3) date of the last sale; (4) the highest recent credit extended; (5) the amount owing; (6) the amount past due; (7) terms of sale; (8) the paying record; (9) comments.

The date of last sale is a very important feature on the report, as the value of the information depends on how recent it is.

The comments column provides space for pertinent facts not clear from routine figures as taken from the ledger page. It will show, for example, trends of payment; whether the account is improving or getting slower; unfilled or first orders; whether accounts have been collected by an attorney, or whether the account is in the hands of an attorney; the amount, date placed, and so on.

Trade-group interchange. Another method of direct interchange of ledger experience is the group meeting. Creditors located in the same trading center, who are members of the same credit association and sell to the same line of trade, get together periodically to exchange information on their customers. For example, the credit men representing the wholesale plumbing and heating trade of a large midwestern city meet once a week to exchange information on credit conditions. Each member comes supplied with a quantity of reporting blanks, which are filled out as reports are given. Starting at one end of the table, Mr. Blank reports an order from John Doe, amount \$20,000, and gives whatever information he has concerning the customer. Then the man next to him reports the experience of his firm, if any, and so on around the table. The two or three hours' time spent at the meeting each week is more than offset by the time saved during the week.

Other trade groups that have less occasion to meet regularly are "on call" for any time, the secretary of the local association calling the group together on short notice whenever any account requiring immediate attention comes up. In this way doubtful accounts concerning which there have been unfavorable experiences are generally brought to light in time to prevent serious damage.

The members of another bureau go one step further. When the monthly report which the bureau makes up shows that John Doe has bought from different members more than he should have, or that he is getting behind in his payments, he is cordially invited to a luncheon meeting of the association. There his situation is discussed in his presence, and an effort is made to reach some solution that will be agreeable to him. Oftentimes the creditor finds that the credit men have suggestions which are of practical assistance to him, and the informality of the meetings precludes any ill-feeling.

Agencies Reporting on Individuals and Making Special Investigations—Published Services

Difference between mercantile agencies and agencies reporting on individuals. The preceding paragraphs have dealt with sources of credit information regarding companies. The problem of obtaining credit information on individuals is somewhat different. Whereas credit information on a business firm requires an investigation entailing special knowledge of the industry, ability to interpret financial statements, and the like, and covers a period of years, a report on individuals is relatively simple and extends over a much shorter period. A local investigation of the individual is usually sufficient. Banks, loan companies, and installment houses may use these agencies to advantage.

Although there are a number of agencies exclusively in the field of individual reporting, only a few of the leading ones are treated here.

Hooper-Holmes Bureau. The Hooper-Holmes Bureau, Inc., maintains headquarters in Morristown, New Jersey, with branches in 100 cities in the United States and 5 cities in Canada. The agency serves insurance companies principally, although it also serves banks, finance companies, installment houses, and retail stores. The agency not only submits credit information from its files but makes a new, individual outside inspection report on every request for credit in-

formation received. Reports are consequently up to date. They are a great aid to credit men in large cities where individuals move about frequently.

For the credit man desiring information on individuals, the agency offers numerous types and styles of reports. These include: (1) Credit report—Individual, (2) Credit report—Farmer, (3) Credit report—Firm or Corporation, (4) Loan report, (5) Mortgage Loan report, (6) Automobile purchase, (7) Oil Dealer, (8) Standard Factual Data report for Federal Housing Administration—Individual Farmer, (9) Petroleum Credit report, (10) Delinquent Debtor report.

The individual report is a one-page confidential form report carrying a series of questions in one column regarding: (1) the contacts made in the investigation; (2) the individual's age, lineage, dependents, reputation, and habits; (3) the individual's occupation; and (4) his finances. The investigator's answers are in the column to the right of the questions. A space is provided at the bottom of the report for details of any incomplete or unfavorable answers to the questions.

Derogatory information about an individual coming to the attention of the Agency after a report has been sent to a client is passed on to the subscriber in the form of a supplemental report, for which no charge is made.

Retail Credit Company. This company, established in 1899, furnishes personal information on residents of any place in North America. The Home Office is in Atlanta, Georgia. The company maintains 167 branch offices and 912 sub-branches or direct reporting stations throughout the continent.

This investigative and reporting service is used by petroleum companies, direct-selling and mail-order houses, automobile finance companies, building and loan companies, farm implement distributors, mortgage loan and property improvement agencies, and many others.

The reports furnished by this agency cover typical credit information and also emphasize character of the subject. Some of the wide variety of reports are:

1. Character Credit Report (Individual): provides character, financial, and credit information on persons other than farmers.
2. Character Credit Report (Farmer): provides character, finan-

cial, and credit information on farmers. Also gives size of farm, type, crop prospects, stability, and other pertinent facts.

3. Delinquent Purchaser Report: provides apparent reason for delinquency, income, and worth to aid in judging collectibility.

4. Personnel Selection Report: covers prior employment record, education, health, habits, character, finances of persons being considered for employment.

5. Special Service: exhaustive investigations of unusual situations or transactions beyond scope of regular investigations.

The first three types of reports named above are submitted in question and answer form with some narrative remarks.

A current investigation is the rule. Logical sources of information—persons in position to know necessary facts concerning the subject of a report—are interviewed, usually by full-time investigators. Unfavorable facts are confirmed through records or additional sources. Many reports are further strengthened and broadened by active files, which include previous reports and other recorded data on approximately 24,000,000 persons.

Voluntary follow-up of prior reports is submitted when any significant information comes to hand subsequently.

Proudfoot's Commercial Agency, Inc. Proudfoot's Commercial Agency, Inc., is located in New York City. The agency makes confidential and comprehensive reports, in letter form, on individuals, corporations, partnerships, and associations. The files of the agency contain information and reports on more than seven million names gathered over fifty years of service.

The reports on individuals cover the following data regarding the person under investigation:

1. Age, place of birth, and home life.
2. Extent of education.
3. Complete antecedent history and business activity.
4. Dates of all former connections.
5. Record of suits, judgments, and bankruptcies.
6. Criminal record.
7. Favorable or derogatory comment relative to past record.
8. Financial condition and method of paying bills.
9. Bank and other credit information.

10. Integrity, moral standing.

11. Business reputation.

The reports on partnerships and corporations have three sections: (1) the antecedent history and personal background of the principals of the enterprise; (2) a detailed financial picture, including statement analysis, trends over the past several years, as well as a digest of present activity and immediate outlook for the future; and (3) bank and trade investigations and availability of credit.

The agency also reports on professional firms such as law, accounting, engineering, investment counsel, and others.

Although the bulk of the reports serve concerns and individuals in New York City and its environs, they are available to subscribers over a wide area.

Bishop's Service, Inc. Bishop's Service, Inc., established in 1895, is located in New York City and is engaged exclusively in the business of making investigations and credit reports, based on personal character and moral risk, with respect to individuals, firms, and corporations located throughout this country, Canada, Western Europe, and South America.

The reports are narrative in style and rather comprehensive. They emphasize the personal and business records and the habits and associations of the individuals involved, including those charged with the direction and management of firms and corporate activities. The reports include summaries, financial statements, judgment records, litigation, and personality surveys.

Hill's Reports, Inc. Hill's Reports, Inc., of Chicago, serves principally Chicago commercial banks and trust companies, securities houses, mortgage companies, building and loan associations, hotels, and insurance companies. Credit reports are prepared on individuals, partnerships, and corporations by trained reporters and correspondents. These reports are based on individual investigation of each inquiry plus available data from the files of the agency. Although the reports emphasize the character and moral responsibility of the individuals involved, their contents vary according to the requirements of the subscriber. The reports are narrative in style, with no summary or ratings.

Publications. Besides the mercantile and specialized agencies, the credit man may consult various publications issued by publishing companies to aid him in formulating a credit decision. The most important of these services are published by Moody's Investors Service, Inc.; Standard and Poor's Corporation; Fitch Publishing Co., Inc.; and Alfred M. Best Company, Inc.

All of these companies publish yearly manuals, available to subscribers, containing valuable information on nearly every concern in the country that has securities in the hands of the public. Data contained in these manuals cover the financial condition of the company, earnings record, names of officers and directors, and description of obligations and capital securities of the company.

The first three companies serve the investment field, while Alfred M. Best Company operates in the insurance field.

Salesmen as Credit Reporters

Value of salesmen as credit reporters. In the case of smaller accounts, salesmen are frequently a valuable source of credit information. The advantages of using salesmen as credit reporters are the following:

1. The salesman is frequently the only representative of his house who comes in personal contact with the customer.
2. Where salesmen visit customers often and the amount of each sale is small, the expense of obtaining credit data from outside sources may not be warranted.
3. When a salesman's credit report accompanies the order, delivery of the goods is expedited.
4. Extravagant promises to the customer by salesmen are eliminated, such as promises of immediate delivery to customers whose accounts need investigation.
5. Any change affecting the credit risk, financial or otherwise, can be reported immediately, permitting the company to lose little time in reducing or extending the credit limit.
6. Where the account is doubtful, the salesman can advise the customer of ways to improve his business, thereby building a future customer although the credit department will not extend credit on present orders.

Nature of information obtainable through salesmen. In connection with new customers, the salesman may consider the following points:

1. Personal habits and local reputation.
2. Business experience and ability.
3. Location of business.
4. Local conditions.
5. Trade and bank references.
6. Financial statement.
7. Credit recommendation.

Objections to salesmen as credit investigators. Many credit men feel that salesmen as a source of credit information are greatly overestimated, and that such work should be confined to salesmen dealing with small firms. The salesman, for instance, is not always able to inspect all of the merchandise. Nor can he afford to spend too much time on credit work, since his main job is selling. Besides, many prospects prefer requests for information, particularly for financial statements, to come from credit men. For these reasons many credit departments provide salesmen with forms on which to report their credit information.

A form of salesmen's reports. The following form of report for salesmen is sent by one company to salesmen, branch offices, and brokers once a year. The company reports great diversity in the nature of the comments, for which space is provided at the bottom of the page. Some salesmen will merely note "O.K."; others write a few lines; some jot down a few paragraphs on the back of the form; and still others will attach a two- or three-page comment.

Our credit records show a credit line of
authorized for:

..... of

Will you please give us your present comments and recommendations on this line. This is to assure us that:

Your records agree with ours; and that

You believe the line is suitable and proper.

If you believe the line should be revised, either to facilitate the sale of our merchandise, or to conform with the normal requirements of the account, please let us know.

Or, if it is unnecessary that a line be continued, we want to suspend credit and make the file inactive.

Thank you for your co-operation.

Very truly yours,
Company's name
Credit manager's name
Credit Department

Please write your comments below and return this form.

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How to get the salesmen to co-operate. To what extent the salesman will furnish the information that he can obtain depends to a large degree upon the credit man himself. The credit man will soon enlist the salesman's active assistance if he is broadminded, if he does his work with the idea of business promotion, and if he treats customers considerately and thus helps the salesman to retain the goodwill of his trade. Among the specific methods used by various companies to enlist the salesman's co-operation are the following:

1. *Conferences between salesmen and credit man.* Periodically, the credit man discusses with each salesman, individually, the accounts that he handles. This mutual exchange of information and viewpoint is invaluable to both men. The credit man becomes familiar with the salesman's problems. Personal contact also enables the credit man to judge to what extent he can rely on information given to him by salesmen. For his part, the salesman learns from conferences with the credit man what constitutes a good credit risk, what factors have to be taken into consideration, what the credit policy of his house is, and, specifically, why some of his accounts have been turned down.

2. *Payment on n.c.u.p. basis.* Under the n.c.u.p plan ("no commission until paid"), the salesman's personal account on the ledger is credited with the commission at the time the sale is made, but the amount is not paid to him until the customer has settled his bill.

The effect is to make the salesman more discriminating in soliciting accounts.

3. *Collection contests.* Information will be given much more freely and accurately by salesmen if they are made wholly, or even only partly, responsible for collections. A number of companies have reported successful operation of a plan by which a cash prize is awarded each month to the salesman who leads his district in collections. The salesman is less likely to recommend a doubtful account if he knows that he will be expected to assist in collecting it. See page 1084 for further discussion of collection by salesmen.

4. *Notice of refusal to grant credit.* Salesmen will co-operate better with credit departments if they feel that the credit department does not keep them waiting for information as to the acceptance or rejection of orders. Some credit departments have therefore adopted the practice of sending out a notice to salesmen whenever extension of credit has been withheld. A simple form giving the reason for withholding credit is used. The salesmen, knowing that this practice is followed, do not wire or write in to the credit department long before the credit man has completed his investigation to determine whether the order has been accepted.

Attorneys as Credit Reporters

Nature of information obtainable through attorneys. Much of the credit information obtainable through attorneys is similar to that obtainable through salesmen; it refers to such matters as:

1. Personal habits.
2. Local reputation.
3. Business ability.
4. Location of business.
5. Local trade conditions.
6. Value of real property, and encumbrances thereon.
7. Claims and lawsuits.

Some houses restrict their use of attorneys as credit reporters to cities with a population of 15,000 or less, because they feel that it is only in such cases that the attorney has sufficient personal knowledge of and contact with the subject to render his report of value. There are, however, numerous individual attorneys and firms that make a

specialty of collection work and the furnishing of credit information; these attorneys have expert staffs and maintain extensive credit records.

It is advisable to ask the firm's attorney to locate an attorney in a particular locality who will act as a credit reporter. The company's attorney has access to published lists of attorneys' directories that may be used for this purpose.

Objections to attorneys' reports. In using attorneys' reports, the credit man should bear in mind the following objections that may detract from the value of the report: (1) the attorney is unacquainted with the credit standards of the inquiring house; (2) he may be a personal friend of the credit applicant; and (3) local pride may affect his judgment. In order to be sure that the attorney gives the request for credit information proper attention, he should be compensated for his efforts. Remuneration may be in the form of placing collection work with the attorney, or it may be a fee based upon the amount of work done in furnishing the report.

Banks as Credit Reporters

Availability of credit information from banks. In the conduct of their own business, banks maintain complete credit files of their depositors in order to be equipped with full credit information on the basis of which applications for loans can be intelligently considered. This information is for the bank's own use and is kept confidential.

Unless a bank is authorized by a customer to give credit information to a specific inquirer, or unless the inquiry comes through a correspondent bank, very little, if any, credit information can be obtained other than the fact that the customer has a deposit at the bank, and possibly the age of the account.

Banks are not particularly receptive to inquiry forms sent by non-depositors seeking information about a depositor. These are usually filled out meagerly, if at all. To discourage such promiscuous inquiries, many state bankers' associations and other organizations of bankers have adopted rules providing that requests for credit information, unless authorized by the customer, or received through a correspondent bank, must be accompanied by a fee.

Information that may be obtained from banks. The following list enumerates items of credit information that may be obtainable from a customer's commercial bank, upon authorization, if the cus-

tomers has ever borrowed from the bank. If he has not, only part of the items may be covered in the bank's report.

1. Age of the account. Frequent changing of banking connection is in itself regarded as unfavorable.

2. A general statement of the relationship with respect to loans and deposit balances, including information on how satisfactorily the account is conducted.

3. Promptness of the subject in meeting his obligations to the bank.

4. Whether many drafts are presented to the subject through the bank, and, if so, whether these drafts are honored by the subject.

5. Comment on the subject's financial statement, provided that it is authorized by the subject.

6. General local reputation of the subject and the bank's opinion of him.

7. In the case of some banks, a definite or general expression of opinion regarding the risk.

8. A short summary of the history and antecedents of the company.

Information that is not obtainable from banks. The bank is ordinarily not in a position to furnish credit men with the following information:

1. The exact amount of the depositor's account. The bank will give the credit man a general idea of the depositor's responsibility. Such terms as small (three figures), moderate (four figures), or large (over four figures) are frequently used to describe the amount of deposits. The bank however, may, confirm a balance reported by a customer on a balance sheet.

2. Details of loans that are outstanding. This information can be secured only on the proper authorization.

3. Information concerning the customer's financial statement.

Getting information from the credit man's bank. When the credit man is faced with a particularly difficult decision, he may ask his own bank to obtain a credit report from the customer's bank. Banks in the same city have an accurate credit-interchange system and can quickly obtain such information. If the customer is out of town, the credit man's bank will communicate with its correspondent

bank in the customer's city, which in turn will get in touch with the customer's bank.

Generally, more complete information is obtainable if this method is used than when the credit man goes direct to the customer's bank. However, the method is one that can be used only infrequently, and then only if the bank is anxious to please the depositor who makes the request.

The Personal Interview

Value of the personal interview. Through personal interviews, or personal calls on customers, the credit man can obtain useful information as well as promote better understanding between the selling house and its customers. The properly conducted interview enables the applicant to present his own case most advantageously and to receive useful suggestions; it permits the credit man to make personal observations and to inquire carefully concerning doubtful points; and, finally, a free and frank discussion leads to a more satisfactory mutual understanding. Wherever a personal contact can be justified by the size of the order received or prospects of future business, and especially where, as a result of the call, the credit man can make necessary arrangements to hold worth-while business, the credit man should make every attempt to interview the applicant.

A friendly and human attitude on the part of the credit man accomplishes more than anything else during the personal call. The credit man wants the customer to talk freely. This situation is best induced by pleasant and informal discussions in which the credit man asks as few direct questions as possible and permits the customer to do the talking. However, the credit man should review the case before the interview in order that he may direct the conversation along the proper channels. It is preferable to refrain from writing during the interview. As soon as it is terminated, the results of the interview should be put in writing.

Special need for a personal interview. A personal interview or a personal call by the credit man is especially useful in the following cases:

1. When an old and valued account is becoming slow in meeting its obligations. The credit man, through his intimate and widespread knowledge of the trade, may be able to suggest to the cus-

tomers means by which the progress of his business can be restored. Thus the creditor may suggest a change in the customer's location (the customer is often the last person to realize that the current trend of local business is moving away from the street or section in which he is located), clearance sales to dispose of old stock, new methods of window display, new methods of advertising, new lines of goods that might be carried to attract patronage, more complete and efficient bookkeeping methods, and so forth.

2. When a new account is under consideration offering unusual opportunity for sales, but involving greater than ordinary risk.

Traveling credit representatives. Some credit men for larger houses spend a considerable part of their time in travel; others make a tour of their principal customers once or twice a year. Still other houses employ special credit representatives who spend their entire time visiting customers to inquire into their credit standing. The advantages of these practices are:

1. The credit man is able to visualize the personality, business circumstances, and so forth, of each customer. The credit man who remains always at his desk gains his perspective on credit risks entirely at second hand.

2. Goodwill between the customer and the selling house is cemented. A call by the credit man establishes a personal relationship between the customer and the name signed to the credit and collection letters.

3. The credit man gains insight into the problems of the sales department, and his judgment may be modified and corrected.

4. By visiting references, especially banks, in person, the credit man or representative can usually obtain more definite and reliable information than can be obtained by correspondence.

2. MERCANTILE CREDIT TERMS

Classes of credit terms. The credit terms used in mercantile trade group themselves into six classes: (1) prepayment terms, (2) cash terms, (3) individual-order terms, (4) lumped-order terms, (5) season dating, and (6) consignment terms.

Prepayment terms. Sometimes when a purchaser is in poor credit standing, the seller does not desire to extend any credit, or

to assume any risk. So much misunderstanding about this very point has arisen that it seems necessary to explain the meaning of different terms where the intention of the seller is to extend no credit, or to demand prepayment.

The so-called prepayment terms are "C.B.D.," cash before delivery; "C.O.D.," cash on delivery; and "S.D.-B.L.," sight draft with negotiable bill of lading attached. In only one of these situations does the seller assume no risk and extend no credit; that is where the terms are C.B.D. Although the C.O.D. and S.D.-B.L. terms are classed as prepayment terms, the seller, as we shall see from the explanation of these terms below, does not have complete assurance of payment.

S.D.-B.L. terms. When goods are sold on S.D.-B.L. terms, the seller receives a negotiable or order bill of lading from the carrier. He then draws a draft for the amount of the invoice on the purchaser or his bank. After endorsing the bill of lading, he attaches it to the draft and sends both papers, together with the invoice, to a bank in the buyer's city. He also notifies the buyer which bank holds the papers. The buyer pays the amount of the invoice to the bank and the shipping papers are then delivered to him so that he can get the goods from the carrier. The bank remits the payment to the seller.

The seller here assumes the risk of having the purchaser refuse to accept the goods, in which case the seller would lose the freight charges both ways, unless he were fortunate enough to sell the goods to another merchant along the same route. Scheming merchants, to whom the seller will not grant credit, sometimes order goods shipped S.D.-B.L. Upon the arrival of the goods, these merchants plead lack of immediate funds and ask the seller to allow them to take the goods and remit in ten days. Thus they hope to compel the seller to extend credit. The seller should be on his guard against such merchants and should demand a deposit before the goods are shipped to cover the risk involved. The deposit should be sufficient to cover transportation charges and a possible drop in price.

C.O.D. terms. When goods are shipped C.O.D., the buyer pays the carrier the amount of the invoice before the goods are delivered to him. The seller assumes the same risk on C.O.D. terms that he does on S.D.-B.L. terms, described above. He should consider asking for a deposit to avoid losses in case the goods are not accepted. There is the additional danger that the check the buyer gives to the

carrier in payment for the goods will not be honored. The seller therefore, may instruct the carrier to accept only currency or a certified check. In this event he should also notify the buyer that the payment must be by currency or certified check.

Cash terms. Many merchants believe that when goods are sold for "cash" no credit is extended. Such is not the case. When goods are shipped "cash" there is an expressed or an implied understanding that the purchaser is given ten days' credit. The ten days is allowed him to check the goods received and verify the invoice. The bill is due at the end of ten days, and, if not paid, the seller can resort only to the same remedies that are open to any other credit grantor. The credit standing of one to whom goods are sold on "cash" terms should be just as thoroughly examined as that of one who is sold on regular terms, for the same risk is involved in both cases.

Individual-order terms. These terms are used when shipments are made to a buyer only once or twice a month. The discount period and the credit period are counted from the date of the invoice. If the terms are 30 days for payment, without discount, they are stated "net 30." If a discount, say 2 per cent, is allowed, the terms are stated "2/10/30" or "2/10 net 30." These two terms mean that a discount of 2 per cent is allowed if payment is made within 10 days from the invoice date; otherwise, the full amount of the bill is due 30 days after date.

R.O.G. or A.O.G. terms. All invoices are dated the day the goods are shipped. If a house in New York sells goods throughout the country on "2/10 net 60" terms, it is evident that a house in Jersey City would enjoy a distinct advantage over a house in San Francisco. The former would receive its goods within twenty-four hours and have time to check them up before paying within ten days, while the house in San Francisco would probably have to pay before the goods were received in order to take the cash discount. To overcome this disadvantage to distant purchasers some houses date invoices to some of their customers "receipt-of-goods" (R.O.G.) or "arrival of goods" (A.O.G.). This means the time allowed for taking discount is measured from the time the goods are received by the purchaser. If the purchaser, however, does not avail himself of the discount within the period allowed, the regular terms are usu-

ally measured from the date of shipment. The purchaser then enjoys the benefit of the R.O.G. or A.O.G. terms only when he takes advantage of the discount. R.O.G. terms may be applied to credit and discount periods on water-borne shipments and other slow freight.

Lumped-order or end-of-month terms. A development that has had a tendency to lengthen the terms of credit has been the creation of "lumped-order" terms. These terms originated with merchants who did a very active business and made purchases almost every day during the month. They found it very inconvenient to make payments every day during the month; and yet this would be necessary if they were to avail themselves of the cash discounts. The larger merchants who were active buyers requested the selling houses to permit them to pay all their bills once a month and take advantage of the regular discount. The selling houses granted this request, for they wished to keep the goodwill and business of such active accounts. In this way the custom arose of permitting large houses to pay, on the tenth day of the month, all bills of the previous month and deduct the cash discount. Lumped-order terms are now common in many lines where buyers give orders twice a month or oftener, or when shipments go out oftener than twice a month.

All deliveries during a monthly period are lumped together, and the credit term for all of them begins at a specified date. For example, goods shipped between January 1 and January 31 on end-of-month (E.O.M.) terms are dated February 1. The cash discount and the 30-day or 60-day credit periods are counted as beginning February 1. Another lumped-order term is the "10 prox." This means that all credit and discount periods for a calendar month begin the tenth day of the next following (proximate) month. If the credit and discount period begins with the fifteenth day of the following month, the terms are stated M.O.M. (middle of month).

When goods are purchased on E.O.M. terms, many buyers pay their bills from monthly statements instead of from the invoices. If these statements are prepared and mailed after the close of the month, they do not reach the buyers in time for them to take advantage of the cash discount. Even on 10-prox. terms, the buyers have little leeway for making discount payments. Consequently, many lines close the monthly statements on the twenty-fifth day of

the month instead of on the last day. The sellers then have the first few days of the month for preparing and mailing statements. Shipments made during those days are included on the statements of the following month. Customers frequently place orders for goods to be shipped on the twenty-fifth day of the month so as to get the maximum credit period.

Dating. Long or seasonal dating is used to induce a merchant to order goods in advance of production or importation. A merchant, for example, may order spring goods the preceding fall. The risks of change in style, bad business conditions, and lack of demand are thus transferred from the manufacturer or importer to the retailer or secondary manufacturer. For this reason, the seller extends very favorable terms of credit. The terms vary with different lines of business, some 90 days, some six months, some eight months.

Seasonal dating may work out as follows: In the fall a manufacturer receives an order to make a quantity of summer goods. The manufacturer immediately begins to make the products. In December or January the goods are delivered with an invoice to the purchaser. The invoice is given seasonal dating, say May 1, and the terms are 2/10/60. The regular terms of discount do not begin to operate until May 1. The buyer then has until May 10 to take a 2 per cent cash discount or until July 1 to pay the amount of the invoice.

In long datings, sellers frequently encourage buyers to pay early by offering an *extra* discount. The terms might be stated, "3 per cent 10 days—2 per cent 10 days—60 days extra." The buyer may take a 3 per cent discount if he pays within 10 days or a 2 per cent cash discount if he pays within 70 days. Most vendors also allow the buyer an anticipation discount of, say, 6 or 4 per cent, if he pays before the due date. Thus, if the bill were prepaid or anticipated for 60 days, interest at the rate of the allowed percentage would be deducted from the total amount of the bill, or from the balance after the cash discount has been deducted, whichever is permitted by the seller.

The purchaser must carry more insurance and provide larger quarters for the stock. Moreover, there is the danger that the purchaser, encouraged by the long-term season dating, may optimistically overestimate the demands of the coming season and be left with merchandise that is unsalable except at a loss.

Consignment terms. When a buyer is not a good credit risk and cannot afford to buy goods on C.O.D. terms, a seller sometimes

ships goods to him on consignment terms. Under these terms the seller retains title to the goods until they are sold. If the consignee fails, the goods do not belong to the general creditors but to the seller. When the goods are sold, the seller is paid out of the proceeds of the sale. If the consignee does not sell the goods, he is under no obligation to pay for them, but can return them to the seller.

A consignment contract must follow closely certain legal requirements; otherwise, it might be considered a conditional sale contract. The seller would then lose certain valuable rights that a consignment contract gives him. These requirements are: (1) the consigned goods must be kept apart from the other merchandise, or must be marked clearly and distinctly as the property of the consignor; (2) the proceeds from the sale of the consigned goods must be kept separate from the consignee's general funds. Because of the legal technicalities involved, a credit man should have an attorney draw up a form of consignment contract for him and prepare instructions to the consignee as to keeping the consigned goods clearly identified.

3. LAW RELATING TO CHECKS, NOTES, AND DRAFTS

Law Relating to Checks

Post-dated check not invalid. A check is not invalid merely because it bears a date later than that on which it is drawn. For example, if on February 1 Tom Downey draws a check to the order of Albert Taylor dated February 20, the check is good. True, Mr. Downey's bank on which the check is drawn will not honor the instrument until the 20th of the month, but the check is not for that reason invalid. Nor is there anything to prevent the holder of the check from transferring it before the date on which it is payable. It has been held by the courts that a person who takes a check which is post-dated is not thereby put upon inquiry as to defects in the payee's right to the proceeds of the check. The Negotiable Instruments Law * specifically provides that an instrument "is not in-

* The Negotiable Instruments Law is a codification of the principal rules of law relating to negotiable instruments as announced in numerous decisions, and was adopted by the various states in response to the general need for uniformity.

valid for the reason only that it is ante-dated or post-dated, provided this is not done for an illegal or fraudulent purpose. The person to whom an instrument so dated is delivered acquires the title thereto as of the date of delivery."

Unsigned check received; how to handle. It is not uncommon in the course of business to receive a check which has not been signed. Omission of the signature may and generally is merely an oversight on the part of the drawer of the check, but it has been known to be used as a time-gaining device. As in the case of other irregularities in the drawing of a check, the instrument may be returned to the drawer for correction, but a more effective and perhaps safer course is open to the holder of the check. He may deposit it in his bank for collection with the understanding that the drawer will be requested to sign it upon receipt by the bank on which the check is drawn. Or he may deposit the check in his bank with a sight draft attached, and arrange to have the check and draft forwarded to the bank in which the drawer of the check has his account. If omission of the signature was inadvertent, the drawer of the check will be glad to sign it promptly upon request or to honor the sight draft. If it was deliberate, the use is defeated, and little if any loss of time in obtaining payment has been suffered by the payee.

Check received on which amount in writing and amount in figures disagree; how to handle. The Negotiable Instruments Law provides that where the amount payable is expressed in words and also in figures, and there is a discrepancy between the two, the sum denoted by the words is the sum payable. While the law furnishes this rule of construction, the banks will generally refuse to accept checks where the amount in writing disagrees with the amount in figures. If a debtor, through inadvertence or in a wily effort to gain time, forwards a check with the amount thus incorrectly indicated, the creditor may, of course, return the check for correction. A much more practical plan is to place an indorsement on the check, guaranteeing it for whichever is the correct amount, and deposit the check for collection. The debtor is then forced to indicate the correct amount of the remittance, and to make immediate payment.

Effect of certification of a check. By certifying a check, a bank undertakes the following:

1. It guarantees the drawer's signature.
2. It represents that it has in its possession funds of the drawer sufficient to meet the check.
3. It engages that the funds will not be withdrawn from it by the drawer to the prejudice of any bona fide holder of the check.

Where the payee of the check has it certified, he, in effect, accepts the bank as his debtor, and he thereby releases the drawer of the check, as well as any person who has indorsed it; should the bank become insolvent before the check is paid, the loss falls on the holder of the check, not on the drawer. On the other hand, if the drawer of a check has it certified, he remains liable on the check in the event of insolvency of the bank before payment. If a bank has certified a check by mistake, it may revoke the certification provided it acts promptly and provided no right belonging to the holder of the check has been diminished or lost.

Time within which a check must be presented for payment. The Negotiable Instruments Law provides that a check must be presented for payment within a reasonable time after its issue and that failure to do so, resulting in loss to the drawer of the check, discharges him from liability thereon to the extent of the loss caused by delay in presentation. The law does not define the period which may elapse between the giving and presenting of a check, and what is a "reasonable time" must be determined according to the circumstances of each particular case. Ordinarily, if a check is delivered at the same place where the bank is located, it must, in the absence of special circumstances, be presented to the bank on which it is drawn during the business hours of the next regular business day after it is received; if the holder fails to present it within that time and the bank on which the check is drawn becomes insolvent so that the drawer loses the amount which he had on deposit to meet the check, he is discharged from liability and the loss must be borne by the one who was lax in presenting the check for payment. The courts have held in some cases that deposit by the payee in his own bank for collection on the day following the receipt of the instrument and presentation by the collecting bank on the day thereafter is a sufficiently prompt demand. The period for presentation of a check is not extended by the fact that the payee indorses it over to a third person.

Check returned marked "insufficient funds;" how to handle. Where a check received from a debtor is returned by the bank marked "insufficient funds," it may, of course, be sent back to the drawer. However, the creditor may thus lose entirely his evidence of the debtor's acknowledgment of his obligation, and give him the opportunity of delaying payment indefinitely. Or, if the debtor has merely been slow in making a deposit in his bank sufficient to cover the check, time will be unnecessarily lost while the check travels back and forth between the parties. Rather than return the check to the drawer, the payee may arrange with the bank on which the check has been drawn to leave the check at the bank until sufficient funds have been deposited to cover it, at which time the bank will certify the check and return it to the creditor. If the debtor's account is short by only a small amount, it might be possible in some instances for the holder of the check to deposit to the credit of the maker sufficient funds to raise the account to the necessary amount, and then have the check certified.

In some states, including New York, a person who, with fraudulent intent, issues a check knowing that he has insufficient funds for its payment, may be subject to criminal prosecution. A person is not subject to criminal prosecution on a post-dated check on the theory that a post-dated check is actually a *promise* to pay. Failure to have sufficient funds to cover the post-dated check is the same as failure to pay a promissory note when due.

Effect of the death of the drawer of a check. One of the chief points of difference between a check and a bill of exchange is that the death of the drawer of the check revokes the authority of the bank to pay, while the death of the drawer of a bill of exchange does not. The reason for this is that a check is a mere order for the payment of money; it does not operate as an assignment of any part of the fund which the drawer of the check may have on deposit in the bank on which the check is drawn. At any time before the check is paid, the drawer may stop payment on it and countermand the authority of the drawee to collect the amount of the check, or the authority of the bank to pay on it. The death of the drawer of the check operates as a revocation of the order to pay. A bank is not, however, presumed to know when the drawer of a check has

died. If, without knowledge of the death of the drawer of a check, the bank makes payment, it cannot be held liable therefor.

Check given in full settlement of a claim. Ordinarily, if part of a past-due indebtedness is paid, the balance remains due and owing, and an agreement on the part of the creditor to accept part in discharge of the whole debt is not binding on the creditor unless some additional consideration is given for his acceptance. Payment of a smaller amount may, however, operate as a full discharge of a debtor's obligation and bar any further action by him on the original claim where:

1. There is a bona fide dispute concerning the claim.
2. A check reciting that it is in full payment of the claim is given to the creditor in settlement.
3. The check is accepted by the creditor or collected by him without objection.

The creditor cannot accept the check and keep alive the debtor's obligation by writing to the debtor advising him that he does not accept it in full settlement and demands further payment. Nor can a person by striking out the words "in full" written on the check avoid being bound by his acceptance of the check in full payment. Where a check is given in settlement of a disputed claim, therefore, it is important to indicate clearly on the instrument the fact that it represents payment in full of the claim. And if a check is received in settlement of a claim so marked, it should be returned at once if the amount is not acceptable.

Payment of a forged check by a bank; is the bank liable to the drawer of the check? In disbursing the funds of a depositor, the bank can make payment only in conformity with the depositor's directions. If it pays a check on which the indorsement of the payee's name has been forged, it is not making payment according to the directions of the depositor and may be required to answer to the depositor for the payment. Similarly, the bank is bound to know the signature of its depositor and must account to him if it pays a check on which the depositor's signature has been forged. The bank is from necessity responsible for any omission to discover the original terms and conditions of a check, properly drawn upon it, because at the time of payment it is the only party interested who

has the opportunity of inspection. In order to give the bank a fair opportunity to protect its own interests in recovering payment made on a forged check and prosecuting the forger, the Negotiable Instruments Law provides that no bank shall be liable to a depositor for the payment by it of a forged or raised check, unless within one year after the return to the depositor of the voucher of such payment, such depositor shall notify the bank that the check so paid was forged or raised.

Law Relating to Notes

Note accepted for an old debt. Generally, in order to render the maker of a note liable therefor, some consideration must have been given to bind the transaction; that is, something of value in the nature of a benefit to the maker or of a detriment to the payee must have induced the execution of the note. This consideration need not have a value equal to the amount of the note; its value may, in fact, be trivial. A debt which is due and owing from the maker of a note to the payee is deemed to be a sufficient consideration for the note. The Negotiable Instruments Law specifically provides that an antecedent or preexisting debt constitutes value, whether the note is payable on demand or at a future time. If Mulligan owes Peters \$100, Peters may accept a note from Mulligan which will be binding upon the latter; the old debt is a valid consideration. Similarly, if Mulligan owes Peters \$100, Peters may accept Casey's note for the debt, provided Peters thereby agrees to forbear from bringing suit against Mulligan. Even if Peters has previously brought an action against Mulligan and reduced his claim to judgment, he may accept a note from Mulligan to evidence his claim, and the old debt constitutes a good consideration for the note.

Note executed on Sunday is generally invalid. In most states, a promissory note executed on Sunday is invalid, so far as the maker and the payee are concerned, and will not be enforced by the courts. This does not mean that a note may not properly be drawn, signed, or dated on a Sunday. These are all preliminaries to "execution," with which the law does not concern itself. A note becomes effective on the date of its delivery, and it is the act of delivery which is prohibited on the Sabbath. Even if a note is executed on Sunday, if it appears on its face to have been made on a secular day and is

transferred in good faith, for value, before maturity, to a person having no knowledge of the fact that it was executed on Sunday, the transferee may enforce the note. A maker of a note which has been executed on Sunday may also be held liable on the note either to the original payee or a subsequent holder if he ratified it on a secular day by a payment on the note or by any distinct recognition of his obligation.

Note executed by a minor is voidable. A person under 21 years of age is a minor or an "infant" in the eyes of the law, and is allowed, under certain circumstances, to repudiate his obligations. (In a few states the age of majority for females is 18; in others, marriage removes the infancy status.) A note executed by an infant is generally not void, but voidable; that is, the note is valid, but the infant may repudiate it before he becomes of age or within a reasonable time thereafter. Similarly, if an infant indorses a note, he may disaffirm his contract of indorsement within the time indicated. What constitutes a reasonable time depends upon the circumstances of the particular case. If the infant fails to repudiate or disaffirm within a reasonable time after arriving at majority, he is deemed to have affirmed his obligation and is bound thereon. A person, therefore, who takes a note from an infant does so at his peril, for the infant may decline to perform his part of the agreement.

The fact that an infant has signed or indorsed a note does not, however, prevent the holder of the note from transferring it, and no person liable on the note, other than the infant, may set up the infant's incapacity in defense of his own obligation. The Negotiable Instruments Law specifically provides that the indorsement or assignment of a note by an infant passes the property therein, notwithstanding that from want of capacity the infant may incur no liability thereon. This means that while an infant who has indorsed a note may repudiate his contract of indorsement, the indorsee has the right to enforce payment of the note from all parties who executed the instrument prior to the infant indorser, and they cannot plead the incapacity of the minor.

Interest payable on a note. Interest is not payable on the amount of a note prior to its maturity, unless provided for expressly or impliedly, or unless the governing state statute specifies that interest shall be payable. Where a note does provide for the payment

of interest on the principal, without indicating when the interest is to be paid, the interest is not payable until the note matures. If a note is not paid at maturity, interest is generally recoverable on the principal of the note from the due date to the date of payment. In the case of a demand note, interest runs from the date of the note, since a note payable on demand becomes due immediately. The interest is in the nature of damages for a detention of payment; it does not constitute a distinct claim, and if payment of the principal of the note is accepted, an action cannot afterwards be maintained to recover the interest.

Note obtained fraudulently; is the maker liable thereon? Fraud on the part of the payee of a note in the consideration for which the note was given or in procuring the note may be set up as a defense by the maker in an action brought against him by the original payee to recover the amount thereof. Where, however, a note has been transferred to an innocent holder who acquires it for value, without any notice or knowledge of the fraud, the maker cannot always avoid liability on the note even if he can prove the fraud. In some states, the rule is that such an innocent purchaser may hold the maker liable on the note regardless of the nature of the fraud practiced by the payee. In other states, a distinction is made by the courts between two kinds of fraud:

1. Ordinary fraud, such as misrepresentation as to the quality or nature of merchandise for which the note was given.
2. Fraud in inducing the signing of the note: as, for example, where the maker of the note signs the instrument thinking that it is a receipt or an order for goods.

In the first type of fraud, if there is nothing on the face of the instrument to arouse inquiry and no evidence of any suspicious circumstances attending the transfer or any proof tending to establish the fact that the purchaser had knowledge or notice of the fraud on the part of the payee, the innocent purchaser may hold the maker liable. In the second type of fraud, the maker can avoid liability even against the innocent purchaser if he proves that he was not guilty of negligence in signing the instrument. Whether or not the signer of the note was negligent depends upon the circumstances of each case. A person is expected to ascertain what an instrument

contains before he signs it, either by reading it or by having it read to him. If he signs a note without reading it, when he can read and an opportunity to do so is furnished, he cannot set up his own omission as a defense to his liability. An illiterate person is generally required to ask someone other than the party seeking his signature to the instrument to read it before he signs, but in the case of one dealing with an old acquaintance and trusted friend, carelessness might not be imputed if the signer was deceived by relying on the representations of the other party. In any case, in order to avoid liability because of fraud, it must be shown:

1. That a material representation or statement was made intending that the defrauded person act upon it; the test of materiality is whether, without the representation complained of, the note would have been executed.
2. That the representation was false.
3. That the person believed it to be true.
4. That he acted thereon to his damage.

Purchase of a note which has been lost or stolen. Ordinarily, the owner of personal property cannot be divested of his right to the property without his consent, and if the property is lost or stolen no one can acquire good title thereto as against the true owner, not even one who purchases the property in good faith and for value. There is, however, a distinct and universally recognized exception to this rule in the case of negotiable instruments, such as promissory notes, which are payable to bearer or indorsed in blank. To a large extent negotiable instruments take the place of money and in the ordinary course and transaction of business they are treated like money or cash, which passes freely from hand to hand without earmarks. Where a person receives a note before maturity, for a fair consideration, without any reason for suspecting that the title is in any way defective, he acquires a good title to the note; he can hold the note against the true owner, and may recover on it against the maker and other parties even if the note has been stolen from or lost by the former holder. The former holder retains all his original rights only against the thief or finder, or whoever received the paper from them under suspicious circumstances. A person who takes a note is not bound, at his peril, to inquire into the title of the holder, for his right to the instrument is not dependent upon

that of the person from whom the note was obtained. He takes the note free from any imperfections which may attach to it in the hands of the previous holder, provided he is a "holder in due course." A holder in due course is defined in the Negotiable Instruments Law as one who has taken the instrument under the following conditions:

1. That it is complete and regular upon its face.
2. That he became the holder of it before it was overdue, and without notice that it had been previously dishonored, if such was the fact.
3. That he took it in good faith and for value.
4. That, at the time it was negotiated to him, he had no notice of any infirmity in the instrument or defect in the title of the person negotiating it.

Effect of alteration of a note. The Negotiable Instruments Law provides that where a material alteration is made in a note without the assent of all the parties liable thereon, the note is avoided except as against the party who has made or authorized or assented to the alteration and subsequent indorsers; where, however, a note is in the hands of a holder in due course who is not a party to the alteration, he may enforce payment of the note according to its original tenor. A material alteration, as defined by the Negotiable Instruments Law, includes any alteration which:

1. Changes the date.
2. Changes the sum payable, either for principal or interest.
3. Changes the time or place of payment.
4. Changes the number or the relations of the parties.
5. Changes the medium or currency in which payment is to be made.
6. Adds a place of payment where no place of payment is specified.
7. Makes any other change or addition which alters the effect of the instrument in any respect.

Effect of signing a note, leaving blanks to be filled in. Where a person signs his name to a blank paper and delivers it to another person in order that the paper may be converted into a note, the person to whom the paper is delivered is presumed to have authority to fill it in as a note for any amount. Similarly, where a note is

blank in any material particular, the person in possession of the instrument is presumed to have authority to complete it by filling in the blanks. Even if the blanks are filled in contrary to the intent of the signer of the note, it is enforceable against him by a third person who acquires the note in good faith for value, after completion and before maturity, and without notice or knowledge of any defect in the instrument.

Forgery of signature on a note. Where the signature of the maker of a note is forged, he cannot ordinarily be held liable on the note even by one who has purchased the note in good faith and for value, without notice or knowledge of the forgery. The maker may, however, be precluded from avoiding liability although his signature has been forged, where the forgery has been made possible by his negligence.' He may also be prevented from setting up the defense of forgery in a suit brought against him on the note where he has, with full knowledge of the facts affecting his rights, ratified the note after it has been negotiated. The fact that the maker's signature on a note is forged is not available as a defense to the liability of an indorser of the note, for by his signature the indorser impliedly warrants the validity and genuineness of the instrument to all subsequent holders in due course. Nor, if an indorser's signature is forged, may indorsers other than the one whose signature is forged, avoid liability on that account.

Effect of failure to make timely demand for payment of a note. It is not necessary, in order to hold the maker of a note liable thereon, to present a note to him at maturity and to demand payment; his liability attaches automatically upon maturity of the note. To hold an indorser liable, however, the note must be presented for payment to the maker, for the indorser agrees to pay only if the maker has failed to pay after due demand has been made. Due demand means that the note is presented for payment at a proper place on the day it falls due, or in the case of demand note, within a reasonable time after issuance. If the place of payment is specified in the note, the note must be presented at that place. If no place of payment is specified, but the address of the person who is to make payment is given in the note, it should be presented there. If no place of payment is specified and no address is given, the note must be presented at the usual place of business or residence of the maker.

The note must actually be exhibited to the person from whom payment is demanded. Presentment of a note to the maker, sufficient to bind the indorser, cannot be made by a telephone demand upon him at his place of business where the note is payable, although he is notified that the note is in the possession of the communicant and ready for delivery.

To the rule, as indicated above, that timely presentment for payment to the maker is necessary to hold the indorser liable, there are some exceptions. Where a note was made or accepted for the accommodation of the indorser and he has no reason to expect that the instrument will be paid if presented, presentment for payment is not required in order to charge an indorser with liability. Delay in making presentment for payment is also excused when the delay is caused by circumstances beyond the control of the holder and not imputable to his default, misconduct, or negligence. The following circumstances are generally deemed to excuse delay:

1. Inevitable accident or overwhelming calamity.
2. Prevalence of a malignant disease which suspends the ordinary operations of business.
3. The presence of political circumstances amounting to virtual interruption and obstruction of ordinary trade negotiations.
4. Breaking out of war between the country of the maker and that of the holder.
5. Occupation of the country where the parties live, or where the note is payable, by a public enemy, which suspends commercial intercourse.
6. Public and positive interdictions and prohibitions of the state, which obstruct or suspend commerce and intercourse.
7. Utter impracticability of finding the maker or ascertaining his place of residence.

When the cause of delay ceases to operate, presentment must be made with reasonable diligence. Where the holder of a note has died, and no executor or administrator has qualified to present the note for payment, presentment for payment within a reasonable time after appointment and qualification of the executor or administrator is sufficient.

Effect of failure to give timely notice of non-payment of a note.
The general rule is that if an indorser is not given notice of the fact

that a note has been dishonored by non-payment, he is discharged from liability. The reason for this rule is that an indorser has a right to be put into possession of the material facts on which his liability is based, so that he may take the steps necessary for his own protection. Notice of non-payment may be given over the telephone, in personal conversation, or by writing, and may be conveyed in any terms which sufficiently identify the instrument and indicate that it has been dishonored by non-payment. An indorser may waive notice of non-payment orally or in writing, in which case his liability attaches although proper notice of non-payment is not given to him. The waiver need not be direct and positive, but may be implied from usage, understanding between the parties, or from any acts or conduct clearly calculated to mislead the holder and prevent him from treating the note as he otherwise would. To constitute an implied waiver, the acts of the indorser must be such as would warrant the holder in not taking the steps necessary to charge the indorser. As in the case of timely presentment of a note for payment, delay in giving notice of dishonor is excused when the delay is caused by circumstances beyond the control of the holder and not imputable to his default, misconduct, or negligence; but when the cause of delay ceases to operate, notice must be given with reasonable diligence. .

Law Relating to Drafts or Bills of Exchange

What is a draft or bill of exchange? The terms "draft" and "bill of exchange" are used interchangeably. A bill of exchange is an instrument drawn by one person ordering a second person to pay a definite sum of money to a third person on sight or at some definite future time. If payable on sight, the draft is a "sight draft"; if payable at some future time, the draft is a "time draft." The person who draws the bill of exchange is the "drawer"; the person who is to pay the bill is the "drawee" or "acceptor"; the person to whom the money is to be paid is the "payee." A person may, and frequently does, draw a draft to his own order upon another.

Difference between a draft and a check. The Negotiable Instruments Law expressly defines a check as "a bill of exchange drawn on a bank payable on demand." A check is, therefore, included in the term "bill of exchange," but it differs from the ordinary draft or bill of exchange in the following important respects:

1. A check is always drawn on a bank, and it is always payable on demand; a draft may or may not be drawn on a bank, and it is generally made payable a fixed period of time after sight. A bill of exchange, drawn on a bank and payable on demand, is a check.

2. A draft must be presented to the drawee for acceptance; a check need be presented only for payment.

3. Death of the drawer of a bill of exchange does not revoke the drawee's authority to pay the bill, but death of the drawer of a check does revoke the bank's authority to honor the instrument.

4. In the case of a draft, delay by the holder in presenting the draft to the drawee for payment may discharge the drawer; in the case of a check, failure to present promptly for payment discharges the maker of the check only if he has sustained injury by the delay.

Difference between a draft and a note. Whereas a bill of exchange involves three parties—the drawer, the drawee, and the payee—a note, before endorsement, involves only two parties—the maker and the payee. Prior to his acceptance of the draft, the drawee is not liable, whereas the maker of a promissory note is liable and the note may be collected by suit. Upon acceptance, a bill of exchange becomes, in effect, a promissory note; the acceptor or drawee corresponds to the maker and is primarily liable, and the drawer corresponds to the first indorser who is secondarily liable. The Negotiable Instruments Law provides that “where in a bill the drawer and drawee are the same person, or where the drawee is a fictitious person, or a person not having capacity to contract, the holder may treat the instrument, at its option, either as a bill of exchange or a promissory note.”

Necessity of presenting a bill of exchange for acceptance. Acceptance of a bill of exchange is the signification by the drawee of his assent to the order of the drawer. Where a bill of exchange is payable at a certain time or on demand, it is not necessary to present it for acceptance in order to hold the drawer or an indorser liable thereon, although it is customary to do so. Where, however, the bill is made payable a designated length of time after sight, it must be presented for acceptance, for otherwise the maturity date of the bill cannot be ascertained. Under the Negotiable Instruments Law, a drawee is allowed twenty-four hours after presentment in which to

decide whether or not he will accept the bill, but if he does accept, the maturity date is reckoned from the day of presentation.

Necessity of presenting a bill of exchange for payment. Failure to present a bill of exchange to the drawee for payment does not release the acceptor of the bill from liability. But presentment for payment is necessary in order to charge the drawer. Where the bill of exchange is not payable on demand but at a fixed or ascertainable time, it must be presented on the day it falls due. If it is payable on demand, it may be presented within a reasonable time after the last negotiation of the bill. The bill of exchange must be presented for payment at the place specified in the instrument. If not so specified, it must be presented at the address of the person by whom payment is to be made, given in the instrument, or if not so given, then at the usual place of business or residence of such person.

Necessity of protesting an inland bill of exchange, dishonored for non-acceptance or non-payment. An inland bill of exchange is defined by the Negotiable Instruments Law as "a bill which is, or on its face purports to be, both drawn and payable within the state." Any other bill is a foreign bill. Unless the contrary appears on the face of the bill, the holder may treat it as an inland bill. It is important to distinguish between a foreign bill of exchange and an inland bill, for a foreign bill which is dishonored by non-acceptance or non-payment is required to be protested * before the drawer of the bill can be held liable, but an inland bill of exchange need not be so protested. All that is necessary in the case of an inland bill is that notice be given to the drawer of the fact of dishonor. The Negotiable Instruments Law specifically provides that where a foreign bill of exchange, appearing on its face to be such, is dishonored by non-acceptance, it must be duly protested for non-acceptance, and where such a bill which has not previously been dishonored by non-acceptance is dishonored by non-payment, it must be duly protested for non-payment. It further provides that if the bill is not so protested, the drawer and indorsers are discharged, but that protest is unnecessary where the bill does not on its face appear to be a foreign bill.

* "Protest" is the making of a formal certification, generally by a notary, attesting the refusal to accept or pay a bill of exchange.

If a drawee accepts a forged bill of exchange, has he any recourse? It is the duty of the drawee of a bill of exchange to satisfy himself that the signature of the drawer is genuine before he accepts it, for by his acceptance he is deemed to admit the genuineness of the drawer's signature. If he accepts a bill of exchange on which the drawer's signature is forged, he can neither repudiate his acceptance nor recover any money which he has paid to a bona fide holder of the instrument. The drawee of a bill of exchange is not, however, bound to know the signature of the payee, and if he pays a bill of exchange containing a forged indorsement, he may recover the amount from the person to whom payment was made. Similarly, the drawee is not presumed to know whether or not any part of a bill of exchange, other than the drawer's signature, is genuine, and if the bill has been altered, the drawee has a right to recover the amount paid on the bill to an indorser.

4. HOW TO WRITE CREDIT LETTERS

Letters asking customers for credit information. Letters of this type must be written with great tact, especially if they are to be sent by mercantile houses to small concerns that may not be familiar with customary credit procedure, or by retailers to persons who have probably had little business experience. The customer must not be given the impression that the letter is a reflection upon his standing, that his credit is considered doubtful, or that he is being singled out for special investigation. The fact should be made clear that the request for credit references or for a financial statement is merely standard business practice. The tone of the letter should not be negative or formal, but courteous and individual.

New customers. When a letter is received from a new customer requesting credit, or a request is received with an order, or merely an order is received, the letter to the customer requesting credit information will accomplish its purpose if it is constructed as follows:

1. Welcome the customer and thank him for his inquiry or order.
2. Explain or suggest your usual credit procedure or policy.
3. Ask the customer for credit references or for a financial statement. Enclose a printed form for him to fill out and return.
4. Stimulate prompt action by showing the customer that it is to his own interest to supply the necessary information at once, and ex-

press the hope that his inquiry or order is the beginning of a friendly and mutually profitable business relationship.

Old customers. In connection with a periodic revision of the credit files, it may be necessary to write to old customers for an up-to-date financial statement. The following is a practical outline for a letter of this type:

1. Thank the customer for his past business.
2. State that you are revising your credit files and are asking all your customers to supply you with a new financial statement. Make it clear that this request is being made of all your customers.
3. Ask the customer to provide you with the necessary information. Enclose a printed form for him to fill out and return.
4. Assure the customer of your willingness to co-operate with him, as in the past.

Sell the idea to the customer in a persuasive, sympathetic letter with constructive ideas presented cheerfully and considerately.

Reply to customer who refuses credit information. Although most people are familiar with the necessity for giving credit information, a customer occasionally refuses to complete the form sent him. Following is a practical outline for a letter of reply covering this situation.

1. Thank the customer for his letter and for the opportunity it gives you to explain your credit policy. Express regret that your previous letter has given rise to misunderstanding.
2. Explain that request for credit information is merely standard business practice; that no reflection is intended; that the information is treated as strictly confidential; and that you yourself give information concerning your own financial standing to the houses from whom you buy.
3. Assure the customer that his business will be appreciated, and that you will be glad to co-operate with him in every way, and renew your request that he fill out and return the printed form.

Example of letter to customer who refuses to give credit information:

Dear Mr. Clark:

I am glad of the opportunity that your letter of June 6 gives me to explain our request of June 1. I am very sorry that you feel that our ask-

ing you to fill out a property statement casts reflection upon your credit standing. No reflection whatsoever was intended.

Our request was merely in line with our usual credit policy. It is a practice with us, as with most established business houses, to ask each new customer to fill out and return a form identical with the one sent you. That we intended no reflection upon you is indicated by the fact that we follow this procedure in opening all new accounts.

We feel that we and our customers are partners in business, and that without a friendly and frank exchange of credit information there cannot be complete co-operation between us. Furthermore, we would always much rather place our confidence in your own statement than in any reports we might obtain from other sources.

We ourselves are glad to supply our creditors with such information about our own standing as we requested from you, because we know that without their co-operation we could not do business on our present scale. We therefore feel that our creditors are entitled to know our financial condition.

Credit is very largely a matter of mutual confidence. We, as the seller, show our confidence in you by accepting your credit. You, as the buyer, show your confidence in us by your willingness to indicate a few essential facts regarding your business.

We hope that you will co-operate with us by supplying the information requested. We assure you that it is intended solely for our files, and that we regard it as strictly confidential. We shall greatly appreciate your business and shall do everything in our power to make our relationship pleasant and profitable to you.

Very truly yours,

Letters of inquiry to customer's credit references. Letters requesting credit information from references supplied by the customer may be brief and concise and should offer to reciprocate when occasion arises. If definite information is desired, ask specific questions or enclose a printed form to be filled out and returned. Letters of this type are usually form letters.

Example of letter to credit references requesting information:

Gentlemen:

The person or firm named below wishes to open an account with us, and has given your name as a credit reference.

Mr. James S. Wilson

.....
256 Maple Avenue
.....
Newark, N. J.
.....

Any information you may furnish us will be treated as strictly confidential.

We shall appreciate an early reply, and assure you of our willingness to reciprocate at any time. A stamped, addressed envelope is enclosed for your convenience.

Very truly yours,

Letters granting credit. A letter granting credit should state clearly the terms of payment, so that there may be no subsequent misunderstanding. It need not, however, be written merely in formal or routine style; it represents an opportunity to capitalize on the customer's interest in the firm and its products. Hence a good letter of this type shows appreciation of the account and ties the customer to the house by creating goodwill and emphasizing service.

Example of letter granting credit:

Dear Mr. Whittemore:

We are very glad to extend to you, in accordance with your request of March 12, our most favorable credit terms, 2/10 net 30.

The information which we have received concerning you is so completely favorable to you personally and as a businessman that we appreciate your choosing us to supply you with merchandise. Your order is going forward today.

We want you to feel that the quality, delivery, and prices which brought us this first order are also to be found in all the other electrical supplies we carry, such as electrical devices manufactured by the Westinghouse Electric & Manufacturing Company and other substantial organizations.

And as our acquaintance ripens, and you become more familiar with our stock, the feeling will grow that for anything and everything electrical, you can depend on Hyland as a sure and constant source of supply.

Please be assured of our appreciation for this initial order. We shall strive to do everything possible to cause it to be but the first of many.

Very truly yours,

Letter to husband of credit applicant. If the applicant for credit is a married woman, in addition to sending a letter to her similar to that described in the preceding paragraphs, one is also sent to the husband. While the purpose of such a letter obviously is to inform the husband that an account has been opened for his wife, the letter is given a sales slant. In the following example, the men's store is introduced to the husband. The letter takes the form of an engraved four-page announcement measuring $5\frac{1}{2} \times 7$ inches. The company seal takes the place of a letterhead. On the third page is a state-

ment of terms. On the last page is a statement of the ideals of the store and a list of addresses at which stores are located.

It is a pleasure to inform you that, as requested by your wife, a charge account has been opened for your joint use.

You will enjoy shopping for your personal needs in stores for men, where we hope to have the privilege of serving you often.

Letters refusing credit. A letter refusing credit should be courteous and constructive. It should convince the applicant that the refusal is made with his best interests in mind and that some other form of purchase at present is to his advantage. Such a letter may be constructed as follows:

1. Cheerfully thank the applicant for providing you with credit information.

2. Analyze the applicant's financial condition. Begin with the more favorable aspects and pass tactfully to the less favorable. Explain frankly, but sympathetically, the reasons for your decision not to grant credit. Do not be vague or apologetic.

3. Suggest a definite and practical means by which he can improve his credit standing in order to place himself in a position to receive credit. The suggestion may be that he try to secure additional capital, that he reduce his inventory by disposing of out-of-date merchandise, that he expand the scope of his business only with caution, and the like. Offer the firm's co-operation.

4. Try to get the customer's business on a cash basis. Retain goodwill by appealing to his sense of sound business policy and thus leave the way open for business relations in the future.

Example of letter refusing credit:

Dear Mr. Benson:

Thank you very much for your business statement of March 1 and also for the references.

We sincerely appreciate this evidence of your interest in our goods. All the references you gave us spoke very highly of you, both personally and as a businessman.

We regret, however, that we feel we are unable—for the present at least—to grant the credit accommodation you ask. From a study of your assets and liabilities it appears to us that you are, frankly, somewhat undercapitalized. In our opinion, however, it is only a matter of time until you will be able to remedy this situation. With your personal ability

and a favorable location for a hardware store in Westport, there is every indication that your future prospects are excellent. As a constructive suggestion we would advise that you secure \$2,500 additional capital if it is at all possible for you to do so.

In the meantime, we recommend that you cut your order to us by one-half and that you advise us to ship to you on a cash basis. You will receive a 2% discount for cash, and the balance of your order can be forwarded at a moment's notice if you find that you need it. By cutting your order in half you will lessen the risk of having your shelves overstocked.

As soon as it appears that accepting your credit will not jeopardize your prospects, we shall be glad to co-operate with you by selling to you on open account. For the present we offer you our most favorable cash terms and assure you of our desire to be of service.

We hope that the arrangement suggested will appeal to you as temporarily the most satisfactory from your own standpoint. We are ready to make immediate shipment if you will give us a favorable reply.

Sincerely yours,

Letter referring unacceptable accounts to the Credit Bureau. Frequently the credit man does not wish to undertake an analysis and constructive criticism of the applicant's credit position when his credit cannot be accepted, and prefers instead to refer him to the credit bureau. This is particularly true of retail stores. Should this be the case, the following letter may be used:

Dear Mrs. Smith:

We acknowledge with thanks your application for a charge account, but regret our inability to accommodate you at this time.

The Credit Bureau of Chicago, which is the Clearing House for credit information on individuals purchasing in Chicago, has been unable, from the material on hand, to furnish us with sufficient data to warrant our approval of your application.

May we suggest that you call personally at the office of the Bureau and supply such additional data as may be required to complete its records. The Bureau will then report to us.

Very truly yours,
Director of Accounts

Letters to insistent customers who are not desirable. Instances occur where the credit department does not want the account of a certain customer who has insisted upon credit. The following letter may be used. Notice that it makes no mention of patronizing the store on a cash basis, the reason being that the credit manager felt it would be presumptuous to ask for cash under the circumstances.

Dear Mrs. Doe:

We appreciate your interest in opening a charge account with (name of store), but regret our inability to complete arrangements for you at this time.

It is hoped that there may be other ways in which we can be of service.

Yours very truly,
Director of Accounts

Letter where credit is refused and merchandise is delivered. If a customer was permitted to take goods with her at the time the application for credit was made, or if the merchandise was delivered immediately, and investigation shows the account to be undesirable, a letter such as the following may be used:

Dear Mrs. Henry:

We appreciate your interest in opening a charge account with (name of store), but regret our inability to complete arrangements for you at this time.

However, as an accommodation, we delivered and charged the merchandise which you selected at the time of making the application. You will receive a bill on the first of the month which will be payable in full by the tenth.

It is hoped that there may be other ways in which we may be of service to you.

Yours very truly,
Director of Accounts

Letter suspending charge privilege before credit period expires. Frequently the credit department finds it necessary to suspend temporarily the charge privilege before the time for payment expires, because the credit limit has been exceeded. In such a case, the following letter may be used:

Dear Mrs. Smith:

All stores doing a credit business place a limit on each account up to which they will accept charges without question as long as the account is paid promptly. This is done to provide control on the amounts owed by customers.

KIRKMAN'S customers establish their own limits in the sense that the amount of each customer's average monthly payments is considered the limit on that account. We are writing you now because, in approving your recent charge, we noticed that your account exceeds your charge limit, which has been determined according to our established methods.

For this reason we should appreciate your calling at the Credit Depart-

ment before making any further charges. I am sure that satisfactory arrangements can be made at that time. If we have made an error in your charge limit, we shall be glad to discuss the matter with you when you are next in the store.

Thank you for your co-operation, Mrs. Smith.

Very truly yours,

Letters of reply to credit inquiries. In replying to credit inquiries, the credit man should satisfy himself that the inquirer will treat the information confidentially and that the information offered violates no confidence. The reply should be frank and specific and as helpful to the inquirer as possible. Replies are often so worded that no express or implied responsibility is assumed by the writer.

Because of the law of libel, caution must be exercised where the reply is unfavorable. Many firms omit any mention of the subject's name and address and make their statements as general as possible when sending derogatory information.

A standard form for reporting on ledger experience has been prepared by the National Association of Credit Men.

5. HOW TO WRITE COLLECTION LETTERS

Acknowledgment is made to John Whyte and F. R. Otte for permission to reproduce letters from "Letters That Collect" (New York: Prentice-Hall, Inc.)

Two essentials of the effective collection letter. The effective collection letter is one that is written with two purposes in mind:

1. Getting the money.
2. Keeping the customer's goodwill and business.

To accomplish the first purpose without regard to the second is relatively easy, but to accomplish both purposes requires a high degree of skill. The letters reproduced in this section have been selected, on the basis of proved effectiveness, from actual collection correspondence; they represent a cross section of the work of trained and experienced collection men.

Classification of delinquent debtors. From the standpoint of collections, debtors may be classified somewhat as follows:

1. Customers who overlook accounts simply because of negligence or poor business methods.

2. Customers who disregard due dates because of the smallness of the account.

3. Customers who could pay promptly but disregard due dates because they think it is more profitable for them to use the creditor's money than the bank's.

4. Customers who take unearned discounts because they expect to "get away with it," and because it is profitable for them to take these discounts.

5. Customers who are temporarily slow, but who usually pay on time. They pay on time when the due dates of the creditor's bills coincide with the seasonal high points in their own business, and they make the creditor wait when these periods do not coincide.

6. Customers who are chronically slow.

7. Customers who are temporarily slow because of local trade conditions.

8. Customers who are verging on insolvency or who are actually insolvent.

9. Customers who are crooked or deliberately fraudulent.

Placing the customer in one of the above classes, on the basis of information obtained from the ledger, from the salesman, and possibly from interchange reports or trade-group discussions, simplifies the collection problem and indicates the type of treatment that will be likely to prove most effective.

Fundamental principles for writing collection letters. The fundamental principles that apply to writing any effective business letter apply to collection letters. In addition, observe these three important principles:

1. Be specific—do not hesitate to ask for a check.

2. Use dated action—tell the debtor that the creditor expects certain action by a given date, not "in the near future."

3. Avoid the *divided urge*—concentrate upon one action and do not suggest an alternative.

Here is an extract from a letter that illustrates these principles:

So that you may begin to get your account with us in better shape we must ask for a payment of not less than \$100. Please mail this payment to arrive at our office within five days, which means by Saturday.

Suggestions for writing collection letters. The following suggestions may be used as a guide in writing collection letters:

1. Be cheerful, optimistic, and constructive in considering the debtor's predicament.

2. Visualize and individualize the debtor, know his kind of delinquency, his business, its location and its condition. Consult the credit files, salesmen, and, if necessary, the debtor himself.

3. Adopt the "you" attitude. This does not mean that the personal pronoun need be used constantly, but that behind every word there lies sympathetic consideration of the individual case.

4. Beware of brevity. A too-short collection letter becomes curt and gives the impression of dunning.

5. When writing to women, avoid the colloquial, breezy style that might be suitable for other debtors.

6. The tone of the strong collection letter should be, wherever possible, one of fairness and goodwill. There should be no hint of exasperation. There are times, however, when a forceful letter becomes necessary. Before writing one, it is well to obtain legal advice, for certain threats are punishable by law. An uncounseled letter might easily do more harm than good. Many credit men wait until the next day after a forceful letter is written before mailing it.

7. Fix a definite schedule for writing collection letters, preferably in the morning. Correspondents are not interrupted by rush requests for information, and the afternoon is left free for other credit work. Furthermore, letters can be in the mail by the end of the day, which minimizes discrepancies between status of account when the letter is written and when it is mailed.

8. Omit, whenever possible, such words as "enforce," "insist," "demand," "compel," "handle," "impossible," "unable," and "annoyed." These are negative words that serve only to irritate the customer.

Stages in collection procedure. Although the circumstances of each individual case necessarily modify the collection procedure, collection correspondence is largely based on the cumulative effect of repetition and variety of appeal. The typical unpaid account passes through the following stages of collection correspondence:

1. Reminder.

2. Inquiry.

3. Appeal.

4. Demand.

In this section letters are presented in the following groups: (1) reminders; (2) letters for the early stages of collection; (3) letters for the middle stages of collection; and (4) letters for the late stages of collection.

Collection Reminders

Forms of reminder. In the first stage it may be assumed that the customer's failure to pay is due to forgetfulness or carelessness. It is therefore necessary to bring the status of the account to the customer's attention. For this purpose a mild and inoffensive reminder may be used; this reminder may take one of a number of forms.

1. *Duplicate bill or statement and reminder phrase.* A reminder may consist of duplicate bill or statement, on which is prominently typewritten or rubber-stamped a phrase such as:

Past due.

Please remit.

Account past due. Please remit.

Please!

A prompt remittance will be appreciated.

Please mail us a check.

May we have check, please?

Blank days past due. Please remit promptly.

Please give this your attention.

2. *Stickers.* More forceful than a typewritten or rubber-stamped phrase is a sticker attached to a duplicate bill or statement. Examples of stickers are reproduced in Figure 81.

3. *Printed cards.* A reminder may consist of a printed card, without salutation or signature, on which details as to the standing of the account are filled in. These cards are often preferable to letters for the first reminder since they are impersonal and customers realize that all other delinquents are receiving them under the same circumstances. They should be courteously worded to show fairness, to recall the agreed credit terms, and to impress customers with their impersonal and impartial nature. If the charge privilege is to be temporarily suspended, the card should warn the customer without giving offense.

Brief reminders that may be used on such a card are the following:

We respectfully request your immediate attention to the past-due account.

Just another friendly reminder of our terms which are ordinarily—monthly in full.

You have perhaps allowed this account to escape your notice. Please give it your attention.

This statement is sent to you for comparison and as a reminder of mutual understanding as to terms.

Another type of printed card for collection reminder is a simple notice enclosed with the statement. This eliminates any extra addressing and mailing expenses and ties it in immediately with the unpaid account. A different color may be used for each card to prevent sending of the wrong notice. Notices may be printed on lightweight paper, safety bond paper, or card stock of about 3 x 5 inches. The seal of a credit organization occasionally embellishes these cards.

4. *Combination statement and reminder message.* The reminder correspondence for the first stage of a series of collection letters may be combined with a statement, as illustrated in Figure 82, or may be a brief form letter as illustrated below:

Gentlemen:

If you have not already done so, won't you mail us a check to cover your due account, \$256.34?

We shall be grateful for prompt attention.

Very truly yours,

The Denoyer-Geppert Company, Chicago, through whose courtesy the illustration on page 1047 is reproduced, has used a series of four combination statements and letters. A different color is used for each unit of the series. The statement-letters are folded and enclosed in window envelopes; it is thus necessary to type the customer's name only once—for letter, statement, and envelope.

5. *Age analysis and reminder.* A statement analyzing the overdue balance according to actual monthly purchases has proved an effective way to begin the collection drive against overdue accounts. To many customers, particularly women, a statement sent, for example, in November showing an August balance is more startling than one showing a balance 90 days old. The statement illustrated in Figure 83 is sent 45 days after the bill and is interchanged with card reminders twice a month until the account reaches a six months classification. At that time a series of letters stressing the urgency of payment is started.

6. *Envelope message.* A collection envelope has been used suc-

MONTHLY STATEMENT OF ACCOUNT

Telephone Longbeach 9209 Chicago, May 1, 19—

DENOYER-GEPPERT COMPANY
Scientific School Map Makers
 5235-5257 RAVENSWOOD AVENUE

Mr. William Billings, Director
Cottonwood School District
Danville, Illinois

FOURTH STATEMENT To examine 3-statement break seal.

Date	Items	Debit	Credit	Balance
1/10/—		21 65		

Dear Customer:

Have you received our several statement-letters calling attention to your past-due account? The exact standing is shown on the attached statement.

When customers do not pay with their usual promptness we often find it is because something has happened to the bill or because no money is available.

If your need has been for duplicate enclosed will be helpful or money problems, will you please advise.

Do you have any matters in some way by the side.

Figure 82. A Combination Statement and Letter.

cessfully, especially by firms in the clothing industry. The name and address of the creditor is printed on the envelope, making it ready for mailing.

Another variation of the use of an envelope to hasten collections in the reminder stage is the combination of envelope with collection

message. A reply envelope is enclosed with each bill. Printed on the outside of the flap is the statement "Our Story Is Inside." This refers to the customer's story (enclosed check) as well as the company's story printed on the underneath side of the flap, which reads:

PLEASE RETURN THIS STUB WITH YOUR REMITTANCE		STATEMENT JOSKE BROS. CO. SAN ANTONIO, TEXAS	
		M. _____ _____ _____	
JANUARY FEBRUARY MARCH APRIL MAY JUNE JULY AUGUST SEPTEMBER OCTOBER NOVEMBER DECEMBER TOTAL	BALANCE OF MONTHLY PURCHASES DUE ACCORDING TO SCHEDULE ON LEFT MARGIN ACCOUNTS ARE PAYABLE IN FULL ON 10TH OF MONTH FOLLOWING DATE OF PURCHASE		

Figure 83. Reminder Statement for Overdue Accounts.

OUR INSIDE STORY

One of our ideas about being in business is to be as helpful as we can to our customers. We even help them pay their bills by sending them handy return envelopes like this one.

Won't you slip your check into this envelope to balance your account and help us with our collections? Thank you.

When the flap is opened, there appears a reminder printed on the body of the envelope, which is covered when the flap is sealed. The reminder reads:

MEMO STATEMENT
of Your Account
Balance Due \$
THANK YOU

7. *Oversight letter.* Should the collection department desire to use the "oversight" approach for its reminder letter, the following letter may serve as a guide:

Dear Mr. Kirkman:

Your account with us shows a balance of \$, which is now past due. This is possibly an oversight. We therefore call it to your attention now.

You may overlook this matter again if you put this letter aside, so why not attach a check to it right now and return it in the enclosed envelope.

Very truly yours,

Letters for the Early Stages of Collection

Second stage: Letters of inquiry. In the second stage of the collection series, assuming that one or two reminders have not brought a response, the creditor should make a direct inquiry as to why the bill has not been paid. Is there a legitimate reason for the delay? Or is the debtor just stalling off as long as he can? If the creditor has no traveling representative in the territory, he will have to write and ask the cause. Does it lie with the creditor's goods or services? Are the debtor's collections slow? Are local conditions strained? If the debtor replies with an explanation, the creditor should offer every assistance to help him through his difficulties.

Examples of letters in the second stage. Following are examples of letters that can be used in the second stage in the collection series:

Dear Sir:

It's rather a novelty to have occasion to write you concerning your account for any purpose other than to thank you for a check, for an account such as yours is a boon to a business house.

However, it would appear, unless our records are wrong, that your June

account, amounting to \$78.50, has not met your customary prompt payment.

Have we made any mistake, or are there any special circumstances that have held up payment of this account?

Very truly yours,

* * *

Gentlemen:

You are one of our new customers, and this is our first credit relation with you. Our three statements and our letter of March 3 have as yet been unanswered. This would indicate that something is wrong.

Did we not come to a satisfactory credit understanding?

Have we made some mistake in the charge?

How do you wish us to handle your account?

By all means be frank in telling us if any mistake has been made, for you will find us more than willing to correct it.

Very truly yours,

* * *

Gentlemen:

Is there something wrong with the merchandise covered by the above sum? Do you question the correctness of the charge?

If so, you have only to tell us about it—on the back of this letter, if you wish—and we shall be glad to go into the matter thoroughly with you.

If everything is satisfactory, but you just haven't got around to sending in your check, surely you will want to forward it to us now.

Very truly yours,

A sharper tone for a second letter. In certain instances, such as for the poor risk, the second letter of a collection series should assume a slightly sharper tone, as illustrated in the following letter:

Gentlemen:

We have no way of knowing, unless you tell us, why we have not received payment of our invoices of (date—amount) and (date—amount).

We know that you must have a good reason, but that neither settles the account nor enlightens us as to why we should carry it any longer. You cannot expect us to let it drift along without some explanation. It will take you only a moment to write us a letter and put the facts before us. We are sure that our attitude is understandable, for we must have some knowledge of the situation in order to know just where we stand in the matter.

Why not write us about it now?

Very truly yours,

Letters for the Middle Stages of Collection

Third stage: Letters of appeal. The third letter of a collection series will depend largely upon the reply to the second. If the debtor responds with an actual grievance, or if circumstances beyond his control make payment impossible, the creditor's reply will take on an appropriate personal character. If there is no reply, however, the debtor is obviously trying to avoid payment and needs more urgent prodding. Send the poor risk either a draft or a very strong letter. Try to induce payment from the medium or good risk by appealing to such motives as pride, duty, justice and fairness, or self-interest.

An appeal to pride addressed to a new customer. The following letter, sent as the third letter in a collection series to a new customer, appeals to his pride in his reputation among his associates.

Dear Sir:

You will remember that, when you placed an order with us last January, you furnished us with some references to whom we wrote for the purpose of establishing an account in your name. We did not know you ourselves, never having done business with you, and depended entirely upon what these other people and you told us; and when they said you would take care of an account promptly, we trusted you without any hesitation.

However, instead of paying our accounts promptly, you have permitted them to remain unpaid, so that, at this time, we find there are owing two January bills of \$24.46 and \$35.28, respectively. We have written you about these bills three times, unsuccessfully. Now, of course, there may be some reason why you haven't been able to take care of them, but it would seem that if this is the case you would write us and not permit us to form an erroneous impression of the manner in which you take care of your obligations.

Won't you please let us have your check for \$59.74 immediately, so that it will not be necessary to mark your account as slow pay?

Yours very truly,

An appeal to pride, addressed to an old customer:

Dear Mr. Hogan:

We regret very much to find that your account is gradually becoming larger and that your purchases during the current month far exceed your payments.

We have always considered your firm one of our banner customers, and we take it for granted that there is some just reason why you are with-

holding payment. If that be the case, won't you let us know? Or, better still, just step into our office and go over the matter with us so that we may adjust it to the satisfaction of both.

We want you to know that we greatly appreciate your account and want you to continue on our books.

This account is now sixty days past due and we know that you do not want that condition to exist.

If it is not convenient for you to come to our office, just call the writer on the telephone, and we may be able to adjust the account.

Very truly yours,

An appeal to co-operation based on mutual interest. A letter that appeals to co-operation based on mutual interest can be used as the third in a series of collection correspondence.

Dear Mr. Fisk:

We are going to make an extra appeal for payment of your account, because we must have your full support if our relations with each other are to be profitable to both of us.

You know that we are interested in your business, and that we are eager to be of assistance to you. But you place us in a difficult position when you do not pay our bills—you discourage by just so much our efforts to be of most service to you.

We still feel that you want to work with us, so we have hesitated to put our request for payment in the form of a demand. Yet we do think that we are not unreasonable in asking for and expecting your check at once.

Very truly yours,

An appeal to the customer's sense of honor. The third letter of a collection correspondence series appealing to the customer's sense of honor is effective if the customer was fully informed of the credit terms when he received credit. Failure to pay at maturity means breaking the contract to which he bound himself by accepting the shipment. For this reason the appeal to honor usually stresses the contractual obligation. It will be effective only insofar as credit men conscientiously educate their customers to realize the sanctity of their credit obligation. The following letter makes this appeal:

Gentlemen:

We are unwilling to assume that businessmen of your standing would intentionally neglect our account or ignore the many letters received from us concerning it.

We expressed our confidence in you when we delivered, on open terms, the goods covered by our April bill of \$43.90, and we are reluctant to think that that confidence was misplaced. We have been glad to serve you in the past, and undoubtedly you will want further credit accommodations in the future. If you are to preserve your standing with us, however, you must see to it that immediate provisions are made for settlement of your account.

We know that there are times when the bills seem to pile up faster than the money to pay them. If you have run across some adverse conditions, please tell us about it. If you are not in a position to remit our entire bill now, please let us have a check for half immediately and a second check for the balance post-dated a week or ten days.

We believe that you want to adjust matters in a friendly way, and we trust that you will accept our invitation to let us hear from you by return mail.

Yours very truly,

An appeal to the customer's sense of fairness. Another effective appeal in a collection letter is one to the customer's sense of fairness. Imply that he has not been treating the firm fairly; the creditor has delivered satisfactory goods and services; and the debtor should in justice pay promptly and satisfactorily.

Gentlemen:

It is necessary for us to call attention to your account for the months of September and October, which is still unpaid. The September account, under the liberal terms that we are extending to you, should have been paid on or before October 20.

When your account became due, it was not paid, and of course it was natural for you to order your supplies elsewhere. For that reason we have not received any of your orders for thirty days.

In all fairness, we want to ask whether you think it is right that the reward for carrying your account during the past thirty days should be the loss of your business for that length of time. If we had insisted on payment, would we not still be able to look upon you as an active customer?

We appeal to you to send us a check immediately to cover your account, thereby re-establishing sound business relations and putting us in a position again to receive your orders. We are sure that we will hear from you by return mail.

Very truly yours,

Unique appeal to fair play. The note of sincerity in this unique "50-50" letter appeals to the customer's sense of fairness.

OUR HALF of this letter:

You will see at a glance that this is a real "50-50" letter, because exactly one-half of it belongs to you.

Being human, we can appreciate what hard work it is—and we mean just that—for most of us to sit down and write a letter. Also, we can understand how easily payment of a small bill can be unintentionally overlooked. With these things in mind, we are sending you a reply as your half to our half of this letter. All you have to do is sign your name and address in the space provided and return it to us.

We feel sure you want to pay the amount past due on your account. Please meet us on a "50-50" basis—just tear off and mail back your half, and you will have a better understanding of our earnest desire to meet you half way.

DO IT NOW!

YOUR HALF of this letter:

Dear Mr. Simmons:

Of course I will meet you half way. You have shown the right spirit—so will I.

I have overlooked forwarding my remittance for the amount due you up to this time.

Please accept the enclosed payment for \$ _____ as an evidence of my good intentions.

Name

Street

City

State

Mat. No.

Course

An appeal to the customer's self-interest. An appeal to the customer's self-interest probably brings better results, on the whole, than any other appeal. Show the customer that it is to his own personal advantage to pay now, and that prompt payment improves his credit standing and enables the firm to sell at lower prices. Call his attention to the periodical reporting of delinquents to credit associations, without actually suggesting blacklisting. The latter not only destroys goodwill but may render the creditor liable to legal punishment.

Gentlemen:

When your account was opened with us, we had every reason to believe that you would pay it when it became due.

In making the usual credit investigation, we found that all those with whom you had done business spoke very highly of you in a personal way, and declared that you would meet your obligations promptly.

It is therefore difficult for us to understand why you have not taken care of our account amounting to \$193.45.

Before investigating further your manner of making payment to others, in which investigation we should, of course, have to state what our ex-

perience has been with you, we want to give you another opportunity to pay your long past-due account with us.

It would not favorably impress those who have recommended you so highly to learn that our experience has not fully justified the unqualified recommendations which they gave to us.

Can we plan—definitely—on hearing from you by return mail?

Very truly yours,

Another appeal to the customer's self-interest:

Dear Mr. Becker:

We are enclosing a statement of your account, which shows a balance due us of \$98.23, and for which remittance in accordance with our terms should have been received on a net basis last month.

Our friends in the trade very frequently call upon us for information as to the financial responsibility and habits of payment of our customers, because they, too, have you on their books, and they like to get the benefit of our experience.

We want to be able to tell these firms that you take care of your obligations on a discount basis, or that you pay when due.

You, on the other hand, have sufficient regard for your credit reputation to verify this by taking care of your obligations promptly.

With this in mind, we feel sure that you will not wish to allow your account to become delinquent, and we, in turn, will be gratified to report "good pay" to inquiries regarding your company. Please give us this opportunity and yourself this advantage by sending your check now.

Very truly yours,

Letters for the Late Stages of Collection

Fourth stage: Letters of demand. If the debtor has not replied to the first three letters sent him, the credit man can assume that he is unduly negligent, irresponsible, or has no intention of paying. Write a fourth letter impressing him with the urgency of the situation and demand payment. Drafts are often used at this stage. If his record is bad, threaten to bring suit or to turn the account over to a collection agency. Even a demand letter can retain customer goodwill by restraint in phrasing and an attitude of fairness, and by showing the debtor that the firm has been patient and considerate. Also, caution should be exercised in threatening to resort to force, for a fifth or sixth letter often brings payment. Many solvent merchants, for instance, feel that they can take their time about paying, since the creditor knows that he will eventually get his money. It is a serious mistake to tell a customer that he is getting his last chance

to pay before the account is turned over to an agency or attorney for collection, and then later to write the customer with the same threat. Good companies of established reputation do not try to frighten the customer with one letter after another that merely talks about legal action.

Demand letters, formal in tone. Following are examples of demand letters, formal in tone, that may be used as the fourth letter in a collection series. Notice how the third illustration, particularly adaptable to retail collections, is firm in demanding payment, but gives the customer the benefit of the doubt.

Dear Sir:

Your neglect of your overdue account—\$56.78, now four months past due—has obliged us to take measures to protect our interests.

We have therefore scheduled the claim to be placed for collection with the Mercantile Collection Agency on April 15 if it is still unpaid at that time.

This notice, however, gives you another chance to settle direct.

We trust that you will take advantage of the extension and thereby avoid mutual unpleasantness and expense.

Yours very truly,

* * *

Gentlemen:

We regret keenly that it is necessary to write again about your account.

Many lenient efforts to make an arrangement convenient for you have failed, and the time has now arrived when we must take determined steps for collection.

Unless we hear from you within ten days regarding suitable arrangements for settlement of your debt, we shall not hesitate to turn your account over to our attorney for collection without further notice to you.

Yours very truly,

* * *

Dear Miss Jones:

Thus far in our efforts to collect your account, we have proceeded on the assumption that you have the will to pay and intend to do so.

We shall not change this attitude unless you force us to do so. Although you have ignored the letters we have sent you during recent weeks, we are still not quite convinced that you do not intend to pay this bill.

It would be to your interest to call on our credit manager while we are still in this frame of mind—say, within the next three days.

Very truly yours,

* * *

Dear Mrs. Thompson:

As all ordinary means used for collecting your delinquent balance of \$. . . out of court have failed to bring the desired results, we are notifying you that unless this balance is paid in full or suitable arrangements are made within seven days, it will be placed with the Adjustment Department of the Chicago Credit Bureau with instructions to bring suit at once.

Yours very truly,

A demand letter, more conciliatory in tone:

Gentlemen:

We hope that our co-operation with you, in allowing exceptional time for the payment of your past-due account, has been of help to you.

We have been very considerate in this matter and had sincerely hoped that you would willingly send us your check before this time.

If you have any reason for withholding payment, you should write us fully and frankly at once. You will find us reasonable and willing to continue our co-operation. However, when an account such as yours runs so long past the due date, and we do not hear from you, there is no alternative left for us but to place your account in the hands of our attorneys for collection.

We dislike being forced to take this action, as it is not consistent with our policies, and as it will cause you expense and inconvenience.

We hope that you will send us your remittance at once and not make this step an actual necessity.

Yours very truly,

Action to be taken if the fourth letter brings no response.

Should the fourth letter still bring no response, many concerns cite success in sending a letter signed by an officer of the company, such as that reproduced below. Send a fifth, sixth, or seventh letter, decreasing the intervals between them by a day. Express confidence in the debtor, yet, at the same time, point out the seriousness of neglecting bills and appeal to the saving that could have been possible through a discount had the bill been paid on time. Courtesy should be the keynote in announcing legal steps.

On the basis of replies to these letters, the creditor will know whether or not, and, if so, when, to turn the account over to an attorney or collection agency. If these letters are sent by registered mail,

especially the one announcing recourse to legal action, or are accompanied by a wire, the effect on the debtor will be heightened.

Letters signed by officials of the company:

Dear Mr. Grant:

I was asked this morning to approve placing your account with our attorneys, but before approving such action, I am writing you this letter.

There is one very important reason why neither you nor I should want this action taken. If we sue you we will get our money, but lawsuits destroy the friendly relationship which we take pride in maintaining with our trade. We value your account and are exceedingly reluctant to take any steps that would interrupt our pleasant business relationship. We wish to keep your goodwill and are confident that you wish to keep ours.

In selling our line of goods, you are setting a high standard of merchandise and, without doubt, you wish to set an equally high standard of business practice. Believing this, we have tried to be fair and certainly have been patient with you. We have now reached the time when your bills must be paid; therefore, unless you show some disposition to protect your credit, I must authorize the placing of your account with our attorneys.

We trust that you will not force us to take this action by further delaying settlement. Help us to avoid drastic action, please, by mailing us your check immediately.

Very truly yours,
President

Writing for part payment before threatening suit. Before writing a fourth or fifth letter in which immediate suit is threatened, it is often good policy to attempt to secure part payment with other payments arranged at specified intervals. This policy has usually been found to bring some sort of reply. Notice in the letter below that the customer has an "out" by which to save face, although there can be little doubt as to what the consequences will be if this letter, too, is ignored.

Gentlemen:

Ninety per cent of the accounts we collect through attorneys are handled that way because customers will not answer our letters.

We are forced to sue because friendly requests bring neither payment nor explanations.

Your account of \$. is long past due. We assume that the amount is correct, for you have never questioned it.

You have disregarded our letters about it; but in spite of that, we really

cannot believe that you do not care. There must be some other reason. Perhaps you cannot pay it all. But don't you think in fairness to yourself, as well as to us, that you should mail us a check for all you can and frankly say how you are situated and what you can do about the rest?

We both want to keep away from the lawyers if possible. So, before sending the account to our attorney, we will wait ten days for your letter and check.

Yours very truly,

Notifying debtor to honor a draft. A letter that may be sent to debtors to whom you are sending a draft follows:

Gentlemen:

You have received a number of reminders from us regarding your past-due account, which is now too old to be continued. We are giving you a final opportunity to make an adjustment without the aid of more drastic measures.

We have therefore drawn upon you today a draft at five days sight, through the State National Bank.

We hope that, upon receipt of this letter, you will promptly arrange to take care of the draft when presented, and thus make unnecessary the unpleasantness and expense that will result if the account is placed out of our hands.

Yours very truly,

Stunt collection letters. Most collection correspondents shy away from stunt letters, since they feel that these have no place in a letter dealing with a serious business matter. Occasionally, however, a stunt will prove the most effective way of collecting an account, especially with dealers. For example, the following rubber band letter did the trick for a company in the women's garment industry. In the spot marked by asterisks was pasted a rubber band. The letter was as follows:

Dear Mr. Jones:

Here is a typical, conventional, normal, common, ordinary, everyday, familiar variety of rubber band.

* * * *

A certain amount of stretching keeps the rubber lively according to rubber manufacturers, but too much stretching will break it.

Credit terms are a lot like that, aren't they? There's a point beyond which they cannot be stretched.

I hope the rubber band will serve as a reminder. You have stretched sufficiently. Send us a check now.

Very truly yours,

A stunt letter with a timely appeal. The Denoyer-Geppert Company, Chicago, used the following stunt letter effectively by having it prepared as a facsimile handwritten document on an irregularly cut sheet of colored paper, somewhat smaller than letterhead size. Part of the company's seal was stamped in the lower left-hand corner. Since the company, which manufactures maps, globes, charts, and models, has a special type of clientele, it was felt that a special type of approach was advisable.

Treaties? ?

If both of us were European diplomats, we probably would regard our contractual obligations as mere scraps of paper. You would then feel free to tell us to forget our account, and we would tell our suppliers of raw materials, and our employees the same thing.

But happily, that isn't the American way. We do pay our debts and our customers do admirably well in paying theirs to us.

Right now WE are faced with a large task, in providing funds to meet Fall purchase bills and repaying our bank for loans during the slack season (summer). Anything that can conveniently be done to hurry remittance on the attached statement will be greatly appreciated and will help in fulfilling our "non-aggression pacts" with bank and suppliers' Credit Departments.

And—apart from the immediate purpose of this letter—may lasting peace come to a troubled World soon.

Done at Chicago, Illinois this first day of September, in the year 19 ,
in the full faith of

Denoyer-Geppert Co.

Collection letter resembling legal document. Realizing that legal-appearing documents are rarely ignored by customers who have long-outstanding debts, a firm multigraphed the following collection letter on a sheet of white paper, stapled it into a blue cover, and folded it to resemble a legal form. The tone of the letter takes the "sting" out of the presentation.

Our Accounting Department does solemnly affirm, maintain, and assert that you owe us \$ since December 1, 19 ..

We hate to get excited about so small an amount. We also dislike the usual "collection letter" that bursts into tears in the first paragraph and yells for the law in the second.

Trouble is, though, that when you and 999 other customers owe us small bills like this, the sum total is something to give our Mr. Kimball

a headache. He was absent from school the day they taught arithmetic, but even he knows that you can't meet payrolls without cash.

Seriously . . . we have tried to be good-humored and patient about your account, but it HAS run for more than six months. Won't you please send it *now—by return mail?* Thank you a lot.

One-word follow-up breaks monotony of series. A series of collection letters, no matter how well-worded or cleverly composed, may become monotonous. The following letter, injected in a series, not only breaks this monotony but usually jolts the reader into attention.

Dear Smith:
Well?

The Ohio Overcoat Co.,
E. M. Flowers, Credits

6. MISCELLANEOUS COLLECTION PROBLEMS HANDLED BY LETTER

Letters on small past-due accounts. The following illustrate the type of letter that has proved most successful in collecting small past-due accounts.

A small-account letter, friendly and courteous:

Dear Mr. Adams:

Each time we write you about that little balance of \$4.64 it costs us, everything included, 35 or 40 cents.

The profit on this item has long since been exhausted.

Won't you save us time, money, and annoyance by writing a check for us now, today, while you think of it?

Very truly yours,

Another friendly small-account letter:

Dear Mr. Benson:

When a man is puzzled over the dozen or so problems that come up in everyday business—buying, selling, advertising, and managing a store—little matters such as the enclosed account readily slip his mind.

They do with me, and I like to be reminded of them, so I feel sure that you will be glad to have this again brought to your attention.

The enclosed stamped, addressed envelope offers a quick, easy way of getting the check back to us.

Very truly yours,

A letter on a small item long past due:

Dear Mr. Breden:

The credit and collection department has called to my attention an old balance on your account, amounting to \$80.20. This balance is an amount left over from purchases made by you more than a year ago.

You have been a mighty good customer of ours and, compared with the business that you have given us, the balance of \$80.20 is insignificant. Still, it takes money, you know, to keep the wheels of progress properly oiled and greased, and in order to do this accounts must be collected. This particular bill that I am writing about happens to be so old that it has an accumulation of dust on it.

You have been good enough to send us several payments on account during the year, but it is now pretty close to the end of the year, and I am therefore going to ask you please to write out a check for the full amount and put it in the enclosed addressed envelope so that we may balance your account when the next mail arrives.

Your personal attention to this will be much appreciated.

Very truly yours,

Letters educating the customer in the use of discounts. Letters such as the following, pointing out to the customer the advantages of taking the cash discount, are often productive of good results.

A lesson on the advantages of discounts:

Gentlemen:

A notably large percentage of our customers discount their bills, a very satisfactory procedure from every point of view—theirs and ours. We are hoping that we shall soon include you among them.

We are wondering whether you appreciate how much discounting your bills amounts to, both financially and as a foundation for credit.

Take your case as an illustration. You have been buying from us, on the average, \$500 worth of goods a month. Two per cent discount would net you a saving of \$10, and for a period of twelve months you would earn \$120 through your policy of paying promptly. This is certainly a nice amount to save on one account alone. If you added the discounts that you could save by paying all your bills promptly, you would find that the figure amounts to a considerable sum.

May we not urge that you give this matter your consideration, and determine from now on to take advantage of every discount offered.

Yours very truly,

Letters on the taking of unearned discounts. The following letter illustrates methods of handling the problem of deduction of unearned discounts.

An unearned-discount letter requesting check for deduction:

Gentlemen:

We acknowledge your check for \$75.25, which is very much appreciated and which we have applied to your account.

With regard to the deduction of 2 per cent cash, we are sorry that we cannot consistently allow it in this instance, as our cash discount terms are 2 per cent 10 days from the date of invoice.

Serving as we do about forty thousand customers, it frequently happens that deductions of this nature are made, and were we to allow them, the aggregate sum involved in the course of a year's business would be large. You will appreciate, also, that it would not be fair for us to allow you the discount in this case when we deny it to other concerns with whom we do business. We feel that it is not fair to the trade, to make special concessions to some that are contrary to our requirements from others.

We are sure that you will agree with us and that you will co-operate with us in the maintenance of our terms. We are enclosing a statement showing a balance of \$10.25, and will very much appreciate receiving your check for this sum.

Very truly yours,

A letter refusing a request for longer terms:

Gentlemen:

The request in your letter of October 4, that cash discount be allowed when payment is made between the 10th and the 15th of the month following shipment, has been made to us from time to time by various customers, some of whom buy in very large quantities. We have invariably felt, however, that we were unable to grant the request, for two reasons:

First: Cash discount is a premium offered for prepayment of an invoice, and if the invoice is not paid within 10 days, the extra profit has not been earned. If we have to wait an average of 30 days, our bills are due net, and we are obliged to disallow the discount privilege.

Second: It would obviously be unfair to our many customers who pay in 10 days to permit others to remit in 30 days, as it would be giving the latter a better price than those who pay more promptly. We do not think you would expect us to discriminate in this way.

We want you to know, however, that we fully appreciate your point of view, as we ourselves, with about twenty factories, find it a difficult task to put our discount bills through for payment in 10 days.

We feel confident that, after considering the foregoing, you will agree that our attitude is the only just one to assume, when all the circumstances are taken into account.

Very truly yours,

Letters on time extensions. A debtor should be granted an extension of time when he advances a good reason, or if it is actually impossible to collect anything on the account at present, although there is hope for future payment. The grant should be made graciously but should indicate that the procedure is an exception. The following letter to a retail customer is illustrative.

Dear Madam:

Thank you for your letter of August 24 explaining why you have not paid your account for June. Whenever our customers are in difficulties, we appreciate their writing to us frankly.

Since yours is an accommodation account, payable in full by the tenth of each month, we usually insist on strict adherence to the terms of credit. However, in view of your explanation, we are glad to grant your request for an extension of time on your account.

We shall, then, expect your check in full payment of your account on September first.

Very truly yours,

Another letter granting an extension of time:

Dear Mr. Johnson:

We have received your letter of May 1, requesting an extension of time on your account.

While we feel, as you no doubt can appreciate, that our usual terms of 90 days are sufficiently long to enable our customers to prepare for and arrange payment of their accounts, we are always glad, in an exceptional case such as yours, to grant reasonable accommodation.

We are, therefore, extending the due date of your account to June 1. Won't you, however, please bear this date definitely in mind, and mail your remittance promptly. We shall be looking for it not later than June 3.

Very truly yours,

A letter refusing an extension of time:

Dear Mr. Laswell:

We have your letter of November 10, containing a check for \$690.00 in payment of our invoice of October 1. Please accept our thanks.

The following items remain open on our records:

October 15	\$460.00
October 31	460.00
	\$920.00

The first of the above bills matures tomorrow, and the other on December 1.

You ask that we grant you an additional 30 days on the account that is now due; from this we assume that you refer to the bill of October 15. We are embarrassed by your request, for, if we decline, we risk being thought unappreciative of the business which you have given us, and, if we agree, we are discriminating against others of our customers whom we require to pay promptly in 30 days.

In our opinion, extensions are in reality loans, and we do not think that we should be called upon to usurp the function of the bank in this particular. In addition, the nature of our business is such that close collections are an absolute necessity, and especially at a time when the cost of raw materials has advanced to such an abnormal degree.

We feel confident that you will understand the spirit in which this letter is written, and will withdraw your request.

Yours very truly,

Selling through collections; letters combining collections and sales. The collection letters reproduced up to this point have had as their chief aim the obtaining of payments that are overdue; these letters are illustrative of the more standard types of collection correspondence. The collection letter, however, may also be regarded as partly a sales letter, or as a form of advertising. Many concerns in various lines of business do so regard it, and when writing to a customer with reference to his account, take advantage of the opportunity that the collection letter offers them to:

1. Request additional orders.
2. Emphasize and advertise to the customer the merits of the merchandise sold, and also to suggest to the customer methods by which sales of the merchandise through his own outlets can be increased.
3. Introduce the customer to new lines of goods being sold by the house.
4. Inform the customer of improved service now available.

Some examples of this type of collection letter follow.

A combination collection and sales letter:

Gentlemen:

We notice that your past-due account amounting to \$65.43 is still open. Won't you please let us have your check by return mail. It is our policy not to ship additional orders while past-due accounts are outstanding, and at this time of the year you will certainly wish to prepare for the big holiday trade.

Our new line is now ready for your inspection and selection. It is exceptionally strong, and includes complete assortments of broadcloths, silk fibres, shadowynes, poplins, imported madras, and numerous novelty cloths.

All of our shirts are cut very full and made with the greatest care and skill.

We will pack any number per dozen or over in individual Christmas gift boxes, at no additional cost to you.

Delivery December 1 to 10.

Mail us your order now, together with your check for \$65.43.

Samples submitted, if desired.

Yours very truly,

Another combination collection and sales letter:

Dear Mr. Miller:

Your account today shows an unpaid balance of \$30.16.

Perhaps you had not noticed its maturity, but now that you recall it, we know that you will act promptly.

Cut silks are coming back strong, and the new patterns and shades are the finest we have had for years. If you can use some with which to brighten up, just indicate your requirements on the enclosed order blank and return it with your check for \$30.16. Both will be appreciated.

Yours very truly,

A collection letter that also advertises a new product:

Gentlemen:

It is not only because we want to see this account paid that we ask you to send a check today, but it is because we want to do more business with you, and we're afraid that the overdue account, amounting to \$36.57, is keeping you away.

The popularity of our new ELECTRA model warrants your stocking this new line. A circular is enclosed. Although introduced only two months ago, the ELECTRA is already demanded in preference to all others. It is advertised in all the leading magazines.

We have not received an order from you for several months, and doubtless you are now in need of some of our line. Just add a number of ELECTRA to your next order, and, at the same time, let us have your check for \$36.57 by return mail.

Thank you.

Yours very truly,

7. HOW TO USE FORM COLLECTION LETTERS

Use of form letters. Opinion differs among credit men as to the value of form letters. Some use them almost exclusively; others use them only in the reminder stage of the collection procedure. Many firms, especially department stores, mail-order, and installment houses, handle so many accounts by mail that form letters are the only practical solution, the expense of individually dictated letters being prohibitive. Similarly, either a small or large concern whose business does not necessitate close personal contact with customers, such as wholesalers or jobbers having many small past-due accounts, can use form letters effectively. Manufacturers, wholesalers, and small retailers with a smaller clientele find individual treatment more effective

Form-paragraph manuals. A number of houses have successfully compromised between the form and the individual letter by creating hundreds of form paragraphs to fit every possible contingency. Each paragraph is given a key number, and each correspondent is provided with a form-paragraph manual. The collection correspondents, by the use of dictating machines, indicate the number of the form paragraphs that are pertinent to the particular case, inserting original material only where special circumstances require it. The records are then transcribed by typists. This system enables a relatively small office staff to handle a heavy volume of collection correspondence and to have each letter individually typed and signed.

Form-letters files and manuals. For effective and easy use, form letters should be numbered and indexed and kept in a form-letter file. When a particular form letter is sent to a debtor, the number of the letter can be marked on the collection or ledger card. This system obviates the necessity for carbon copies of form letters.

In companies where there are many correspondents, a credit and collection correspondence manual has been found a good device for improving the quality of collection letters. Such manuals not only supply the correspondents with form letters and form paragraphs, but they also serve to instruct them in the writing of collection letters that get the money and keep the customer's goodwill. A loose-leaf credit and collection correspondence manual used by the Puget

Sound Power & Light Company, Seattle, Washington, covers the following subjects:

CORRESPONDENCE MATERIAL

Closing sentences or paragraphs	Miscellaneous paragraphs
Letter analyses	Opening sentences or paragraphs
Letterheads and copy sheets	

LETTERS

Appreciation	Merchandise transfer
Auditor's verification	Miscellaneous
Closing bill	Novelty
Deposit	Reminder
Deposit refund	Seriously past due
Discontinuance	Seasonal
Merchandise	Stockholder
Merchandise reclaim	Transfer balance

New letters and other material are added to the manual from time to time by the correspondence committee, which is responsible for the manual. Correspondents are urged to submit copies of outstanding letters to the committee so that they may be considered for inclusion in the manual. Many of the letters may be used verbatim, yet it is not the intention to develop stereotyped or form usage through this medium.

Grouping delinquents to assure applicability of collection procedure. Identical form letters for all delinquents are inadvisable because of the great diversity in the character of the delinquents. Reasonable applicability of form letters can be secured by grouping delinquents and using a special selection of form letters for each group. Delinquents may be grouped according to the following:

1. Causes of delinquency, such as illness, unemployment, dishonesty, negligence, and inability to pay. If groupings are sound and letters are applicable to the group, form letters should be almost as satisfactory as individually written ones.

2. Credit ratings. The groups may be as follows:

- (a) Poor credit risk, or customer whose ability to pay and habits of paying justify a small credit limit and a short time for payment.

Should he neglect to pay on time, the collection procedure is started immediately.

(b) Medium credit risk, or customer whose ability to pay and habits of paying are somewhat better than the poor risk. A longer interval of time is allowed for the operation of the collection system.

(c) Good credit risk, or customer who has large financial responsibility even though he may be somewhat slow in paying. Because of his high credit limit he receives the mildest and most lenient collection treatment consistent with the company's policy.

The collector using the credit-rating system must guard against keeping customers in the original classification after their rating has changed. Continual reclassification is an integral part of this grouping system.

Rules governing use of form letters. The following general rules should be observed for an effective collection series:

1. Letters should be revised at periodic intervals, or different series should be alternated every few months. Variety is highly important if effectiveness is to be maintained.

2. The series should be carefully graduated in tone, from perfunctory reminder to threat.

3. The system should be sufficiently elastic to permit of its being adapted to the type of customer. Thus, the habitually slow risk would receive fewer reminders and reach the threat stage sooner than the good risk. Moreover, the time interval between letters may be shorter for the poor risk. Otherwise, the series should be comparatively automatic and mechanical in regard to the particular type of notice or letter to be sent on the definitive date decided upon when the system is devised.

4. Allow for dictation of individual letters when irregularities occur, or when form letters need adaptation to special classes or cases of delinquents. This is tantamount to so arranging the series that the form letters may be dropped as soon as the debtor has replied.

Multigraph letters are generally inadvisable. No debtor's attitude is improved if he gets the impression that he is not worth a personally dictated letter.

Timing collection correspondence. The first letter of a mercantile collection series can be sent the afternoon of the day on which

he account is due if the check has not arrived. Successive letters can be spaced anywhere from six to ten days apart. Writing when the bill is due is, psychologically speaking, the best time, because the debtor knows the bill is due and is, in most cases, still enjoying the goods. The longer the creditor lets the account run, the harder it is to collect without offense. Following is a suggested schedule of letters for the poor and good risk.

	<i>Poor Risk</i>	<i>Good Risk</i>
January 15	Purchase made	Purchase made
February 1	Statement	Bill
February 15	Formal reminder	Statement
March 1	First letter	First formal reminder
March 10	Second letter	
March 15		Second formal reminder
March 20	Third letter	
April 1	Threat letter	First letter
April 15		Second letter
May 1		Third letter
May 15		Fourth letter
June 1		Threat letter

Eight-letter sequence. The following sequence illustrates a long series.

NO. 1

Gentlemen:

This letter is being mailed to you just as a reminder of your account with us.

Under the terms of sale, invoice of June 9, amounting to \$75.98, is now due for payment.

We shall be pleased to receive your check.

Very truly yours,

NO. 2

Gentlemen:

As you have always been prompt in meeting your obligations, it would appear that our invoice of June 9, carrying terms of 3% 10 days, net 30, to the amount of \$75.98, has either gone astray or been misfiled.

We are attaching a duplicate covering the charge in question, and now that you will remit promptly upon having the matter called to your attention.

Very-truly yours,

NO. 3

Gentlemen:

Has the mailing of a check to cover a past-due item been overlooked by you? We are sorry not to have received a reply to our letter of July 24.

The item referred to covers merchandise invoiced under date of June 9, to the amount of \$75.98.

A reply to this letter in the form of a check will indeed be appreciated.

Very truly yours,

NO. 4

Gentlemen:

Will you please refer to our letter of August 4, in which we brought to your notice an overdue item?

We have received no reply, and our records indicate that you still owe us for shipment of June 9, amounting to \$75.98.

The time allowed for payment, based on the terms of sale, has long since expired, and remittance should now be made.

Please give this matter your prompt attention.

Very truly yours,

NO. 5

Gentlemen:

There have been mailed to you a number of reminders of our invoice of June 9, but to none of our letters have we received a reply.

In view of the length of time your account has been appearing as past due, we must insist that the matter of payment now have your attention without further delay.

We shall look forward to receiving, not later than August 29, your check drawn for \$75.98.

Very truly yours,

NO. 6

Gentlemen:

The credit department has just called to my attention the fact that you have not responded to its letters dated July 24, August 4, 14, and 24, which were in reference to your past-due account.

You, of course, appreciate that when accounts are neither discounted nor paid promptly when due, it has a tendency to impair your credit standing, particularly so when the creditor's experience is reflected in the trade reports that are from time to time compiled by various agencies.

Perhaps you have some good reason for not responding to the letters that the credit department wrote you. An investigation of our files does not, however, disclose any letters from you complaining about the character or quality of our merchandise, or about the service rendered to you.

In view of this we feel justified in asking that you now give our account your immediate attention.

Yours very truly,
Assistant Treasurer

NO. 7

Gentlemen:

If you were a credit manager and letters written by your assistant and then a letter written by yourself were ignored, particularly when an account was long past due, what would you do?

We have several times requested the payment of your account and have yet to receive a reply telling us either why payment has not been made, or when your check may be expected.

Since we do not appear to be receiving the co-operation to which we believe we are entitled, we feel that more drastic measures will have to be taken.

When your orders were received, they were given our very best attention—and we felt confident that you would meet your bills within a reasonable time. Apparently our confidence has been misplaced.

Our files are being advanced to September 10, at which time we shall expect to receive your check. If it is not received, we shall be obliged to take other steps to protect our interests.

Yours very truly,
Assistant Treasurer

NO. 8

Gentlemen:

Since you will neither reply to the various letters that we have written you, nor remit for your past-due account, there is nothing we can do but refer the matter to an attorney in your city. We are instructing him to proceed with the collection of the account in whatever manner may be deemed necessary to protect our interests.

Within the next few days you will receive a communication from the attorney, advising you of the action that he proposes to take.

Yours very truly,
Assistant Treasurer

8. COLLECTION METHODS

Guide for collection procedure. Remembering always that the creditor has a right to his money, the collection department should follow a technique in its collection procedure that takes into account the following advices:

1. Create a collection program that is systematic, persistent, tactful, and human. In follow-up work, let the attitude be one of friendly co-operation and mutual interest.
2. Make the debtor feel that he is paying voluntarily.

3. Take it for granted that the customer is honest until he proves otherwise.

4. Design all material sent out by the collection department to create the impression that: (a) the bill will be collected when due; (b) there is little doubt in the creditor's mind that the debtor is able to pay; (c) should there be any attempt to defer payment against the creditor's will, all force available will be used, not so much for the recovery of the money as to uphold the principles of good business.

5. Do not accept unusual methods of payment unless unforeseen trouble has made full payment utterly impossible.

6. Use force as a last resort and generally avoid conveying threats.

Effect of statutes of limitations in collection of accounts. Executives responsible for the collection of accounts and contractual payments must familiarize themselves with the provisions and applicability of the statute of limitations of the state wherein the company is operating.

A statute of limitations is a statute limiting the period within which legal action may be brought upon a matured debt. A debt is matured when it is due and payable. All 48 states and the District of Columbia have statutes of limitations. Although the applicability of the statutes is very similar in all jurisdictions, the periods set up the statutes vary from state to state and according to the type of instrument used to evidence the debt.

How the statute of limitations operates. When a debt or claim is matured—that is, due and owing, action for the collection of this debt or claim must be brought within the period required by the local statute, or all future legal action to enforce collection will be barred. However, it is possible to interrupt the running of the statute—that is, to lengthen the limited period—by obtaining from the debtor a payment on account or a promise to pay. For example, suppose an account is payable on October 15, 1956. Assuming it to be a New York account, if the claim is unpaid, legal action must be brought before October 15, 1962, or all legal action will thereafter be barred. However, if, some time before the expiration of the statutory period, let us assume July 7, 1958, the debtor makes a payment on account or makes an acknowledgment of the debt with a promise to pay, the statutory period is renewed and begins to run anew from the date

STATUTES OF LIMITATIONS (In Number of Years)

State	Written			Written*		
	Open Accounts	Notes	Con- tracts	Open Accounts	Notes	Con- tracts
Alabama	3	6	10	4	5	5
Arizona	3 See A	6	6	4	6	6
Arkansas	3	5	5	6	6	20
California	4	4	4	6	6	16
Colorado	6	6	6	4	6	6
Connecticut	6	6	17	4	6	6
Delaware	3	6	3	3	3	10
District of Columbia	3	3	12	6	6 See D	6 See D
Florida	3	5	20	6	15	15
Georgia	4	6	20	3	5	5
Idaho	4	5	5	6	6	10
Illinois	5	10	10	6	6	20
Indiana	6	10	20	6	6	20
Iowa	5	10	10	6	6	20
Kansas	3	5	5	6	6	20
Kentucky	5	15	15	6	6	6
Louisiana	3	5	10	2	4	4
Maine	6	6	20	4	6	6
Maryland	3	3	12	6	6 See C	8
Massachusetts	6	6 See B	20	3	5	10
Michigan	6	6	10	3	6	6
Minnesota	6	6	6	5	10	10
Mississippi	3	6	6	6	6	20 See E
Missouri	5	10	5	6	6	10
Montana	5	8	8	8	10	10

NOTES: A. Executed without the state, 4 years.

B. Witnessed notes, 20 years.

C. Witnessed notes, 14 years.

D. Contracts affecting real property, 10 years.

E. Contracts affecting personal property, 10 years.

on which the payment or promise to pay is made. Thus, in our example, the creditor would have until July 7, 1964 to begin legal action.

Alert collection managers, therefore, periodically review old delinquent accounts to check on the time remaining in which action may be brought on any particular claim.

Age analysis. An age analysis of accounts affords a complete picture of the state of collections, helps locate accounts that are becoming habitually slow, and makes possible prompt and appropriate action.

CUSTOMER'S ACCOUNTS RECEIVABLE											
NAME AND ADDRESS			CURRENT	LEDGER BALANCE	ANALYSIS					REMARKS	
					ONE MONTH	TWO MONTHS	THREE MONTHS	FOUR & OVER			

PAST DUE LIST												
DISTRICT	DEPT	DATE										
CUSTOMER	ADDRESS		1	2	3	4	5	6	7	8	9	10

COLLECTION OFFICE _____
 DELINQUENT ACCOUNTS RECEIVABLE

OFFICE _____
 DATE _____ 1964

DUE DATE	CONTRACT NUMBER	NAME OF CUSTOMER	BALANCE OF ACCT.	PAYMENTS PAST DUE					LAST PAYMENT		REMARKS
				1963	1964	1965	1966	1967	1968	DATE		AMOUNT

	BAL	OVER 4 10	JULY	AUG	SEPT	OCT
Name of account Address	44 75		13 36	7 05		26 34 * * ○
Name of account Address	6 35					1 21 * * ○
Name of account Address	14 05					14 05 * * ○

Figure 84. Age Analyses of Overdue Accounts.

Accounts should be aged periodically. A convenient time is when the monthly accounts receivable trial balance is prepared. Figure 84 shows several examples of age-analysis lists of overdue accounts. Where the account is of questionable collectibility, bad-debt action should not be delayed. Otherwise, the account can be subjected to

the regular collection methods used for the particular group in which it appears.

Follow-up from aging records. Accounts should first be analyzed according to those which are current, less than 30 days old, 30 to 60 days, 60 to 90 days, 90 to 120 days, and older. This is done by analyzing each individual account that is in arrears, removing it from its current classification, and placing it under the proper grouping according to the length of time it is past due.

The following procedure is effective for follow-up from aging records:

1. Place age-analysis figures directly on the ledger sheet at the end of the month in a special column at the far right- or left-hand side of the sheet.
2. Have a clerk go through the analyzed ledgers and note on a

NAME OF COMPANY											
										Date	
Name											
Address											
BALANCE								AMOUNT			
Jan.	Feb. ..	Mar.	Apr.								
May	Jun.	Jul.	Aug.								
Sept.	Oct. . . .	Nov.	Dec.								
CALLED											

Figure 85. Memorandum to Collector.

memorandum, as illustrated in Figure 85, each account having a past-due balance.

3. For all accounts 60 days past due, make the memorandum in duplicate, the original for the collector and the duplicate for the collection correspondents. For accounts 30 days delinquent, make only one copy of the memorandum for the correspondents, since the collectors are not called in until later.

4. Mark the word "File" on the ledger sheet when the first letter is written to the customer. This warns the correspondent to consult the file before writing again or taking any other action. Also mark the word "File" on all memoranda made of the account. This warns the collector that correspondence has begun on the account.

Informing customer of age analysis of account. Many collection men think it effective to keep customers informed as to the age analysis of their accounts. For instance, in one company, whenever any part of a customer's balance is past due, the monthly statement, which is prepared in duplicate, shows an age analysis. The original statement is sent to the customer, and the duplicate is retained for use in connection with the collection procedure.

Another company sends its delinquent customers a collection notice on a small card showing the age analysis of the account. The

NAME OF COMPANY					TERMS: Accounts payable in full in 30 days.	
ADDRESS						
.....						
.....						
Your attention is again called to the past-due portion of your account. Prompt payment will be appreciated.						
Over 4 Months Past Due	120 Days Past Due	90 Days Past Due	60 Days Past Due	30 Days Past Due	Current	Total

Figure 86. Notice to Customer Showing Age Analysis of Account.

notice, illustrated in Figure 86, shows immediately what portion of the balance has been past due for over four months, 120 days, 90 days, 60 days, and 30 days, the current balance and total. Notices are sent to all accounts 60 days past due or over. After the company has sent three aging notices, the account is considered ready for the firm's outside collector.

Aging statement sent to salesmen. Some firms follow the practice of breaking down each salesman's accounts according to age of outstanding amounts, in order to make salesmen more credit-collection-minded, and to gain their co-operation. Figure 87 illustrates an aged-account list for salesmen used by a Midwestern milling company.

ACCOUNTS RECEIVABLE							
							Office
Entered by		Rechecked by		Date		19 ..	
DATE	NAME AND ADDRESS	AMOUNT OF INVOICE					Total
		1 to 30 days	30 to 60 days	60 to 90 days	over 90 days		

Figure 87. Aged Account List for Salesmen.

Systems for watching accounts. The customer's ledger sheet or card is the basic source of information as to the status of any account. If there is a small number of active accounts, the overdue accounts are found by checking the customer's ledger once or twice a month, or even once a week. If a firm has a large number of accounts, individual inspection of the accounts in the customer's ledger is not practical. Usually, in such cases, a type of customer ledger is used that facilitates the work of watching for overdue accounts. Two such ledger systems are described below: punched ledger cards and vertical visible ledger cards.

Punched ledger card. A simple type of ledger card that is especially adapted for use in collection work has punched holes in the margins of the card to facilitate sorting out the past-due accounts. Letters and numbers near the hole are keys to various types of information. All the information needed for sorting the cards for collection action is placed on the cards by notching out the appropriate punched holes with an ordinary hand punch. For example, a payment is transcribed to the card by notching out the hole above the sign designating the particular month when payment was made. In the illustrated example, in Figure 88, the information revealed by the notched-out holes reads as follows: "John Doe's account is of the contract type. On the 18th of each month his account is past due. At the moment he has paid the installments for September, October, November, and December. January is due. He is not delinquent, and the payments are monthly."

Sorting the punched cards for collection action is very simple. The clerk merely stacks the cards evenly and then runs a selecting needle that resembles a skewer or ice pick through the hole that designates a certain date. The cards that have notched holes for that date—the accounts that are paid up to date—slide off the selecting needle, while the delinquent accounts remain on the needle and are lifted out of the stack of non-delinquent cards.

Vertical visible ledger cards. Each ledger card, in a vertical visible ledger system, is attached to a slotted holding card that fits into a panel. These panels fit into files or tubs (called trays) adapted in size and capacity to the requirements of the user. The ledger card has the debit entries for the charges and the credit entries for the payments, the same as any customer's ledger. At the top of the card is a visible strip that shows the name and address of the account and a scale of weekly or monthly divisions. A colored celluloid signal can be adjusted over these divisions to show the date of the oldest invoice.* Thus, suppose an account makes a purchase of \$2,000 on July 1. When the entry is made on the ledger card, the signal is set over July. It is not moved from that position until all invoices for the month of July are paid in full. As credits are posted, the

* An alternative procedure is to set the signal at the week or month when payment is due. A glance at the panel of cards shows instantly any signals that have not been advanced to a due date beyond the current month or week.

signal is moved to the right to the position over the month of the last outstanding invoice.

The position of these signals provides an automatic aging of outstanding invoices, calling instant attention to past-due accounts on which collection activity is required. It is possible, under the vertical visible ledger system, to have additional movable markers or signals on the visible top line. Thus, a marker may be used to show what steps have been taken in the collection procedure. Another signal may be used to show that the account needs special watching, or that credit should be stopped.

Collections by telephone. In recent years more and more collection executives are using the telephone to speed up their collection work. It is an economical and time-saving substitute for the collection interview obtained in a personal visit.

The following advantages recommend the use of the telephone for collection purposes: (1) A telephone call is personal and direct; it usually affords ready and direct access to the person whom the collection executive wishes to reach, and it gets his attention. (2) As it is two-way, the telephone call offers an opportunity to discover reasons for nonpayment and to adapt the collection effort to circumstances disclosed in the interview. (3) The telephone call permits discussion, during which arrangements for a satisfactory settlement can be made. (4) The telephone call is flexible; it can be a gentle reminder or a forceful demand, as circumstances dictate. (5) This personal communication with customers presents opportunities to promote understanding and the goodwill of customers whose continuing patronage is desired.

Long-distance calls to speed up overdue payments have been found to be particularly effective because they emphasize the importance and the urgency of the communication.

It is a good idea to keep records of collection calls made and the results obtained just as you keep records of other methods of collection. These will be helpful in recalling conversations, reasons for nonpayment, and so forth, in connection with subsequent calls or letters.

Suggestions as to when the telephone should be used for collections are as follows:

1. Use the telephone only after several form letters have been sent out, except in emergencies.

2. If the present practice is to use statements, reminder notice, and final follow-up by salesmen, try using the telephone after no response has been received to reminder notice. One company that made this trial found that collections improved, and repeat business was easier to secure.

3. If the present practice is to use a series of letters and to turn over to sales agents accounts not responding, try having the sales agents telephone the accounts. Experience has shown that there are fewer delays if the telephone is used, because sales agents may not have time to call on accounts for several weeks.

4. Telephone large accounts before expiration of discount period.

Collections by telegraph. Excellent results are reported from the use of telegrams for collection. A telegram has the advantage of actually reaching the person to whom it is addressed and commanding his immediate attention. It is short, and its urgency is direct. It bears a certain air of finality. A short wire following several letters to the overdue account asking for a reply is usually effective. If it brings no reply, follow it with another longer one threatening legal action, although the sender must exercise caution in regard to threats of legal action.

Another effective method is to dispatch three wires within one day or over a period of two or three days. A debtor will seldom stand up against the irritation and publicity of such a series. Collection men and telegraph companies report that telegrams do the trick from 70 to 90 per cent of the time. Western Union has tested forms of collection telegrams that can be procured at its offices.

Examples of collection telegrams. In framing a collection telegram, care should be taken to avoid threat of bankruptcy or of criminal prosecution. In some states such threats constitute the crime of extortion or attempted extortion and are, furthermore, libelous *per se*. A list of sample collection telegrams follows.

(1) Cannot understand failure to answer recent letters. Please wire collect.

(2) Closing books for audit. Please oblige with remittance today.

(3) When may we expect remittance covering overdue account. Wire collect.

(4) Very important remittance reach us October 3. Ask your co-operation.

(5) Have been very patient. Won't you kindly remit. Urgent.

(6) Must have immediate payment overdue account. Please wire collect.

(7) Please settle overdue account today. Cannot wait longer.

(8) Please assist to continue friendly relationship by mailing check today.

(9) Your promise March 5 not fulfilled. Must have check immediately.

(10) Surprised no reply to frequent letters regarding overdue account now three months in arrears. Extended you credit without hesitation on basis of favorable trade opinions and gave you best service. Please reciprocate by mailing check today. Wire reply collect.

(11) Attention overdue account imperative today. Dislike to take further action.

(12) Make payment noon tomorrow to avoid court action.

Collections by personal call. The personal call by a collector on the debtor has been used advantageously in the following circumstances:

1. When legal processes cannot be used, as in the case of:

(a) Small claims.

(b) State, Federal, or municipal debts.

(c) The honest, but judgment-proof, debtor.

2. For general use by charge-account stores and installment houses for those slow-pay accounts on which mail and telephone have proved unsuccessful.

3. Early in delinquency when the skip risk is believed to be high.

4. For occasional delinquencies where the conditions of risk, size, misunderstanding, or other circumstances demand it.

5. For use in combination with delivery of statements, current or past due, or regular collection of installments.

6. For almost any local account after form letters have been sent out.

This method is, however, expensive. Moreover, many stores prefer to have customers come in to pay their bills, for this means contact with the merchandise. Others object to it because they are afraid of "spoiling" customers.

The outstanding objection to personal collection is the expense entailed. A good collection man should command a good salary and

is expected to collect five times his weekly salary. Few concerns can really afford this. Hence, many stores have adopted the system of remunerating on neither straight-salary nor commission basis, but on a combination of both. Thus, the collector receives a small straight weekly salary and above this a commission based on the age of accounts, a higher commission being paid for the older account. This provides both security and incentive.

Where the firm does not need a full-time collector, the group plan may prove economical. The group collector divides his time among several noncompeting clients. Each client pays him a weekly or monthly fee which, in the aggregate, is enough to hold a really skilled man.

Collections by salesmen. The sales and credit department must determine whether salesmen shall collect overdue accounts. In certain lines of business, as, for example, mercantile houses, the majority of whose customers are small retailers, salesmen can be used effectively as collectors of overdue accounts. These advantages are gained by using salesmen as collectors:

1. The salesman is in a better position to keep the customer within the credit limit.
2. He can obtain prompt action by the credit department in approving orders that might otherwise have to be held until he had corresponded with the customer and secured a check or note.
3. Small businessmen regard it as natural to pay the salesman, since to them he represents the selling house.
4. It is harder for the customer to refuse payment to the salesman than to ignore dunning letters.
5. It saves annoyance to the customer from frequent dunning letters and therefore makes it easier to get repeat orders.

The following plan for having salesmen perform collection work has been used successfully. Each salesman is sent a weekly itemized statement of the past-due accounts on his next week's itinerary, the statement being timed to reach him during the weekend before he makes the calls. (For discussion of aging statement sent to salesmen, see page 1078.) The salesman is provided with report forms and is required either to collect the amount of the bill or to send a report to the district office explaining why the customer is unable to make immediate payment. These reports supply mate-

rial for follow-up letters from the district office. At the end of the month, the results are totalled, and each salesman receives a report showing him the standing of his accounts and his collection-loss record. A prize may be awarded each month to the salesman who leads his district or group in collections.

Aids for the collector. The following ideas have been used successfully to aid in collections by personal collectors:

1. When an account is opened, include a full description of the customer on the ledger card. Give this information to the collector, together with the necessary credit information. The collector can thus "spot" the customer and address him by name. This plan prevents the customer from pretending to be someone else and saying, "Mr. ————— is not at home." It also prevents any mistakes from being made because of similarity in names.

2. Although ordinarily the debtor should be approached in a private place, in the case of the tricky, irresponsible debtor, whose account is not wanted, approach him in public and hand the bill to him in front of others. This can be at his place of employment, at home when he is entertaining, in a store where friends are present, and similar places.

3. If the debtor claims to have just sent a check, ask to see the stub so that it can be traced in the office.

4. If the debtor is always "out" when the collector arrives, leave some evidence of the attempt to collect the bill. For example, slip under the door a printed card bearing a courteous message. Then follow up by telephone. Or, leave the bill with a note penciled thereon that the collector will return again tomorrow.

5. Learn from the debtor's wife his place of business, pay day, and amount to expect, and then await the debtor at his place of business at the right time with the right demand.

6. If the debtor cannot pay the entire amount, secure some payment on account with a promise for the remainder in the future. Make sure to call on the day specified for payment, for the debtor must not secure the impression that the collector is careless or indifferent.

7. If the debtor states that he cannot make a payment, have the collector tell him that the final decision rests with the credit manager. Persuade the debtor to telephone the credit manager to ex-

plain the circumstances and have the debtor telephone in the presence of the collector.

8. Test the debtor's attitude before taking action to repossess the merchandise sold under a conditional sales contract with a "repossession" clause. Approach the delinquent customer with the statement, "You may lose your (object purchased) if you don't make your payment." If the customer shows little concern over the possible loss, or even suggests that the firm repossess the merchandise, proceed immediately to repossess the property, since the customer's attitude reveals that he has little interest in settling the account, or finds it impossible to do so. It might also show that he has little regard for the merchandise and that it may be damaged if left in his possession. On the other hand, if the customer shows that he is anxious to retain possession, he will usually find some means of continuing payments, and in such cases enforcement of the repossession clause may not be advisable.

Placing an account with a collection agency. The chief advantages of placing an account with a collection agency rather than with an attorney are:

1. In many cases the agency is able to effect collection without instituting legal proceedings. This results from the fact that the average debtor realizes that if he fails to make payment when requested to do so by an agency, the entire business community will learn of his delinquency, and his credit will suffer in consequence. The usual procedure is for the agency to write the debtor a series of strong letters, or to send an investigator to his place of business.

2. If legal proceedings are necessary, the agency's wide experience enables it to choose a reputable and conscientious attorney.

3. The agency selects the attorney from a bonded list. The creditor is thus fully protected against malfeasance.

4. The creditor is relieved of the burden of direct correspondence with the attorney and supervision of his activities.

5. The agency can be relied upon to see to it that prompt action is taken and the amount collected promptly remitted.

6. No extra expense is incurred. The agency and the attorney share the fees, which are usually those established by the Commercial Law League of America.

The creditor should thoroughly investigate an agency before utilizing its services, since from time to time various irresponsible agencies have been established. A reputable agency will furnish a bond for the amount of the claim, or for the amount of the creditor's annual collection business, if requested to do so.

Many companies have found the most satisfactory collection agency to be the collection division of a local association of the National Association of Credit Men.

House collection agencies. Many firms have set up their own so-called "house" collection agencies, which are in reality dummy concerns. A name is chosen, stationery printed, and threat letters sent to the debtor. Every effort is made to convey the impression that the agency is independent of the creditor company. While these agencies have proved very successful, some credit men doubt the propriety of the procedure.

Placing an account with an attorney. An account should not be placed with an attorney for collection until all other methods of collection have proved fruitless, and the creditor is prepared to sever business relations with the debtor. Many firms have found the most satisfactory time at which to present an account to an attorney to be sixty days after the maturity date. If allowed to run ninety or one hundred and twenty days, accounts usually become a dead loss. Presentation after sixty days ordinarily results in a fairly sizable recovery. A good collection attorney will acknowledge a claim as soon as he receives it and will proceed immediately to attempt to obtain payment without going to law. If this is impossible, he will advise the creditor as to whether a suit is expedient, basing his advice upon such factors as the provability of the claim and the collectibility of such judgment as may be obtained.

The creditor usually places his claim in the hands of an attorney in his own city, who will in turn forward it to another attorney in the debtor's city. No extra expense is incurred; the forwarding and the local attorney share the fee, the former usually receiving one third and the latter two thirds. The use of a forwarding attorney is especially expedient where the amount of the claim is small, because a local attorney is likely to be more prompt if the claim is transmitted to him by another attorney for whom he acts or expects to

act frequently, than if it is forwarded as a single request from a commercial house.

The local associations of the National Association of Credit Men are privileged to suggest the names of several good attorneys who may represent the creditor firm.

The collection fees charged by attorneys vary in different localities. The usual fees, however, are those recommended by the Commercial Law League of America—namely:

18% on the first \$500.

15% on the next \$500.

10% on the balance.

50% on claims of \$30 or less.

\$15 on claims of \$30 to \$83.33.

Suit fees: The Commercial Law League and the American Bar Association take the position that an attorney is entitled to a reasonable suit fee commensurate with the work that he has done. They recommend a minimum fee of \$7.50. Suit fees are not contingent.

Settlement by note. When a debtor offers to pay his past-due account by note, the creditor should consider several questions before accepting the note in settlement. There are possibly three arguments in favor of the note:

1. A note serves as practically conclusive evidence of the debt and facilitates proof in the event that it subsequently becomes necessary to sue the debtor.

2. The debtor may consider a note a more solemn obligation than the open account. He realizes, for example, that a note may be discounted at a bank and presented to him at maturity by the bank. For this reason he may be more careful in preparing to meet the note than to pay the open account at any fixed date.

3. A note may be more easily transferred and realized upon by the creditor.

As against the above, the following serious objections to the note may be stated:

1. Failure to pay a note at maturity is by no means uncommon, especially among retailers. Frequently the debtor offers to pay only a part of the note on the due date, tendering another note for the balance.

2. Acceptance of a note serves as a bad precedent. As a rule, a

creditor who has accepted several notes will find it very difficult to obtain from the debtor any other form of payment; and, if acceptance of notes becomes the practice in the creditor's collection effort, the debtor is buying regularly on greatly extended terms.

3. The creditor, by accepting a note, waives all right to expect or demand payment until the due date of the note, which usually lengthens rather than shortens the period of deferred payment. In the event that any immediate action, such as the bringing of a lawsuit to enforce payment, were considered desirable, the creditor would have to postpone such action until after the maturity date of the note.

4. It gives rise to the tendency of accepting a note when a little more pressure would bring cash.

In view of these disadvantages, it is in many cases advisable tactfully to decline the debtor's offer of a note, and to suggest to him one of the following as an alternative:

1. Part payments on the open account. This procedure extends the time of payment. By not binding himself to a definite extension, however, the creditor may leave himself free to take whatever action may be necessary in an emergency.

2. Immediate payment of part of the account, and one or more postdated checks for the balance.

3. In place of a note bearing only the debtor's signature, a note bearing the accommodation endorsement of a third party known by the creditor to be financially sound.

4. In place of an ordinary note, an installment note providing for the payment of small amounts from time to time, on condition, however, that the entire amount shall become due and payable in the event of a default in any installment.

Collections by draft. Important considerations in connection with the use of a draft are the following:

1. In most lines of business the practice of sending a draft is looked upon as a somewhat drastic, if not unfriendly, step, likely to antagonize the debtor. The drawing of a draft should therefore be deferred until it appears that letters are productive of no good results. The draft may be regarded as the last step preliminary to the placing of the account with a collection agency or attorney.

2. Presentation of the draft through the debtor's own bank is in

many cases the most effective procedure, because of the psychological effect upon the debtor. It is worth while to note in the ledger the name of each debtor's bank as ascertained from checks.

3. To insure that the bank will give careful attention to the presentation of the draft, it is advisable for the creditor to enclose a small fee of from twenty-five to fifty cents.

4. The debtor should be notified by letter that he is being drawn upon and that he will be expected to honor the draft. See page 1059 for example of letter of notification.

5. The bank should be instructed as to what to do with the draft if the debtor fails to honor it. The creditor may instruct the bank to return the draft to him with a notation of why the debtor will not pay it, or may authorize the bank to hand the draft to a certain attorney in the debtor's city after a specified number of days has elapsed. In the latter case the letter of notification to the debtor should contain a warning of the consequences of failure to honor.

9. DEALINGS WITH EMBARRASSED DEBTORS *

How should a creditor deal with an embarrassed debtor?
When a debtor fails to pay his debt at maturity, the claim against him may be turned over to an attorney and the machinery of the law set in operation against him in an effort to effect collection. While this might appear to be the simplest way of disposing of a troublesome situation, it may in fact prove to be highly ineffective.

When a debtor is insolvent, his assets are virtually a trust fund in which all creditors share alike. In proceeding independently, a creditor may find that, even though he may obtain a judgment against the debtor, other creditors may by appropriate proceedings prevent an unlawful preference. Therefore, in order to obtain the greatest amount for all creditors, some other method of dealing with the embarrassed debtor may be advisable.

To determine what method shall be used requires familiarity with debtor and creditor statutes, state insolvency laws, statutes regulating assignments for the benefit of creditors, and bankruptcy laws.

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Under these statutes and the decisions affecting them, which are sometimes motivated by economic and social expediciencies, an embarrassed debtor's business is subject to different forms of treatment. The statutes should be considered with the idea of invoking the law that best deals with the problem at hand. The services of an attorney are usually indispensable in dealing with embarrassed debtors.

Considerations in dealing with embarrassed debtors. Causes of failure, the relation of the debtor to the creditor, and other practical considerations will enter into the determination of how to deal with the embarrassed debtor.

A debtor's failure may be due to large overhead expense, competition, incompetence, lack of capital, high living expenses, gambling, fraudulent schemes, or other causes. In certain instances the business should be liquidated; in others efforts should be made to reorganize it. Rehabilitation is the hope of both the creditor and the debtor, but conditions may be such that it would be folly to have the debtor continue further in business and incur additional losses. The businessman who cannot realize an annual net profit is better off out of business. The constant reverberations which follow daily failures create a disturbance in the business world that results in tragedies for the honest merchant with limited capital.

Relation of the debtor to the creditor may be important in a creditor's consideration of the method of dealing with an embarrassed debtor. For example, if a debtor is an important outlet for the creditor's merchandise, and the termination of the business would adversely affect the creditor's volume, he would consider an extension agreement in an out-of-court adjustment (see page 1095), provided that he is interested in preserving the business and has confidence in the management. On the other hand, if the debtor's embarrassed condition is due to faulty management, and it is not proposed under any plan submitted to creditors in an out-of-court adjustment to substitute new management, then the creditor should endeavor to make the best composition settlement that is possible (see page 1098). If a composition settlement cannot be effected, then the creditor may well join with other creditors in precipitating the debtor into bankruptcy, provided that the debtor is insolvent and has committed an act of bankruptcy (see page 1102), on the

theory that the first loss in an ill-managed enterprise will ultimately prove the least costly.

In all cases where dishonesty is one of the causes of the debtor's embarrassed position, creditors usually prefer to refuse any settlement, in order that the illegal, dishonest, or fraudulent acts may be investigated in bankruptcy proceedings (see page 1101). While administrative expenses in bankruptcy may result in a creditor receiving a smaller dividend on his claim than would have been realized in a voluntary offer of composition, it is always possible that recoveries may be made by a trustee in bankruptcy against the former management with respect to their acts of dishonesty or fraud. Furthermore, a vigorous course of action against a dishonest debtor acts as a deterrent against other debtors who might otherwise commit similar acts of dishonesty.

Methods of dealing with embarrassed debtors. The following methods of dealing with embarrassed debtors are discussed in this section:

1. Collection of claim by suit.
2. Agreements out of court to give the debtor an extension of time to pay or compromise creditors' claims (see page 1095).
3. Assignment of the debtor's assets for the benefit of creditors (see page 1097).
4. Equity receivership proceedings (see page 1100).
5. Bankruptcy liquidation—voluntary or involuntary (see page 1101).
6. Arrangement proceeding under Chapter XI, Bankruptcy Act (see page 1108).
7. Corporate reorganization under Chapter X, Bankruptcy Act (see page 1109).
8. Voluntary wage-earners' plans under Chapter XIII, Bankruptcy Act (see page 1112).

Collection of Claim by Suit

Suing to collect an account. When an account has proved uncollectible in spite of a methodical collection effort, and legal action seems advisable, a *final date for payment* should be set, and, if the debtor then fails to pay, the account should be placed with a lawyer

with instructions to take immediate action to protect the rights of the creditor.

The various states have enacted laws that provide not only for the maintenance of ordinary suits for the collection of debts but also for "provisional" remedies which may be invoked at the commencement of a suit or while the suit is pending. Without such remedies the creditor might find himself, at the termination of the case, with an uncollectible judgment.

The remedies are: (1) attachment; (2) arrest; (3) receivership; and (4) injunction.

1. *Attachment.* In the legal proceeding of attachment, a levy is made on property of the debtor. The circumstances under which an attachment proceeding is allowed are fixed by the State statute. Following are the principal grounds for obtaining an attachment:

(a) The debtor is a nonresident of the state or is a foreign corporation, and attachment is sought against property in the state.

(b) The debtor has departed from the state with intent to defraud creditors or avoid process.

(c) The debtor keeps himself concealed in the state.

(d) The debtor has removed property or is about to remove property from the state with intent to defraud creditors.

(e) The debtor has secured property from a creditor through fraudulent representations.

A creditor who obtains a writ of attachment is generally required to furnish a bond to cover the costs of the proceeding and to protect the debtor from any injury that may result to him if the attachment is vacated.

2. *Arrest.* An order of arrest may be obtained where the debtor is a nonresident, or where a resident debtor is about to leave the state, if the judgment would be ineffectual as a result of the non-residence or departure.

3. *Receivership.* A receiver may be appointed to take possession of and manage the property which is the subject of the action when it appears that there is danger of fraudulent transfer or removal of the property during the pendency of the action, and if the appointment of a receiver is necessary to preserve the property before final judgment is entered. While Federal equity receivership proceedings are practically obsolete today because of the provisions of Chapter X, dealing with reorganization, and Chapter XI, dealing with ar-

rangements, of the National Bankruptcy Act, explained on pages 1108 *et seq.*, ordinary equity receivership proceedings may be maintained in the several states. This form of action in equity may be instituted by a creditor to set aside transfer fraudulently made by a debtor in violation of state laws. Generally the creditor must first obtain a judgment and secure the appointment of a receiver who institutes the action to obtain the equitable relief.

The statutes of the various states must be consulted in order to avoid objections that may be made by a debtor and his confederates who are seeking to frustrate creditors' rights and remedies by technical obstructive measures.

4. *Injunction.* A temporary injunction is obtainable where the creditor seeks to restrain the continuance or commission of an act that would cause injury to him during the pendency of the action, or where the debtor is doing or threatens to do an act in violation of the creditor's rights respecting the action that would render eventual judgment ineffectual; or where the debtor is about to dispose of his property with intent to defraud the creditor.

Rights after recovery of judgment—execution, supplementary proceedings, and garnishment. If ordinary suit is instituted by service of summons and complaint on the debtor, and the debtor defaults in answering (or if the creditor wins at the trial), judgment is entered, and an *execution* is issued, which authorizes the sheriff or marshal to seize and sell the property at public auction. The amount realized upon the sale is applied to satisfy the judgment.

Should the execution be returned "unsatisfied" by the sheriff or marshal, application should be made to examine the debtor in *supplementary proceedings*. In such proceedings third parties, such as banks, and the like, may also be examined. Here assets belonging to the debtor may be uncovered and a receiver appointed to take charge. Occasionally the examination discloses that the debtor receives an income from wages, salary, earnings, trust funds, profits, or insurance disability payments, in which event an order of garnishment should be procured. To obtain the order, the creditor is usually required to file with the clerk of the court an affidavit indicating the amount due him and stating his belief that certain designated persons have property belonging to the debtor, or that such persons are indebted to the debtor, and that the process of garnish-

ment is necessary to satisfy his claim. The order is served upon the person having possession of the property of the debtor or indebted to him (known as the garnishee), and from the time of service of such writ the garnishment becomes a continuing levy upon the property in an amount generally not exceeding ten per cent thereof, and continues as a levy until the claim is satisfied. The debtor may, in some states, secure a release of the garnished property by giving a bond in the amount prescribed by the statute.

In some states, after a judgment has been rendered against a debtor, and notwithstanding the provisions for garnishment, the courts may order the judgment debtor to pay to the judgment creditor or apply on the judgment, in installments, such portion of his income as the court may deem proper after taking into consideration the needs of the debtor and his family.

Out-of-Court Agreements

What is an out-of-court agreement? The out-of-court form of settlement agreement is an instrument by which a settlement can be arrived at quickly, economically, and with the least disturbance to the debtor's business. Under this type of settlement the debtor may offer a composition (part payment) in full settlement of the account, or the debtor may request an extension of time to pay the account. This method of out-of-court adjustment does not always prove effective because such a settlement agreement requires the approval of *all* creditors. Sometimes ignorant or obstinate creditors refuse to co-operate with the majority, even though the acceptance of the settlement agreement is in the interests of all creditors. Failure to obtain the necessary consents may lead to the use of one of the other methods of administration described in this section.

How to start an out-of-court adjustment. The signs of weakness in a debtor's business are: his checks or notes are returned unpaid or protested; suits are instituted against him; a chattel mortgage is filed; he is selling merchandise below cost; he is gambling.

When any of these conditions appears, the creditor should arrange to confer with his debtor. The creditor should tell the debtor that there are rumors about his condition "on the street"; that it is generally known that suits have been instituted against him. The creditor may indicate his desire to co-operate by giving the debtor the

benefit of constructive suggestions in order to facilitate his rehabilitation. He may ask to see the accountant's last report. If it appears that the debtor cannot continue normally, and if he is apparently honest, the creditor may suggest the calling of a meeting of the debtor's largest creditors. As this procedure often leads to an agreement whereby the debtor may continue in business and creditors may obtain the eventual payment of their accounts, it is advisable to consult an experienced attorney to prepare a valid and binding agreement embodying the terms and conditions.

Adjustments through credit bureaus. If the creditors are unwieldy, it may be advisable to have a credit association of which some of the creditors are members call a meeting of all creditors, at which the debtor's affairs may be discussed.

Credit bureaus have been organized throughout the country not merely to supply credit data and to collect accounts receivable but also to supervise the administration of a debtor's business affairs. These bureaus are generally organized by credit men so as to minimize credit risks. A meeting of creditors of the debtor is usually called at the bureau either at the instance of the debtor or of the creditors. At such meeting the debtor is required to furnish a statement of his financial condition, showing his list of creditors and the amounts respectively due them, as well as an itemized statement of his assets. Creditors frequently require an audit of the debtor's books in order to ascertain whether or not the debtor has been honest or whether his failure has been due to conditions beyond his control. At the same time the debtor generally makes known his offer of settlement. After the creditors' investigation, if there should appear to be a prospect of the debtor's future success, the creditors may accept a reasonable offer for payment of their obligations. Often, where the debtor's offer is insufficient, the bureau will require the debtor to deliver to it an assignment for the benefit of creditors so that the debtor's assets may be under the direct supervision of the bureau or a creditors' committee that may have been appointed. If the debtor has committed fraud, or has made unlawful preferences, bankruptcy proceedings may be in order.

Ordinarily a committee of creditors should be chosen from the general body of creditors, a custodian placed in charge of the assets, an inventory taken, the debtor's books examined by a certified pub-

lic accountant, the accounts receivable aged, and, if practicable, the debtor's checks countersigned by a member of the committee. The results of the investigation should be reported promptly to the creditors. As a general rule, it is good policy to follow the recommendations of the committee.

When creditors cannot agree. As previously indicated, if all the creditors do not agree, some other method of dealing with embarrassed debtors must be undertaken. The making of an assignment for the benefit of creditors, explained fully below, may be the solution. Unfortunately this plan leads to a cumbersome and expensive means of liquidation. Another disadvantage of this procedure is that it seldom leads to rehabilitation.

If some creditors refuse to co-operate, in the proper case a bankruptcy "arrangement" proceeding, explained more fully on page 1108, will have the salutary effect of compelling the acceptance of the terms of the settlement by a recalcitrant minority group. Therefore from the point of view of benefits both to the debtor and the creditors, in cases where difficulty is encountered in obtaining the written consent of all creditors to an out-of-court agreement, the machinery provided by the National Bankruptcy Act, either in an "arrangement" proceeding or a "reorganization" proceeding, may be the most effective means of dealing with embarrassed debtors.

Assignment for Benefit of Creditors

What is an assignment for benefit of creditors? An assignment for the benefit of creditors is a transfer by a debtor of his property to an assignee in trust, to apply the property or the proceeds thereof to the payment of his debts, and to return the surplus, if any, to the debtor. In order to operate as an assignment, there must be an absolute transfer of property without retention of any control by the debtor, and the transfer must be made to an assignee. The transfer is generally effected by the execution of a deed of trust or an assignment for the benefit of creditors by the debtor to the assignee, but no particular form is ordinarily required. The statutes in many states specifically authorize the execution of an assignment for the benefit of creditors under specified conditions; assignments executed pursuant to such statutes are known as "statutory assignments." Where these statutory conditions are not met in the ex-

execution of an assignment, the assignment may in some states operate as a common law assignment.

Statutory provisions governing assignment for benefit of creditors. The statutes regulating assignments for the benefit of creditors vary in the different states. The following matters are those most commonly covered:

1. *Form of assignment.* Some statutes specifically require that the assignment be in writing, signed by assignor and assignee, and duly acknowledged before a notary public.

2. *Property to be included.* The assignment should embrace all of the assignor's property except such as is exempt from execution. If all the property is not assigned, a dissenting creditor may set the transfer aside as fraudulent. Omissions of unimportant property do not generally invalidate the assignment; the property omitted must be of such importance as to show an intention to hinder, delay, or defraud creditors.

3. *Recording.* Many statutes require that the assignment be filed or recorded in the office of a designated public official; in some states failure to file or record makes the assignment invalid.

4. *Filing of inventory.* The assignee is required to file an inventory of the property and a description thereof within a fixed period.

5. *Bond of assignee.* The assignee is required to file a bond to secure the faithful performance of his duties.

6. *Notice to creditors.* Notice of sale and to present claims must be given to creditors either personally by mail or by publication, as prescribed.

7. *Filing of creditors' claims.* Verified claims of creditors must be filed within a designated period with the assignee or his attorney.

Many states have enacted laws forbidding the giving of preferences by insolvent debtors. In any event, if a transfer is made with intent to hinder creditors for the debtor's own advantage, such a conveyance is invalid, and the assignment may be declared fraudulent.

Qualifications and duties of an assignee. The assignee must be a competent person, capable of performing his duties as assignee. Unless the statute provides otherwise, a debtor has a right to choose the assignee without the consent of the creditors, if he does so in

good faith. If creditors are consulted before the assignment is made, it is advisable to suggest the designation of a major creditor to act as the assignee.

It is the duty of an assignee for the benefit of creditors to administer the trust to the best advantage and to protect it for the benefit of the creditors and of the debtor. To this end, he may employ and pay for counsel to advise and assist him in legal matters arising out of the administration of the assigned estate. The assignee may be held liable for failure to exercise good faith in his transactions; failure to use reasonable diligence in the management of the trust; willful misapplication of trust funds; and negligence, want of caution, or misconduct, such as permitting the debtor to retain possession of assigned property. Following are some of the specific duties of an assignee under an assignment for the benefit of creditors:

1. File or record the assignment; give notice of the assignment, requesting creditors of the assignor to present their claims, and requesting debtors to make payments to the assignee.
2. Execute a bond for the faithful performance of his duties.
3. Take possession of the property transferred under the assignment.
4. Collect the debts of the assignor.
5. Sell the property transferred under the assignment at public sale, upon due notice to creditors; also advertise at least once before date of sale.
6. Pay all priority claims including taxes; make distribution to creditors out of the proceeds realized upon the sale of the property, and turn over any surplus remaining after such distribution to the assignor.
7. Keep a full and accurate account of the property received and disposed of, and render an account. Generally the account of the assignee must be approved by the court before the assignee may be discharged.

Personal liability of assignee for obligations created by him. The assignee is personally liable for contracts made by him after assumption of his representative capacity. He is also personally liable for any new debts that he creates in the administration of the assignment. The hiring of an attorney, expenses incurred for labor,

gas, electricity, and the paying of rental of a house—all these are obligations created by the assignee for which he is personally liable. He may, of course, make a claim for reimbursement out of the assets of the assigned estate.

An assignee who receives as an asset of his assignor an unexpired lease has a reasonable time within which to decide whether he will accept the lease and assume the burdens of its covenants on behalf of the estate, or whether he will surrender possession of the premises to the landlord. If he does not accept the lease, but continues in possession, he is personally liable for the value of the use and occupation.

Participation of creditors in assignment. After creditors have shared in the assets available under a general assignment, they may, unless they have received from the the assignee the face amount of their claims with interest, realize on the remainder of the amount due on their claims out of any additional property that the debtor may acquire. The assignment may not provide that acceptance of the proceeds of the assignment shall operate as a release or discharge of the claims, since this is the field of the Federal Bankruptcy law, by which Congress has superseded the local statute on the subject of discharge.

Assignment as an act of bankruptcy. Regardless of whether or not the debtor is insolvent, an assignment for the benefit of creditors is an act of bankruptcy under the Federal bankruptcy laws, if made within four months of the filing of a petition in bankruptcy. An involuntary petition in bankruptcy may not be filed by any creditor who assented in writing to the assignment. If bankruptcy follows, the assignee is required to turn over the property that came into his hands to the trustee in bankruptcy or to account therefor. The assignment need not conform to the technical requirements of the state statutes in order to constitute an act of bankruptcy; it may have been executed in the form of a deed of trust.

Equity Receiverships

Equity receiverships supplanted. Until recently the equity receivership instituted by a creditor's bill was considered the best means of administering insolvent debtors. This form of liquidation, discussed under receivership in connection with provisional

remedies, on page 1093, has been in effect supplanted by the methods of administration provided for under the National Bankruptcy Act.

Ordinary Voluntary or Involuntary Petition in Bankruptcy (Liquidation)

Policy of the bankruptcy law. The policy of the bankruptcy law is to give creditors control of the administration of a debtor's affairs with reasonable safeguards to creditors in the treatment of the assets and to afford creditors notice of all important steps that eventuate in the final distribution of the assets among creditors on an equitable basis.

Kinds of bankruptcy proceedings. The National Bankruptcy Act provides for two kinds of bankruptcy proceedings—voluntary and involuntary.

Any person, partnership, or corporation (except municipal, banking, insurance, and railroad corporations and building and loan associations) may become a voluntary bankrupt on his or its own petition, regardless of the amount owed to creditors.

An involuntary proceeding may be instituted against any natural person (except a farmer or a wage earner) and against any business, commercial, or moneyed corporation (except banking, municipal, railroad, and insurance corporations and building and loan associations), and against any unincorporated company, such as a partnership, owing \$1,000 or more.

What the petition in bankruptcy alleges. The petition in bankruptcy, voluntary or involuntary, must allege that the bankrupt's principal place of business, residence, or domicile was situated within that territorial jurisdiction for the preceding six months, or was situated within that territorial jurisdiction for a longer portion of the preceding six months than in any other jurisdiction.

In an ordinary involuntary petition, where the alleged bankrupt has twelve or more creditors, at least three creditors must sign the petition; where there are less than twelve creditors, one or more creditors must sign. In either event, the aggregate amount of the petitioning creditors' unsecured claims must be \$500 or over.

An involuntary petition must allege that the debtor has committed at least one of the acts of bankruptcy as provided by Section

3 of the National Bankruptcy Act, within four months preceding the filing of the petition.

Acts of bankruptcy. The acts of bankruptcy consist of the alleged bankrupt having:

1. Conveyed, transferred, concealed, or removed any part of his property, with intent to hinder, delay, or defraud his creditors.

2. Transferred, while insolvent, any portion of his property to a creditor, with intent to prefer such creditor over his other creditors.

3. Permitted, while insolvent, any creditor to obtain a lien upon any of his property through legal proceedings, and not having vacated or discharged such lien within thirty days from the date thereof, or at least five days before the date set for any sale of such property.

4. Made a general assignment for the benefit of his creditors.

5. While insolvent or unable to pay his debts as they mature, permitted, voluntarily or involuntarily, the appointment of a receiver or trustee to take charge of his property.

6. Admitted in writing his inability to pay his debts and his willingness to be adjudged a bankrupt.

Petition for appointment of receiver. Following the filing of the petition in bankruptcy in triplicate with the Clerk of the Court, to whom is paid the filing fee of \$45, the next practical step is to prepare and submit the creditors' petition for the appointment of a receiver. Unless the alleged bankrupt's consent or waiver has been obtained, the application for the appointment of a receiver must be accompanied by a petitioning creditors' bond in the sum of \$250 to indemnify the alleged bankrupt for damages in the event that the petition in bankruptcy is dismissed.

The mere filing of the petition in bankruptcy is not a basis for the appointment of a receiver. To justify the appointment of a receiver, the Court must be satisfied that the appointment is necessary to preserve the estate.

Creditor's right to interpose answer to involuntary petition. The right formerly given to a creditor to interpose an answer to an involuntary petition has been taken away in the "ordinary" bankruptcy proceeding. In a corporation reorganization proceeding under Chapter X (see page 1109), a creditor may file an answer.

Adjudication of the bankrupt. If the alleged bankrupt defaults in interposing an answer to the involuntary petition, or if the trial of the issues results in the upholding of the petition, or if debtor files a voluntary petition, the Court will enter an order or decree of adjudication. This means that the alleged bankrupt has been judicially adjudged a bankrupt within the purview of the acts of Congress relating to bankruptcy.

Examination before first meeting. It is not necessary, however, to await the entry of such adjudication in order to enable a creditor, by petition, to examine the bankrupt and others concerning the acts, conduct, and property of the bankrupt. The immediate use of this examination very often forms the basis for the recovery of assets fraudulently or preferentially transferred and the prosecution of dishonest bankrupts and their confederates.

Filing of schedules by the bankrupt. Following the entry of the order of adjudication, and within five days thereafter, the bankrupt must file schedules of his assets and liabilities (also unliquidated and contingent claims), as well as a "Statement of Affairs," on a form prescribed by the United States Supreme Court. (See page 1106.) If a debtor files a voluntary petition in bankruptcy, he should accompany it with similar schedules and a statement.

The bankruptcy statute is intended to give the creditors the control and administration of a bankrupt estate. It should be recognized that, at the outset of the proceeding, the Court may, on proper petition, without ascertaining the views of the general body of creditors, appoint a receiver. But this "temporary" official must eventually give way to the permanent administrator known as the *trustee in bankruptcy*. The latter is nominated and elected by creditors at the first meeting of creditors.

Sales. Ordinarily sales must be on at least ten days' notice to creditors (less for perishable property) and must realize at least 75 per cent of the appraisal, unless specially confirmed.

Election of trustee in bankruptcy. At the first meeting of creditors usually held before the referee in bankruptcy, a majority in number and amount of creditors' claims is required to elect a trustee. Creditors who have filed their proof of debt may elect one or three trustees. Stockholders, directors, and officers of a corporation that

is bankrupt may not participate in the voting for the appointment of a trustee; nor may creditors who are relatives of the bankrupt participate.

In computing the number of votes for any candidate, the Court has a right to exclude from voting all claims of \$50 or less, insofar as number is concerned. However, such claims may be included in the amount. These small claims are excluded to prevent them from creating a deadlock or from controlling an election.

Filing proofs of claims. Creditors are entitled to receive dividends only when they have filed their proofs of claim with the referee. Proofs of claim must be filed within six months after the date set for the first meeting of creditors. The Court cannot grant any additional time. Creditors may elect a creditors' committee of not less than three members at the first meeting of creditors, to consult and advise with the trustee in the administration of the bankrupt's estate.

Assets acquired by the trustee. The trustee acquires title to assets of the bankrupt debtor as of the date of the filing of the petition in bankruptcy, as well as title to property passing to the bankrupt by way of devise, inheritance, or bequest within six months from the date of adjudication.

Section 70a of the Bankruptcy Act enumerates the following classes of the bankrupt's property that pass to the trustee as assets of the bankrupt estate:

1. Documents relating to the bankrupt's property.
2. Patents, copyrights, and trade-marks.
3. Powers that the bankrupt might have exercised for his own benefit.
4. Property transferred by the bankrupt in fraud of creditors.
5. Property, including rights of action, which, prior to the filing of the petition, could by any means have been transferred by him or which might have been levied upon and sold under judicial process against him.
6. Rights of action arising upon contracts or the unlawful taking of or injury to the bankrupt's property.
7. Contingent remainders, executory devises, rights of entry for condition broken, rights of reverter, and like interests in real prop-

erty, which were nonassignable prior to bankruptcy and which, within six months thereafter, become assignable interests or give rise to powers in the bankrupt to acquire assignable interests.

8. Property held by an assignee for the benefit of creditors.

9. Property that vests in the bankrupt within six months after adjudication by bequest, devise, or inheritance.

10. Property in which the bankrupt has at the date of bankruptcy an estate or interest by the entirety, and which within six months after adjudication becomes transferable in whole or in part solely by the bankrupt.

Duties of the trustee. The trustee has the burden of administering a bankrupt estate. He must, by sale, reduce the assets to cash and deposit the funds in a banking institution specially designated by the Court. He is required to examine the bankrupt. He must examine proofs of claim and object to improper ones. He may, without special authorization by creditors, file specifications of objections to the bankrupt's discharge. He must pay dividends to creditors as ordered by the referee. The trustee must file, from time to time, reports showing the condition of the bankruptcy estate. It is his duty to institute appropriate proceedings, suits, and actions against the bankrupt and third parties to "turn over" or account for assets belonging to the estate. The trustee's lot is eased somewhat by the recently enacted law by which, in the absence of the bankrupt's books or records, a presumption now exists that the sales price is the cost price. Of special help to the trustee in recovering assets is Section 67 of the Bankruptcy Act, sometimes referred to as the "Uniform Fraudulent Conveyance Act."

Since the trustee has title to all the assets of the bankrupt estate he represents, he has the power and right to bring any and all such actions as are necessary in order to collect assets which legally belong to the estate, but of which he has not secured possession. Moreover, since he represents all the bankrupt's creditors, he may commence such proceedings as any of the creditors might institute to avoid fraudulent or illegal transactions. Where the trustee fails or refuses to bring such action, the creditors may then petition the court for an order compelling the trustee to bring the suit or apply for his removal.

Referee's duties. The referee in bankruptcy, appointed by the United States judges, presides at the first meeting of creditors and

at adjourned hearings, as well as at the examination of the bankrupt and other witnesses. He also has other duties related to discharge of the bankrupt and arrangement proceedings mentioned at page 1108. Creditors must file their verified proofs of claim in the referee's office (see page 1104).

Examination of the bankrupt. The bankrupt must attend the first meeting of creditors. The statute requires that the referee shall examine the bankrupt publicly. The bankrupt must also attend the hearings on the objections to his discharge and such other hearings as the Court may direct. He may also be required to file in court in duplicate a sworn inventory giving the cost of merchandise or of other property remaining on hand as of the date of bankruptcy.

The "Statement of Affairs" referred to on page 1103, which must be filed by the bankrupt or debtor whether or not he is engaged in business, is in the nature of a questionnaire, wherein the bankrupt furnishes, in effect, a history of his business career within six years preceding the filing of the petition; a statement of his books and records showing by whom they were kept and audited; and also records of his financial statements, inventories, income tax returns, bank accounts, legal proceedings affecting his assets, transfers of property other than in the course of business, losses by fire, theft, or gambling, loans repaid, and so on. This very comprehensive review of the bankrupt's affairs must be filed within five days prior to the holding of the first meeting of creditors and is usually of inestimable help to the Court and examining creditors' counsel.

Discharge of the bankrupt. Where an individual bankrupt, including a partnership and its members, is concerned, his adjudication in bankruptcy acts automatically as a petition for a discharge. The bankrupt corporation, however, is required to file a petition for discharge within six months of the date of adjudication.

The referee is required to mail to creditors a thirty-day notice of the date set for the filing of specifications of objections to a bankrupt's discharge. If no specifications of objections to the discharge are filed, the referee grants the bankrupt's discharge.

Grounds for denial of discharge. The bankrupt will be denied his discharge if he has committed any one of the following acts:

1. An offense punishable by imprisonment as provided by the bankruptcy law.

2. Destroyed, mutilated, falsified, concealed, or failed to keep or preserve books of account or records from which his financial condition and business transactions might be ascertained, unless the Court deems such acts or failure to have been justified.

3. Obtained money or property on credit, or an extension or renewal of credit, by making or publishing or causing to be made or published, in any manner whatever, a materially false statement in writing respecting his financial condition.

4. At any time after the first day of the twelve months immediately preceding the filing of the petition, transferred, removed, destroyed, or concealed or permitted to be removed, destroyed, or concealed any of his property, with intent to hinder, delay, or defraud his creditors.

5. Has, within six years prior to bankruptcy, been granted a discharge, or had a composition or an arrangement by way of composition or a wage earner's plan by way of composition confirmed under the Act.

6. In the course of a proceeding under the Act, refused to obey any lawful order of, or answer any material question approved by, the Court.

7. Failed to explain satisfactorily any losses of assets or deficiency of assets to meet his liabilities.

Investigation of fraud. Creditors may call upon the United States Court through its officers, the referee or trustee, to refer to the United States Attorney the matter of inquiring into the acts, conduct, and property of the bankrupt where it is believed that a criminal offense has been committed in violation of the laws of the United States, such as concealment or fraudulent transfer of assets, using the mails to defraud (for example, mailing a false financial statement), or giving false oaths in bankruptcy proceedings. The United States Attorney will submit the facts to the Federal Grand Jury, which frequently indicts the violators of the law. If necessary in the public interest, the United States Attorney, who now receives notice of hearing on the bankrupt's application for discharge, may file specifications of objections to the bankrupt's discharge.

**Voluntary Arrangement Proceedings Under Chapter XI
of the Bankruptcy Act
(Extension or Modification of Unsecured Debts)**

What is an arrangement? The newly created Chapter XI of the Bankruptcy Act is known by the title "Arrangements." In effect, this chapter supersedes the provisions of the old Bankruptcy Act for compositions and extensions of time for payment of debts.

The word "arrangement" means any *plan* of a debtor for the settlement, satisfaction, or extension of the time of payment of his unsecured debts, upon any terms.

Chapter XI provides only for the treatment of several classes of unsecured creditors and permits the rejection of burdensome executory contracts.

Filing a petition. An arrangement proceeding can be filed only as a voluntary proceeding; that is, only a debtor may file a petition under Chapter XI. It may be instituted by an individual, a partnership, or a corporation (except banking, municipal, railroad and insurance corporations, and building and loan associations), before or after adjudication in a pending bankruptcy proceeding, but the District Court will not stay the old bankruptcy proceeding, except upon terms of indemnity.

The petition for arrangement should be accompanied by the schedules of the debtor's liabilities and assets, including a statement of executory contracts of the debtor. It is imperative that there be attached thereto a "Statement of Affairs" and the debtor's proposed plan of arrangement.

Immediately upon the filing of the arrangement petition, the matter is referred to a referee in bankruptcy, and from that time on the appointed referee exercises complete and original jurisdiction over the matter.

The Court may authorize the debtor to continue and operate the business, but the debtor will be required to indemnify the creditors for any loss resulting from the operation of the business during the time the plan of arrangement is being considered.

Creditors' meeting. The referee calls a meeting of creditors upon at least ten days' notice to consider the plan of arrangement. Such notice to creditors is accompanied by a copy of the plan and a sum-

mary of schedules of liabilities and assets. At this meeting the debtor must be examined. A creditors' committee may be appointed, and a tentative trustee may also be nominated at this meeting, at which creditors should file their proofs of claim.

Confirmation of arrangement. The referee will confirm the arrangement if he is satisfied that it is for the best interests of creditors; that the plan is for the best interests of creditors and feasible; that the debtor has not been guilty of any acts which would have barred his discharge in bankruptcy; that good faith has been shown on the part of the creditors and debtor; and that written acceptances have been filed by a majority in number and amount of those creditors who have filed their claims; and that the consideration to be paid to creditors and allowances have been deposited.

Termination of proceedings. Upon confirmation of the arrangement, the debtor is discharged from all unsecured debts provided for by the arrangement, except debts that are not dischargeable. A final decree must be entered discharging the debtor or trustee and closing the estate.

If the plan of arrangement is not acted on favorably by creditors or is abandoned by the debtor, the Court enters an order adjudging the debtor a bankrupt and directs that further proceedings be had as in the case of ordinary bankruptcy. If a bankruptcy proceeding was pending when the petition for arrangement was filed, the Court will dismiss the Chapter XI proceeding and direct that the previous bankruptcy proceeding be continued. Where the debtor has perpetrated fraud in the procurement of the confirmation of an arrangement, it will be set aside upon application made within six months of the date of confirmation.

Involuntary or Voluntary Corporate Reorganization Under Chapter X of the Bankruptcy Act (Extension or Modification of Secured and Unsecured Debts)

Corporate reorganizations. Chapter X of the Bankruptcy Act is known as the law pertaining to corporate reorganization. It is an outgrowth of the old Section 77 B. By this method the debtor, stockholders, and creditors seek to avoid the consequences of foreclosures, liquidations, forced sales, and other drastic deflationary effects. This law deals only with the corporate debtor and provides mainly the

basis of a modification of secured debts or a change in the corporate capital structure. Chapter X should be invoked only when no adequate relief can be obtained under Chapter XI, which deals with the modification of unsecured liabilities.

The pendency of the ordinary bankruptcy, either before or after adjudication, will not prevent the filing of a Chapter X petition.

Another interesting feature is that under Chapter X the proceeding may be voluntary or involuntary, while under Chapter XI only a voluntary proceeding may be filed. The petition under Chapter X may be filed only in the jurisdiction where the debtor has its principal assets, or its principal place of business, for the period of six months preceding the date of the filing of the petition, or for a longer portion thereof than in any other jurisdiction.

Filing petition in involuntary reorganization. In the involuntary proceeding the petition must allege that the debtor has been adjudged bankrupt in the pending proceeding; or that a receiver in equity has been appointed because of insolvency or inability to pay debts as they mature; or that an indenture trustee is in possession by reason of a default; or that a foreclosure proceeding is pending against the debtor's property; or that the debtor corporation has committed an act of bankruptcy (see page 1102) within four months prior to the filing of the petition.

In contradistinction to the rights of a creditor in the ordinary bankruptcy proceeding, a creditor may interpose an answer to an involuntary reorganization petition. The reorganization petition must be approved by the Court and must be shown to have been filed in good faith. If it is not approved, the petition will be dismissed.

Appointment of trustee. Where the liabilities are over \$250,000 in a Chapter X reorganization proceeding, the Court must appoint a disinterested trustee. In cases where the liabilities are less than \$250,000, the Court may appoint a trustee or permit the debtor to continue in possession. The trustee must be independent, but there is also provision for the appointment of a co-trustee, who may be drafted from the corporate debtor. He may be a director or an officer. The attorney for the trustee must also be disinterested. The trustee must conduct an examination into the past affairs of the debtor. He is the one who must promulgate the plan of reorganiza-

tion. He calls upon the creditors, debtor, and others for information and data, but the trustee is the one in the first instance to initiate the plan of reorganization. In making his report as to the condition of the debtor's affairs as he finds it, the trustee must make that report to the judge, the creditors, the stockholders, and also to the Securities and Exchange Commission, popularly referred to as the "S.E.C."

If in a case involving less than \$250,000 in liabilities, the judge declines to appoint a trustee but permits the debtor to continue in the operation of its business, the Court may appoint an examiner to conduct a disinterested examination into the affairs of the debtor corporation, for the information of the Court and others.

Plan of reorganization. If for any reason the trustee's plan is not found satisfactory, then, and not until then, the creditors (and stockholders where the corporation debtor is solvent) may submit a plan of reorganization. The judge has the right to fix the time for filing the claims and to classify creditors.

In cases where the liabilities exceed \$3,000,000, the judge must refer plans that he regards as worthy of consideration to the Securities and Exchange Commission for examination and report. In other cases no duty devolves upon the judge to refer the plan to the S.E.C., but he may do so. The S.E.C.'s report is merely advisory; it is not binding on the judge.

Acceptance of plan of reorganization. It is necessary to obtain acceptances of two thirds in number and amount of each class of creditors whose claims have been allowed in order to present the matter of the application for confirmation of the plan to the Court. Insofar as stockholders are concerned, where the corporation is solvent, a majority in number of shares is required to modify their rights. Usually the judge will confirm any plan of reorganization that has been adequately accepted by the creditors and stockholders affected by the plan, but he must find, as a prerequisite, that the plan is "fair, feasible, and equitable" based upon his informed and independent judgment. Creditors are entitled to priority over stockholders against all of the property of an insolvent corporation, and in such event stockholders are excluded from participation in any plan of reorganization unless they make a reasonable cash contribution.

Voluntary Wage Earners' Plans Under Chapter XIII of the Bankruptcy Act

Dealing with embarrassed wage earners. Frequently wage earners incur obligations through the purchase of automobiles, jewelry, and furniture on the installment plan and through borrowing from finance companies. If the debtor happens to be such a wage earner, it is advisable to point out to him that if his creditors sue and obtain judgments against him, his wages will be garnisheed, and the resulting annoyance to his employer may lead to his discharge. The debtor should be made acquainted with the provisions of Chapter XIII of the Bankruptcy Act, entitled "Wage Earners' Plans," under which he can obtain effective relief and at the same time deal honorably with his creditors on the basis of an extension or compromise of his obligations.

Procedure under Chapter XIII. Although no involuntary petition in bankruptcy may be filed against a wage-earner debtor unless his earnings exceed \$1,500, under this new important provision for relief, a wage earner who earns from all sources of income a sum not exceeding \$5,000 per year may, at modest expense, invoke this form of procedure by which he can submit a plan to pay his obligations out of his future earnings. The debtor's voluntary petition indicating that he is insolvent or unable to pay his debts as they mature should be accompanied by his schedules of assets and liabilities, as well as a "Statement of Affairs." Immediately after the filing of the petition, the Court issues an order restraining all creditors from proceeding outside of the Federal Court. The referee promptly notifies the creditors to attend a creditors' first meeting, at which the debtor's plan is considered.

Creditors should file with the referee at the first meeting of creditors their proofs of claim, similar in form to those used in ordinary bankruptcy proceedings. Each creditor filing a claim must state under oath that such claim is free from usury.

Confirmation of plan. The Court will confirm the wage-earner's plan if accepted in writing by a majority in number and amount of the claims of creditors as filed, and if satisfied that the plan is for the best interests of creditors and feasible. Until the provisions of

the plan are complied with, the Court continues to retain jurisdiction of the debtor and his affairs.

Since by this method the debtor submits his future earnings to the control of the Court, the Court may, from time to time, after obtaining the views of the debtor and his creditors, increase or reduce any of the installment payments under the plan or extend or shorten the time for such payments as the circumstances and financial condition of the debtor warrant.

SECTION II

Business Organizations—Individual Proprietorships, Partnerships, and Corporations

I. SELECTING THE FORM OF ORGANIZATION

Choosing a form of organization for a business	1121	Division of losses in absence of express agreement	1139
Factors affecting choice of form of organization	1121	States which have adopted the Uniform Partnership Act	1139
Manner of organization	1122	Right of partner to receive interest on capital	1140
Taxation	1124	Right of partner to receive interest on loans	1140
Guide for determining choice taxwise between partnership and corporation	1126	Right of partner to indemnity and contribution	1140
Stability of enterprise	1127	Liability of a general partner to creditors of the partnership	1140
Extent of liability	1128	Liability of a secret partner; of a dormant, or silent partner	1141
Ease of raising additional capital	1128	Liability of an individual as a partner although he has not entered into a partnership agreement	1141
Flexibility of management and control	1129	Liability of the members of a partnership for the tort of one partner	1142
Power to do business in any state	1131	Management of the partnership affairs	1143
Definiteness of governing law	1132	May one of two partners prevent his copartner from binding him by his acts?	1144
Choosing a name under which to do business	1133	Has a partner power to borrow money or to execute negotiable instruments?	1144
Similarity in corporate names	1134	Power of a partner to collect partnership debts	1145

2. PARTNERSHIPS

Who may become a partner	1134	Power of a partner to lease partnership property	1145
What a partnership agreement should contain	1135	Power of a partner to employ assistants	1145
Division of profits and losses among the partners	1136	Power of a partner to purchase and sell personal property	1146
Division of profits on basis of arbitrary ratios	1137	Power of a partner to convey real property belonging to the partnership	1146
Division of profits on basis of ratio of capital accounts at beginning or end of each period	1137	May a partner engage in any other business?	1147
Division of profits on basis of ratio of average investments	1137		
Division of profits in absence of express agreement	1139		

Is a partner entitled to compensation for his services?	1147
Power of a partner to execute instruments in the firm name	1147
Instruments executed in a partner's individual name; may a partnership be bound thereby?	1148
Partner's right to information and inspection of books	1149
When has a partner a right to an accounting?	1149
Duty of a partner to account for personal benefits	1150
May one partner sue another partner?	1150
Expulsion of a partner from the business	1151
May a partner transfer his entire interest in the partnership?	1151
Withdrawal of a partner	1152
Admission of a new partner into the business	1152
Liability of an incoming partner	1153
Effect of death of a partner	1153
Effect of bankruptcy of a partner	1154
Continuance of a partnership beyond its fixed term	1154
Difference between dissolution and liquidation of a partnership	1155
Incapacity of a partner as ground for dissolution	1155
Failure to make profits as ground for dissolution	1155
Powers of partners after dissolution	1155
Who has power to liquidate the business upon voluntary dissolution	1156
Division of profits and losses upon liquidation	1156
Distribution of capital upon liquidation	1157
Example of total distribution	1157
Changing a partnership to a corporation	1157

3. DUTIES, POWERS, AND LIABILITIES OF CORPORATE DIRECTORS

Who are qualified to act as directors	1159
Number of directors that a corporation is required to have	1159
Term of office of directors	1159
Removal of director with or without cause	1160
Resignation of a director	1161
Filling of vacancies in the board of directors	1161
How to fill vacancies in board where several directors tender resignations at same meeting	1161
Are directors entitled to compensation for their services	1162
Power of directors to manage the corporation	1163
When the courts will interfere with management of the corporation by the directors	1164
A director cannot agree to relinquish his duty to manage the corporation	1164
Limitation on power of directors to effect fundamental changes in the corporation	1164
What powers may directors delegate to others	1164
Is a resolution necessary to effect a delegation of powers by directors	1165
Power of directors to appoint committees	1165
Power of directors, to employ, compensate, and remove agents and servants	1166
May directors appoint agents for a term beyond their own term of office	1166
May directors ratify unauthorized acts performed by others in behalf of the corporation	1167
Is a resolution necessary in order that directors may be deemed to have ratified an unauthorized act	1167

Power of directors to make contracts for the corporation	1167	Liability of directors for acts beyond the corporate powers	1179
May a director or officer contract with the corporation	1168	Liability of directors for secret profits	1179
Power of directors to borrow money for the corporation	1169	Liability of directors for fraudulent statements and acts	1180
May the directors give security for loans to the corporation	1169	May a director prefer one creditor over others?	1180
Must the directors obtain the stockholders' consent to mortgage corporate property	1170	Are directors liable to creditors and stockholders or only to the corporation?	1180
May a director or officer lend money to the corporation	1170	Common law liabilities of directors	1181
May a director or officer borrow money from the corporation	1171	Acts for which directors may incur criminal liability under State laws	1181
Power of directors to make guaranties in the corporate name	1171	How a director can avoid liability for action taken by his co-directors	1182
Power of directors to purchase and sell property in behalf of the corporation	1171	Directors' liabilities under Federal laws	1182
Power of directors to lease corporate property	1172	Indemnification of directors and officers	1183
Power of directors to make gifts of corporate property	1173		
Power of directors to elect officers	1173	4. DUTIES, POWERS, AND LIABILITIES OF CORPORATE OFFICERS	
Removal of officers by directors with or without cause	1173	What officers is a corporation required to have	1184
Power of directors to issue stock	1173	Who are qualified to act as officers	1184
Power of directors to declare dividends	1174	How officers are chosen	1185
Are formalities required in the declaration of dividends by directors	1175	Effect of failure to elect officers	1185
May directors revoke a dividend	1175	Term of an officer	1185
Liability of directors for illegal dividends	1176	Resignation of an officer	1186
Power of directors to prosecute and defend suits and to employ counsel	1176	Removal of an officer with or without cause	1186
Power of directors to compromise claims	1177	Can the officers bind the corporation by their acts?	1187
Liability of directors for negligence and neglect of duty	1177	Duties performed by officers	1187
Are directors liable for failure to attend board meetings?	1178	Are officers entitled to compensation for their services?	1197
Liability of directors for misapplication of assets	1178	May an officer lend money to or borrow from the corporation?	1198
		Liability of an officer for mismanagement	1198
		Acts for which officers may incur criminal liability	1198

5. STOCKHOLDERS' RIGHTS

Have stockholders a right to participate in management of the corporation?	1198
Right of stockholders to adopt and amend by-laws	1199
Power of stockholders to elect directors	1200
Liability of stockholders to corporation for payment of stock	1200
Liability of stockholders to creditors	1201
Liability of stockholders for assessments on fully paid stock	1202
Issuance of a duplicate certificate of stock upon loss, theft, or destruction of a certificate	1202
Power of stockholders to increase stock	1203
Stockholders' pre-emptive rights upon issuance of additional stock	1204
Right of stockholders to reduce capital stock	1205
Stockholders' right to inspect corporate books and records	1205
Stockholders' rights upon failure of directors to live up to obligations	1206

6. PREPARING FOR CORPORATE MEETINGS

Kinds of corporate meetings	1207
Who makes preparations for corporate meetings	1207
Employment of a service organization to hold annual corporate meetings	1208
Preparations for a stockholders' meeting where responsibility rests with the secretary	1208
Permanent preparations for all stockholders' meetings	1208
Preparations for a particular stockholders' meeting	1209
Check list of preparations for a stockholders' meeting	1212

Preparations for a stockholders' meeting where secretary and attorney are responsible for meeting	1215
Preparations for a directors' meeting	1215

7. STOCKHOLDERS' MEETINGS

Necessity for holding stockholders' meetings	1217
Calling stockholders' meetings	1218
Necessity for notice of stockholders' meetings	1218
Stockholders' meetings that are valid without required notice	1219
Contents of notice of stockholders' meeting	1220
Time at which stockholders' meeting should start	1221
Getting a stockholders' meeting started	1221
Who presides at a stockholders' meeting	1221
Selection of a secretary	1222
Necessity for a quorum to be present at stockholders' meeting	1222
What constitutes a quorum	1223
Meaning of terms relating to quorum	1223
Who has the right to be present at a stockholders' meeting	1224
Conducting a stockholders' meeting	1224
Who may vote at a stockholders' meeting	1224
Holders of record on a certain day to vote	1225
Disputes as to who may vote	1225
Some instances in which questions as to who may vote arise	1226
Voting by proxy	1228
Acceptance of proxies	1228
Powers of proxies	1230
Methods of taking the vote at a stockholders' meeting	1231
How many votes is each stockholder entitled to	1232

Cumulative voting; how conducted	1232
Determination of shares necessary to control an election under cumulative voting	1233
Elections of directors	1233
Conduct of election of directors by inspectors	1234
Vote necessary to decide an election of directors	1234
Rules governing tie vote in election of directors	1235
Results of failure to elect a board of directors	1236
Vote necessary to decide questions other than election	1236
Determining whether vote required by statute is obtained	1236
Revocation and reconsideration of action by stockholders	1237
Adjournment of meeting	1237
Adjourned meeting; business that can be transacted	1238

8. DIRECTORS' MEETINGS AND COMMITTEE MEETINGS

Necessity for holding directors' meetings	1238
Calling directors' meetings	1239
Directors' meetings falling on a Sunday or holiday	1239
Necessity for notice of directors' meetings	1240
When directors' meetings are valid without the required notice	1241
Form of notice of directors' meeting	1242
Contents of notice of directors' meeting	1243
Quorum at directors' meeting	1244
Vote necessary to authorize action at directors' meeting	1244
Conduct of directors' meeting	1244
Right of directors to rescind action taken at former meeting	1245

Executive and finance committee meetings	1245
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9. HOW TO KEEP MINUTES OF MEETINGS

Necessity for keeping minutes of meetings	1245
Necessity for adopting resolutions	1246
When action should be taken by resolution	1246
Motions and resolutions	1247
When action should be embodied in a by-law rather than made a resolution	1247
Drafting resolutions	1247
Recording discussions in the minutes	1248
How to record motions, resolutions, and votes taken	1249
Arrangement of minutes	1250
Rules for typewriting minutes of meeting	1250
Examples of minutes	1251
How to correct errors in minutes	1257
Manner of revising minutes	1258
Indexing of minutes	1258
Arrangement of minute books	1260
Resolutions book	1261

10. DOING BUSINESS IN MORE THAN ONE STATE

May a corporation do business in any state	1261
What constitutes "doing business" in another state	1262
How a foreign corporation qualifies to do business in a state	1264
After qualification, is a foreign corporation required to pay any additional taxes or to file any additional reports?	1264
Penalties that may be incurred by a foreign corporation which does business in a state without qualifying	1265

SECTION II

Business Organizations—Individual Proprietorships, Partnerships, and Corporations

1. SELECTING THE FORM OF ORGANIZATION

Choosing a form of organization for a business. In starting a new business or in reorganizing an old one, the first problem to be considered is the form in which the enterprise will be conducted. The choice generally lies among:

1. An individual proprietorship.
2. A general partnership.
3. A corporation.

The individual who expects to conduct a business as sole proprietor will ordinarily choose between the single-proprietorship form and the corporate form. Two or more individuals who propose to enter into a business enterprise together will generally choose between the partnership and the corporation. These forms of business organization are, however, not exclusive. Two or more individuals may carry on an enterprise as:

1. A limited partnership.
2. A joint venture.
3. A joint-stock company.
4. A business trust.

Factors affecting choice of form of organization. Which form of organization shall be chosen in any case will depend upon the relative advantages and disadvantages of each kind of organization to the particular business. The factors as to which advantages and disadvantages should be carefully weighed are:

1. Manner of organization.
2. Taxation; that is, the relative tax burden of doing business under each form.
3. Stability of enterprise; that is, whether or not the organization may be easily disrupted.
4. Extent of risk; that is, extent of liability to creditors of those who have contributed capital to the business.
5. Ease of raising capital.
6. Flexibility of management and control.
7. Power to do business in any state.
8. Definiteness of governing law.

Manner of organization. The *individual proprietorship* is the simplest form of organization. Formalities are unnecessary to establish it. All that the individual need do is to ascertain whether a license is required to conduct the particular business, and whether a license fee or tax must be paid to State or local authorities.

A *general partnership* is also organized with comparative ease. It is usually formed by having the parties interested in the enterprise sign a partnership agreement. A written agreement is not, however, essential to the existence of a partnership. Not only may an oral partnership agreement be effective in establishing the partnership relation, but a partnership may even be implied from the acts and representations of the parties engaged in an enterprise, although no agreement, oral or written, has been made.

When a *limited partnership* is organized, the laws of the state of organization must be complied with strictly; otherwise the enterprise will be deemed to be a general partnership. Organization is effected by filing with some designated State official a contract drawn in accordance with legal requirements.

The chief difference between a general partnership and a limited partnership is that in the latter the liability of one or more of the partners may be limited to the amount agreed to be invested in the business. The limited partnership may have one or more general partners and one or more limited partners. A limited partner must contribute capital to the partnership, and, under the Uniform Limited Partnership Act, the contributions may be cash or other property, but not services. The surname of a limited partner may not appear in the partnership name unless it is also the surname of a

general partner or unless the partnership had been carried on, before the time the limited partner entered the business, under a name in which his surname appeared.

The limited partnership should not be confused with the *limited-partnership association*, the organization of which is permitted by a few states. In the state of its organization, the limited-partnership association is treated as a corporation; in other states it is usually treated as a general partnership. Organization of the association is effected by the filing of a certificate of association with the secretary of state and the county clerk and the payment of an organization tax. Interests in the business are represented by shares which resemble the shares of stock of a corporation but differ from them in that a purchaser can acquire no rights in the shares until he is elected to membership in the association.

The organization of a *corporation* is not as simple as that of an individual proprietorship or a general partnership. It may be accomplished only by complying strictly with the laws of the particular state in which the corporation is being organized. These laws provide that a certain number of persons, generally three or more, may form a corporation by filing in the office of a designated State official a statement, known as the articles of incorporation or the certificate of incorporation, giving certain specified information, and by paying initial taxes and filing fees. Further, in order to carry out the purposes for which the corporation is organized, it is necessary to hold various organization meetings at which specified details of organization must be handled.

The *joint venture* (or "*syndicate*," as it is sometimes called) is very much like the partnership and may be organized with equal ease. It is formed merely by agreement between the parties interested in the enterprise. It differs from the partnership in certain technical respects, and in the fact that it is organized for a particular purpose, upon the accomplishment of which its duration terminates.

The *joint-stock company* resembles both the partnership and the corporation. Like the partnership, it is organized under a contract, known as the articles of association, between the parties in interest. Like the corporation, however, it is subject to State laws regulating its organization and the manner of conducting its business, and its capital is divided into transferable shares evidenced by certificates.

The *business trust* (or "Massachusetts trust," or "common law

trust," as it is sometimes called) is created by the execution of a deed of trust—an instrument in the nature of a contract between the creator of the trust, certain persons designated as trustees, and one or more beneficiaries. Under the terms of this deed of trust, property is turned over by the creator of the trust to the trustees, to be managed by them for the beneficiaries who are parties to the agreement and any other beneficiaries who may become interested in the trust. Interests in the trust are evidenced by certificates resembling the certificates of stock issued by corporations. In some states the statutes specifically authorize the creation of business trusts and regulate the conduct of their business. In others, such trusts may be organized without express statutory authorization. In a few states the organization of a business trust is not permitted.

Taxation. Where it has been practical to operate a business either as an individual proprietorship, a partnership, or a corporation, taxation has always been an important consideration. However, the Internal Revenue Code of 1954 lessened considerably the influence of the tax laws on the selection of the form of business organization by giving proprietorships and partnerships the right to report and to be taxed as a corporation. The proprietorship or partnership must still determine whether it would be advisable to exercise the option offered by the law.

The following provisions of the tax law are basic in deciding whether to report and be taxed as an incorporated or unincorporated business organization:

Individual proprietorship and partnership. 1. A business organized as an individual proprietorship or a partnership does not pay an income tax as a business unit.

2. The sole owner of a business pays an income tax on all of his income from his business whether it is left in the business, taken out as salary, or withdrawn as profits. He is taxed at the rates applicable to individuals.

3. In a partnership, each partner pays income tax as an individual on his share of the partnership profits whether it is withdrawn or not. The salary paid to each partner is immaterial; it merely enters into the computation of the portion of the profits going to each partner. Partnerships must report their net income in order that the authorities may check on the amount of income reported by the several partners to whom the income is taxed.

Corporation. 1. A corporation pays income tax as a business unit. The salaries it pays to stockholders are deductible in arriving at its net taxable income. Dividends declared by the corporation are not deductible since they are distributed profits.

2. Salaries paid to stockholders are income to them. Dividends paid by the corporation are income to the stockholders. Dividends, therefore, are taxed twice, once to the corporation (as part of its earnings) and again to the stockholders. The 1954 Code excludes \$50 of dividends from income and also gives the stockholder a small credit against his tax.

3. The corporation cannot arrange its salary and dividend policies solely to effect a low tax for the stockholders because (a) the corporation can deduct salaries only to the extent that they are reasonable, and (b) earnings that are not needed in the business must be paid out in dividends; otherwise the corporation may be subject to a penalty surtax under Section 531 of the Internal Revenue Code. Thus, a corporation cannot free itself from corporate income tax by paying out all of its income in salaries, nor can it avoid all tax on its stockholders by paying no dividends or salaries.

Mention should be made here of how other forms of organization are treated under the Federal income tax law.

Limited partnerships may be taxed as partnerships or corporations, depending upon their characteristics. *Joint ventures* may be classed as partnerships or corporations, and *joint stock companies* as corporations. A trust that is organized to conduct business and earn income in the same manner as other enterprises is regarded as a corporation.

The Federal income tax does not, of course, cover the whole tax program. There are other Federal taxes to be paid, such as the old age benefits tax, the unemployment insurance tax, and the various excise taxes. These taxes are usually unimportant so far as the choice of a form of organization is concerned. There are also many state taxes to which a business may be subject, such as franchise and license taxes, unemployment insurance taxes, state and local business license taxes, and local property taxes. Some of these would vary with the form of organization; others would not. Then, of course, there are the Federal and state stamp taxes which apply to corporations. Almost every law imposing these taxes gives some official the right to call for books and documents on a moment's notice. For ex-

ample, state inspectors may call on New York corporations and ask to see the stock transfer books to ascertain whether the proper stamps have been affixed to meet stock transfer requirements.

Guide for determining choice taxwise between partnership and corporation. Sometimes, in a small business, if all profits are to be distributed, it is fairly obvious that the corporate form is disadvantageous because the corporation pays a tax as a business unit and the unincorporated forms do not. Other times it is fairly obvious that the corporate form is better, taxwise, because the firm is expected to make large profits, most of which will be plowed back into the business to meet legitimate needs. Where the tax results are not obvious, to find out which form would be most economical taxwise, facts and estimates must be brought together. Then actual computations must be made of the income taxes to which the business and the owners would be subject if one or another form of organization were used.

Suppose it were practical to operate a business either as a partnership or a corporation, and there were no obvious certainty as to which form would result in lower taxes. To determine the more economical form taxwise, the organizers would do the following:

1. Estimate the anticipated respective net incomes of the partners, if a partnership were formed, and compute the income tax at the prevailing income tax rates applicable to each partner. (An individual includes in his gross income not only his business income, but other income such as rents, royalties, dividends, and interest. Since the individual income tax rates increase as the amount of taxable income increases, each partner's income from sources other than the business may have an important influence on the results of the computation.)

2. Estimate the taxable net income of the corporation. This calls for an estimate of the salaries that would be paid to the stockholders who would presumably be employed by the corporation. Compute the income tax of the corporation at the prevailing corporation rates. For excess profits tax years (none since 1953), estimate the excess profits net income and excess profits credits and compute the excess profits tax.

3. Estimate the income tax of the stockholders from salaries paid by the corporation and dividends received from the corporation and compute the income tax payable by each of the stockholders at the prevailing individual rates. (What was said under point 1 as to income from other sources applies here as well.)

4. Compare the total income taxes of the partners with the sum of the income and excess profits taxes on the corporation and the total income tax on the stockholders. Whichever total is lower would be the more desirable form from the standpoint of the Federal income tax.

The tax factor is usually studied on the basis of the laws as they exist at the time that the question of choice of organization form arises. The laws, it must be remembered, are constantly subject to change. The conclusions reached with regard to the relative income tax burdens on incorporated and unincorporated businesses under a tax law that imposes low rates on individuals and high rates on corporations may not hold under a later tax law that leaves the individual rates unchanged and lowers the corporation tax. Of course, business organizations may be revamped, but the process is always costly.

Stability of enterprise. By stability is meant not the length of time for which the organization may continue but whether or not it may be easily disrupted.

An *individual proprietorship* is not limited in its duration by law. It is not, however, a stable form of organization, for illness of the owner may interrupt it, and his death terminates it. A *partnership* is unstable—although it may be organized for a long period of time—for it is terminated by death or withdrawal of any one of the partners. A *corporation*, even though its duration may not always be perpetual, is a stable form of organization, in that it has continuous succession. Death, disability, or bankruptcy of a party interested in the corporation does not terminate it, and the certificates of stock that represent the interests in the enterprise may be transferred from one person to another without interrupting the business. The *joint venture* continues only until the specific purpose for which it was organized is accomplished. The *joint-stock company* is stable, for not only may it have unlimited duration but also it issues transferable certificates of interest. The life of a *business trust* is limited in most states. The trust is nevertheless a comparatively stable form of organization, because the parties interested at the time the trust expires can agree to another trust and, also, because the interests in the enterprise are represented by transferable certificates that give the trust continuous succession.

Extent of liability. The extent to which those who have contributed capital to an enterprise are liable to creditors of the business is a very important factor in the choice of a form of organization. Regardless of the form in which an enterprise is organized, creditors are entitled to be paid out of the assets of the business before capital contributed to the enterprise may be withdrawn. Where, however, those assets are insufficient to satisfy creditors' claims, to what extent may the owners of the business be compelled to pay out of their own property?

A person who acts under an *individual-proprietorship* form of organization is personally liable for all the debts of his business to the full extent of the property that he owns; he cannot limit his liability to creditors to the amount that he puts into the business. Each member of a *general partnership* is fully liable personally for all debts incurred by the partnership, regardless of the amount of his investment in the partnership business. In a *limited partnership*, the limited partners, like stockholders of a corporation, risk only the amount that they have invested in the business. The general partners in a limited partnership, however, are each personally liable for all debts incurred by the enterprise. There must be one or more general partners in any limited partnership.

The *corporation* has a decided advantage over the other types of organizations, in that the creditors of the corporation are limited in the collection of their claims to the assets of the corporation, and if a stockholder has paid for his stock, he cannot ordinarily be compelled to pay creditors out of his own property, even though the corporate assets may be insufficient to pay the creditors' claims.

While the interests of members of a *joint-stock company* are evidenced by certificates of stock, members are personally liable for the company's debts; the statutes of some states, however, permit limitation of liability by inclusion of a provision therefor in the articles of association.

Trustees of a *business trust* are liable to creditors for debts of the trust, unless they obtain exemption from liability by contract with creditors. They may also be liable to the beneficiaries for gross negligence or fraud in the management of the trust property.

Ease of raising capital. Every business enterprise, regardless of the form in which it is organized, may require additional capital from

time to time in the furtherance of its business. Inability to obtain adequate working capital is often the cause of failure of an enterprise. It is important, therefore, before deciding upon the form of organization for a business, to consider what means for raising capital will be available under the various forms of organization.

In an *individual proprietorship*, the owner may raise additional capital needed for his business by borrowing from banks, by purchasing goods on credit, and by himself investing additional amounts in the enterprise. Since he is personally liable for the debts of his business beyond the amount that he has invested in it, banks may be ready to advance funds and merchants may be willing to extend credit to an extent commensurate with the single proprietor's personal means. The amount thus made available will nevertheless always be limited, and a business requiring a large amount of capital to operate successfully should not be organized as an *individual proprietorship*.

A *partnership* may be able to raise capital with greater ease than an individual proprietorship, for the resources of several individuals are combined in one enterprise. As in the case of the single proprietor, the partners assume full personal responsibility for partnership debts, and not only may the partnership be able to borrow on better terms than a corporation, but outsiders may be more willing to extend credit to it because of the security afforded by the partners' full liability.

The *corporation* is generally in a better position to raise large sums of money than are other forms of organizations. It may sell stock and other securities to the public in small amounts that attract many widely scattered investors, for participation in the corporation and ownership of an interest therein will not subject them to any financial risk beyond the amount of their investment.

Flexibility of management and control. In the *individual proprietorship*, management and control are concentrated in one individual. This may operate both as an advantage and as a disadvantage. On the one hand, concentration of control avoids the difficulties often caused under other forms of organization by opposing factions and divided responsibilities. The fact that the person who runs the business has a direct and full interest in its success is conducive to careful management of the enterprise. On the other hand, one individual may not be personally well equipped to perform all the func-

tions of management, and the exclusive management that ties the owner down to his business may become highly burdensome. True, the owner may, without formalities, employ assistants and delegate various powers to them, but he will nevertheless have to bear ultimate responsibility for their acts.

In a *general partnership*, each partner usually has an equal right to participate in management, and control is divided among the partners. The fact that the ability and experience of several individuals is thus combined in the furtherance of one enterprise may give the partnership an advantage over the single proprietorship. The division of control among the various partners may, however, generate disagreement as to business policies and administration. As compared with the corporate form of organization, the partnership has this advantage—decisions may be arrived at and changes may be effected simply by agreement among the partners, without the formalities necessary under a corporate form of organization.

In a *limited partnership*, a limited partner may not participate in management of the business; if he does, he may be held liable as a general partner. The limited partner is, however, entitled to inspect the books of the partnership and to obtain full information regarding the partnership affairs.

In the *corporation*, those who have contributed to the capital of the business do not necessarily participate in conducting its affairs. Management may be concentrated in the hands of a group of experts who may own but a small portion of the stock of the corporation. The corporation thus avoids the difficulty of the single proprietorship, the business of which may be hampered by the limited ability or experience of one individual. On the other hand, it runs the risk of inefficient management where those who control the business do not have a direct financial interest in it. The corporation also has this advantage over the partnership, that whereas in the partnership each partner has power to act as general agent for the partnership, stockholders cannot bind the corporation by their acts merely because they are stockholders.

From the point of view of management, the *joint venture* resembles the single proprietorship; the syndicate is generally operated by one individual who acts as manager, with the assistance of agents appointed by him. The manager is, of course, answerable to the participants in the syndicate.

The *joint-stock company* resembles the corporation from the point of view of management and control. The articles of association under which the joint-stock company is formed generally provide that management shall be vested in a board of directors or governors elected periodically by the shareholders. These shareholders, like stockholders in a corporation, cannot bind the company by their individual acts, and they participate in the management of the company only by electing the board of governors and by acting at their meetings on matters brought before them by the board.

The *business trust* is managed and controlled by the trustees, whose appointment may be permanent. The powers and duties of the trustees are indicated in the trust agreement. The shareholders or holders of certificates of interest in the trust may not exercise any control; otherwise they will be liable as partners. They cannot elect trustees periodically in the same way that stockholders of a corporation may elect new directors, and they may be given power to elect a new trustee only in the event of death, withdrawal, or removal of the trustee for dishonesty or neglect of duty.

Power to do business in any state. An individual who resides in one state may carry on business in any other state without paying any greater taxes and without incurring any obligations other than those imposed on residents of the state, whether he operates alone as an *individual proprietorship* or with others as a *partnership* or a *joint venture*. His right to do so is guaranteed by the United States Constitution, which provides that the citizens of each state shall be entitled to all the privileges and immunities of citizens of the several states. The state may require the obtaining of a license and the payment of a license fee for carrying on a particular kind of business in the state, but the license will be available to the citizen of any state who meets the uniform conditions imposed, and no greater license fee will be required than is fixed for residents.

Forms of organization that do not create an artificial entity enjoy a freedom of movement in any state that is denied to the *corporation*. The corporation owes its existence to the state in which it is organized, and no other state need recognize its existence. The various states do permit corporations created under the laws of other states to do business within their borders, but only if such corporations

comply with certain special state requirements (see discussion on page 1264).

In states that do not recognize the *joint-stock company* as a distinct legal entity, such a company may conduct business in the state without being subject to restrictions imposed upon corporations. However, the statutes of many states governing the right of foreign corporations to do business include joint-stock companies in the definition of foreign corporation.

In doing business outside of the state in which it was organized, the *business trust* is now generally subjected to the same restrictions and regulations as a corporation. It was formerly the general rule that trustees of a business trust could carry on business in any state on the same terms as local trustees; the trustees were, however, always subject to local rules governing their relationship to the beneficiaries of the trust and to third persons.

Definiteness of governing law. The legal status of an *individual proprietorship* is well established, and little doubt, if any, exists as to the relationships between the owner, his agents, his creditors, and any other outsider with whom he may come in contact in the course of his business. The same may generally be said of a *partnership*, the laws governing which are fairly uniform and have been codified in many states by the Uniform Partnership Law. *Corporations*, on the other hand, are governed by state statutes that vary from state to state and which, even when similar in wording, are differently interpreted. In the conduct of the corporation's affairs, a familiarity with the corporation laws of several states may be indispensable, for questions may arise in the course of the corporation's business which are governed by the laws of a state other than that in which the corporation was organized. Despite the uncertainty as to the legal effect of corporate acts, however, the corporation is universally recognized as a form of organization, and its essential characteristic, that of limiting liability on the part of stockholders who contribute capital to the enterprise, is uniform in every state. In this respect the corporation has an advantage over the *joint-stock company* and the *business trust*, the legal status of which is not definitely conceded in every state. The business trust is, perhaps, confronted with the greatest difficulties, for not only do the laws vary considerably from state to state, but the law relating to the trust has not been fully established.

A business that is to be carried on in various states may well hesitate to organize as a business trust, for the legal effect of many of its acts will be far from certain. For example, the courts present a great diversity of opinion as to whether the holders of certificates of interest in the trust may appoint and remove trustees, whether a certificate holder has a right to inspect the stock records, and whether he can compel the declaration of a dividend out of surplus profits.

Choosing a name under which to do business. Individual proprietorships are generally conducted under the name of the individual who owns and operates the business. The name of at least one of the partners is also often included in the name under which a partnership operates. Both individual proprietorships and partnerships, however, sometimes find it desirable to carry on business under an assumed or fictitious name. Before using such a name, it is important to ascertain whether or not an assumed or fictitious name must be registered with a state official under the laws of that state. Many states require that every person transacting business under an assumed name, or under any designation, name, or style other than the real name of the individual conducting the business, must file in the office of a designated government official a certificate setting forth the true name and address of the person transacting such business. Penalties are imposed for failure to file such certificates. In some states no suits may be maintained on contracts by individuals who have failed to comply with the statute. Unless the statute refers exclusively to partnerships, regulations governing the use of fictitious names by individuals would also apply to joint ventures and to joint-stock companies, for such organizations are not considered legal entities but are deemed to be conducted by the individuals interested in the enterprise.

Some states impose other restrictions upon the use of fictitious names, as, for example, New York, where the designation "and Company" or "and Co." must represent an actual partner. As far as corporations are concerned, the law in many states requires that the name of the corporation indicate the form of its organization; in some, the use of the word "Company" or "Corporation," followed by "Inc.," is mandatory.

In selecting a name for a business, it is important to choose one that is not already in use by some other organization, for otherwise

liability may be incurred for infringement of the goodwill of the older company.

Similarity in corporate names. In most of the states, the secretary of state is directed by statute not to file a certificate of incorporation if the name of the proposed corporation so closely resembles that of an existing corporation that deception or confusion might result. In the absence of statutory provisions, it has been held that the secretary of state is justified in refusing to file a certificate of incorporation where the name selected bears too great a likeness to an existing name. When the state grants a charter to a corporation, it merely authorizes the use of the name selected by the corporation in a legal manner. The state does not adjudge the name to be legal, nor does it decree that its use throughout the state will be lawful.

The corporation's name is an element of its existence. It belongs exclusively to the corporation and will be protected from imitation that constitutes unfair competition. Priority in adoption and use usually confers the superior right to the name. Even aside from statutory provisions, the corporation's right to its name will be protected by an equity court so far as may be necessary to safeguard property rights developed under it and to protect the corporation against fraud, actual or constructive.

Where it is found that there is a similarity in names, the court does not at once grant relief, but proceeds to ascertain whether the facts are such that deception and injury are likely to result. The law will not interfere to restrain a corporation in the use of its name where there exists no conscious intent to injure, no effort to secure for itself the benefit of another's industry, business capacity, and capital outlay, and no harm to the public from imposition through probable confusion. A change of name or the use of an explanatory phrase will be required where deception and injury result from similarity in names.

2. PARTNERSHIPS

Who may become a partner. Any person who is competent to enter into a contract may become a partner.

Alien. An alien may become a partner, provided the nation of which he is a citizen is not at war with the United States. If, after the partnership is organized, war does break out between this country

and that of the alien partner, the partnership is suspended and is, in practical effect, dissolved.

Infant. An infant—that is, a person under the age of 21—may enter into a contract of partnership, but he may set aside the agreement if he chooses. During the infant's minority, he may avoid personal liability on partnership transactions. He may also avoid liability after attaining his majority, provided he disaffirms the obligation within a reasonable time after he becomes of age. Neither the adult partner nor third parties may, however, avoid any liabilities on the ground of the infancy of the partner. Nor can the infant prevent the application of the partnership assets to the partnership debts, or recover his original capital contribution to the business.

Incompetent person. An incompetent person who has been adjudicated insane cannot, generally, become a partner; if no judicial declaration of insanity has been made, a partnership agreement although valid may be set aside. If a partner becomes insane during the life of the partnership, the partnership is not thereby dissolved, but the insanity may furnish a ground for dissolution by a court of equity. Until such dissolution, the insane partner's rights and liabilities as a partner continue.

Married woman. A married woman may now generally be a partner, for the statutes in most states have removed the disability to contract imposed upon married women by the common law. In most jurisdictions, a married woman may even become a partner with her husband.

Corporation. A corporation cannot be a partner unless expressly authorized to do so by its charter. It may, however, enter into agreements with others for the purpose of co-operation and joint service.

Partnership. Two or more partnerships may enter into a partnership agreement with each other.

What a partnership agreement should contain. The provisions of the partnership agreement will vary with the needs of the particular enterprise. Every partnership agreement, however, should contain the following:

1. The name under which the partnership is to be conducted.
2. The kind of business to be conducted by the partnership.
3. The principal place of business.
4. The amount of capital to be invested by each partner; a state-

ment of whether the amount is to be paid in cash or in property; if any part is in property, a full description thereof, and the amount at which it is to be valued.

5. The amount of interest, if any, which is to be allowed on capital.

6. The amount that each partner is to receive as salary or any other form of compensation or drawing.

7. The amount of interest, if any, that is to be charged against drawings.

8. The manner in which the profits and losses of the business are to be divided among the partners.

9. The powers and duties of each partner.

10. The duration of the partnership.

11. The manner in which the partnership is to be terminated; division of partnership assets among the respective partners.

The partnership agreement may also provide for the keeping of partnership books; the time or times for accounting; the method of settling disputes; the continuation of the partnership business in the event of withdrawal, death, or incompetency of any partner.

Division of profits and losses among the partners.* The partnership agreement often provides for other than an equal distribution of profits and losses. Some of the most common methods of distribution are:

1. On the basis of the ratio of capital invested at organization of the business.

2. On the basis of arbitrary ratios.

3. On the basis of the ratio of the capital accounts at the beginning or at the end of each period.

4. On the basis of the ratio of average investments.

5. Part of the profits may be distributed as salaries or as interest on capital invested, and the remainder in some other ratio.

6. If the investment is less than the amount agreed upon, interest is charged on the shortage; and if the investment is more than the amount agreed upon, interest is credited on the excess; the resulting profit or loss is then distributed in an agreed-upon ratio.

* The material on division of profits is from Curtis and Cooper, *Mathematics of Accounting*. New York: Prentice-Hall, Inc.

Division of profits on basis of arbitrary ratios. The method is indicated in the following example.

EXAMPLE

A and B are partners. A has \$3,000.00 invested, while B has \$2,500.00 invested. A is to receive $\frac{2}{3}$ of the profits, and B is to receive $\frac{1}{3}$. The profits for the year are \$2,400.00. What is each partner's share?

Solution

Net Profits	.....	\$2,400.00
A's share, $\frac{2}{3}$ of \$2,400.00	.....	1,600.00
B's share, $\frac{1}{3}$ of \$2,400.00	.....	800.00

Division of profits on basis of ratio of capital accounts at beginning or end of each period. The method is indicated in the following example.

EXAMPLE

January 1, A's investment	.....	\$10,000.00
January 1, B's investment	.....	6,000.00
January 1, C's investment	.....	4,000.00
Total	.....	<u>\$20,000.00</u>
December 31, Profits	....	<u>\$ 4,000.00</u>

Profits are to be shared in the ratio of investments at the beginning of the year.

Solution

	<i>Investment</i>	<i>Ratio</i>	<i>Profits</i>	<i>Shares</i>
A	\$10,000.00	$\frac{10}{20}$	\$4,000.00	\$2,000.00
B	6,000.00	$\frac{6}{20}$	4,000.00	1,200.00
C	4,000.00	$\frac{4}{20}$	4,000.00	800.00
	<u>\$20,000.00</u>	<u>$\frac{20}{20}$</u>	---	<u>\$4,000.00</u>

Division of profits on basis of ratio of average investments. The procedure under this method is as follows:

1. Multiply each investment by the number of months from the date made until the end of the period; find the sum of the products obtained.

2. Multiply each withdrawal by the number of months from the date withdrawn until the end of the period; find the sum of the products obtained.

3. Deduct the sum of the withdrawal products from the sum of the investment products; the result for each partner is his average investment expressed in month-dollars.

The above three steps are performed for each of the partners' accounts. Then:

4. Add the month-dollars of each of the partners.

5. Multiply the profits by the ratio of each partner's month-dollars to the total month-dollars.

EXAMPLE

A

<i>Debit</i>		<i>Credit</i>	
Feb. 1.....	\$1,000.00	Jan. 1.....	\$10,000.00
June 1.....	1,500.00	May 1.....	4,000.00
Nov. 1.....	500.00	July 1.....	1,000.00

B

<i>Debit</i>		<i>Credit</i>	
July 1.....	\$1,000.00	Jan. 1.....	\$ 6,000.00
Dec. 1.....	1,000.00	Aug. 1.....	4,000.00
		Oct. 1.....	2,000.00

Solution

A

<i>Investments</i>	<i>Time to</i>	<i>Month-</i>	
<i>Date</i>	<i>Amount</i>	<i>End of Year</i>	<i>Dollars</i>
Jan. 1	\$10,000	$\times 12$ months =	\$120,000
May 1	4,000	$\times 8$ months =	32,000
July 1	1,000	$\times 6$ months =	6,000

\$158,000

Withdrawals

Feb. 1	\$ 1,000	$\times 11$ months =	\$ 11,000
June 1	1,500	$\times 7$ months =	10,500
Nov. 1	500	$\times 2$ months =	1,000

22,500

A's month-dollars

\$135,500

B

Investments

Jan. 1	\$ 6,000	$\times 12$ months =	\$ 72,000
Aug. 1	4,000	$\times 5$ months =	20,000
Oct. 1	2,000	$\times 3$ months =	6,000

\$ 98,000

Withdrawals

July 1	\$ 1,000	×	6 months	=	\$ 6,000
Dec. 1	1,000	×	1 month	=	1,000

 7,000

B's month-dollars	<u>\$ 91,000</u>
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Net profits of the business for the year were \$4,530.00 The distribution is as follows:

A's month-dollars	\$135,500.00
B's month-dollars	91,000.00
Total month-dollars	<u>\$226,500.00</u>

A's share of profits, $\frac{135,500}{226,500}$ of \$4,530.00 . . .	2,710.00
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B's share of profits, $\frac{91,000}{226,500}$ of \$4,530.00 . . .	1,820.00
	<u>\$4,530.00</u>

Division of profits in absence of express agreement. If the partners have failed to include in their articles of copartnership an agreement as to the method by which profits are to be distributed, the law provides that the profits shall be divided equally, regardless of the ratio of the partners' respective investments.

Division of losses in absence of express agreement. If losses are incurred and no provision has been made for their distribution, the profit-sharing ratio governs.

States which have adopted the Uniform Partnership Act. The Uniform Partnership Act has been adopted in the states listed below:

Alaska	Kentucky	New Jersey	Tennessee
Arizona	Maryland	New Mexico	Utah
Arkansas	Massachusetts	New York	Vermont
California	Michigan	North Carolina	Virginia
Colorado	Minnesota	Ohio	Virgin Islands
Delaware	Missouri	Oklahoma	Washington
Idaho	Montana	Oregon	West Virginia
Illinois	Nebraska	Pennsylvania	Wisconsin
Indiana	Nevada	South Carolina	Wyoming
		South Dakota	

The act in many of its provisions merely codifies general common-law principles governing the relations of partners to persons dealing with the partnership, the relations of the partners to one another, and the rights, duties, and obligations arising out of the partnership relation. In some instances, however, as is indicated in the succeeding paragraphs on partnership problems, the law under the Uniform Partnership Act is different from the common law.

Right of partner to receive interest on capital. The partners may agree among themselves whether or not any interest is to be paid on capital contributed by the respective partners to the partnership. In the absence of such an agreement, the partners are not entitled to interest on capital.

Right of partner to receive interest on loans. A partner is entitled to interest on any loans made by him to the partnership, unless it is agreed that he shall receive no interest. The Uniform Partnership Act provides that a partner who, in aid of the partnership, makes any payment or advance beyond the amount of capital that he agreed to contribute shall be paid interest from the date of the payment or advance.

Right of partner to indemnity and contribution. A partner who fails to conform to the partnership agreement or to use the proper skill and diligence in the conduct of the partnership affairs must indemnify his copartners for any losses sustained thereby. Further, if a partner pays more than his just proportion of the firm's debts, he may compel his copartners to contribute their relative shares, unless the partners have agreed among themselves that there shall be no right of contribution or that the amount of contribution shall be limited to a specified amount. The Uniform Partnership Act provides that the partnership must indemnify every partner in respect of payments made and personal liabilities reasonably incurred by him in the ordinary and proper conduct of its business, or for the preservation of its business or property.

A partner is entitled neither to indemnity nor to contribution for payments or losses occasioned by the partner's own negligence, bad faith, or breach of duty.

Liability of a general partner to creditors of the partnership. Each partner is personally liable to creditors for all the debts of the

partnership. If the assets of the partnership are insufficient to satisfy the claims of its creditors, the creditors may resort to the personal assets of any one or more of the partners. A partner who is compelled to pay a creditor out of his personal assets is entitled to contribution from each of the other partners. The partners may agree among themselves as to the division of liability among them for partnership debts, but creditors are not bound by such agreements; they may look to any or all of the partners for payment. As between themselves, and in the absence of any contrary arrangement in the partnership agreement, the partners are liable for debts of the partnership in the same proportion that they share in its profits. For liability of an incoming partner, see page 1153. For liability of a limited partner, see page 1128.

Liability of a secret partner; of a dormant, or silent, partner. A secret partner is one who is active in the business, but whose interest in the partnership is not generally known to the public. A dormant or silent partner is one who is neither known to the public as a partner nor engaged actively in the partnership affairs. Both the secret partner and the dormant or silent partner are liable to creditors of the partnership in the same manner as any other partner, regardless of whether or not the creditors knew of their interest in the partnership. In the event of their withdrawal from the partnership, however, no notice need be given creditors to avoid liability for obligations thereafter incurred; since the public did not know of their connection with the partnership, it cannot be misled by lack of notice of termination of the connection. The dormant or silent partner has no voice in the management of the partnership affairs.

Liability of an individual as a partner although he has not entered into a partnership agreement. A partnership relation may be implied from the acts of parties although no agreement of partnership, either written or oral, has been entered into. For example, where two people contribute capital to a joint enterprise and share in the profits and losses of the business, they may be deemed to be partners and subjected to a partner's liability to creditors. Similarly, if one person represents to the public that another person is his partner, and that other person makes no denial of the representation, the second person will not be permitted later to deny that the partnership relation existed, and he may be held liable by creditors as a

partner of the business. The rule is that where a person leads others to believe that he is a partner and to act on that belief, he subjects himself to a partner's liability.

The Uniform Partnership Act provides that the receipt by a person of a share of the profits of a business is prima-facie evidence that he is a partner in the business, but no such inference shall be drawn if such profits were received in payment:

1. As a debt by installments or otherwise.
2. As wages of an employee or rent to a landlord.
3. As an annuity to a widow or representative of a deceased partner.
4. As interest on a loan, though the amount of payment vary with the profits of the business.
5. As the consideration for the sale of the goodwill of a business or other property by installments or otherwise.

Liability of the members of a partnership for the tort of one partner. A tort is an injury inflicted otherwise than by a mere breach of contract. The members of a partnership are liable for injuries inflicted upon outsiders by one of the partners only where the partner has caused such injury in the course of the partnership affairs. For example, copartners have been held liable in these situations:

1. Where a member of a firm of attorneys gave negligent advice to a client.
2. Where a partner collided with another automobile while driving his car on partnership business.
3. Where a partner made false statements with respect to the financial responsibility of a competitor of the partnership.
4. Where a partner borrowed money for the partnership upon false representations as to the financial ability of the partnership.
5. Where a member of a publishing firm printed a libel in the partnership paper as news.
6. Where a partner in a butcher firm negligently left bad meat about, and a dog that ate it died therefrom.

Copartners have been held *not* liable for damages caused by a partner under the following circumstances:

1. Where a partner maliciously told about a third person untruths which constituted libel, but which were not told in furtherance of the partnership business.

2. Where a partner converted property to his own use.
3. Where a partner, without the consent of his copartners, instituted malicious prosecution against a third person for theft of partnership property.

The Uniform Partnership Act provides that where, by any wrongful act or omission of any partner acting in the ordinary course of the business of the partnership or with the authority of his copartners, loss or injury is caused to any person not a partner in the partnership, or any penalty is incurred, the partnership is liable therefor to the same extent as the partner so acting or omitting to act.

Management of the partnership affairs. In the absence of any contrary arrangement, each partner has an equal right to participate in the management of the partnership affairs, regardless of his proportionate interest in the partnership. The Uniform Partnership Act specifically provides that all partners have equal rights in the management and conduct of the partnership business.

Each partner has inherent power to act as agent for the partnership and to bind it with respect to matters relating to the partnership business. This power, however, may be limited by the terms of the partnership agreement or by any other agreement between the partners, but the limitation is not binding on outsiders who have no knowledge of it. The Uniform Partnership Act provides that an act of a partner that is not apparently for the carrying on of the business of the partnership in the usual way does not bind the partnership unless authorized by the other partners.

Where partners disagree as to how the ordinary affairs of the partnership should be conducted, the opinion of a majority of the partners is generally controlling, provided the majority acts in good faith and for the best interests of the partnership. If a dissenting partner is dissatisfied, he may withdraw from the partnership, or, if the action of the majority is improper, he may apply to the courts for an injunction. The Uniform Partnership Act provides that any difference arising as to ordinary matters connected with the partnership business may be decided by a majority of the partners; but no act in contravention of any agreement between the partners may be done rightfully without the consent of all the partners. It also provides that, unless authorized by the other partners, or unless they have aban-

doned the business, one or more, but less than all, of the partners have no authority to:

1. Assign the partnership property in trust for creditors or on the assignee's promise to pay the debts of the partnership.
2. Dispose of the goodwill of the business.
3. Do any other act that would make it impossible to carry on the ordinary business of a partnership.
4. Confess a judgment.
5. Submit a partnership claim or liability to arbitration or reference.

The partners may, of course, agree among themselves that certain decisions may be made by one or more of the partners. The partnership agreement may also provide a method for arriving at decisions in case of dissension. If the vote is equally divided and the division of opinion prevents the operation of the partnership business, a dissolution of the partnership becomes necessary.

May one of two partners prevent his copartner from binding him by his acts? Each partner is an agent of the other in effecting transactions within the scope of the partnership business. If, however, one partner objects to certain action taken by his copartner, he may, by giving notice to a third person, prevent his copartner from binding him to any new obligation. For example, each partner has power to issue negotiable paper in behalf of the partnership; but if one of two partners refuses to assent to the issuance of a promissory note and has notified the payee, the payee who accepts the note after such notification cannot enforce the note against the partnership. However, partners cannot impose additional burdens on third persons by objecting to acts of their copartners performed in the course of their implied powers as partners. For example, a partner has implied power to accept payment for partnership debts. A debtor may make payment to a partner even in the face of a notice from his copartner not to pay any sums to him.

Has a partner power to borrow money or to execute negotiable instruments? In considering the power of a partner to borrow money for the partnership, a distinction must be made between trading and nontrading partnerships. A trading partnership is a commercial enterprise in the conduct of which merchandise is bought and

sold periodically and continuously. A nontrading partnership is one in the conduct of which buying and selling is not involved, incidentally or otherwise; the business of such a partnership generally relates to some employment or occupation. A partner of a trading partnership has implied power to borrow money to carry on the partnership affairs, and even if he appropriates borrowed funds to his own use, all the partners are liable therefor. As a corollary of the power to borrow, a partner of a trading partnership may make, accept, and endorse negotiable instruments for the partnership, and may pledge partnership property as security for loans and give chattel mortgages thereof. A partner of a nontrading partnership, however, has no implied power to borrow money for the partnership, nor has he implied power to execute negotiable instruments or give security for loans. If such a partner borrows money in behalf of the partnership, his copartners are liable only if they authorized the partner to negotiate the loan or if they ratified it.

Power of a partner to collect partnership debts. A partner has implied power to collect partnership debts and to give receipts for payment. Cash and negotiable paper may be accepted, and, if it is customary to do so, goods may also be accepted in payment. A partner may compromise debts of the partnership if he acts in good faith and with reasonable care. A corollary of the power to collect debts is the power to resort to ordinary legal proceedings for their collection. The Uniform Partnership Act, however, provides that, unless authorized by the other partners, or unless they have abandoned the business, one or more, but less than all, of the partners have no authority to confess a judgment or to submit a partnership claim or liability to arbitration or reference.

Power of a partner to lease partnership property. A partner has implied power to lease both real and personal property in behalf of the partnership, provided the lease is reasonably necessary to carry on the partnership business in the ordinary course of its affairs.

Power of a partner to employ assistants. Each partner has implied power to employ such assistants and to appoint such agents as are reasonably necessary to carry on the partnership business in the ordinary course of its affairs, and to discharge such assistants

or agents. A partner may employ counsel to act in behalf of the partnership.

Power of a partner to purchase and sell personal property. A partner has implied power to make purchases for the partnership, on the credit of the firm, of such goods as are reasonably necessary to carry on the partnership business in the ordinary course of affairs. This is true whether the firm is a trading or a nontrading partnership,* as long as the goods purchased are necessary for the transaction of business in the ordinary way. For example, a partner in a grocery business may purchase a crate of canned goods; a partner of a law firm may purchase law books for the partnership. The partnership is liable for payment even if the partner misappropriates the goods to his own use. A partner also has implied authority in the regular course of business to sell or otherwise dispose of personal property of the partnership, including merchandise, negotiable paper, patents, trade-marks, accounts receivable, and, as an incident of the power of sale, to make warranties as to quality and soundness. The extent of a partner's power of sale depends upon the general nature of the partnership business. A partner has no authority, however, to use partnership property in payment of his individual debts.

Power of a partner to convey real property belonging to the partnership. Except in the case of partnerships whose business is the purchase and sale of real estate, a partner has no implied power, under the common law, to convey real estate of the partnership. The Uniform Partnership Act provides, however, that where title to real property stands in the partnership name, a conveyance of real property by any partner is binding as against an innocent holder for value, although the partner had no authority to make the conveyance. Where title to the real property stands in the name of one or more of the partners, but not all of them, a conveyance by the partners in whose name the title stands is valid as against an innocent holder for value, although the partners had no authority to convey. Where title is in the name of all the partners, a conveyance executed by all of them passes all their rights in such property.

At common law, title to real property could not be taken in the firm name, nor could real property be conveyed by the partnership.

* For difference between a trading and nontrading partnership, see page 1144.

Under the Uniform Partnership Act, however, any estate in real property may be acquired or conveyed in the partnership name.

May a partner engage in any other business? A partner may not, without the consent of his copartners, engage in any business, either openly or secretly, which competes with the partnership. If he does so, he may be enjoined by a court of equity, and may be required to account to the partnership for profits made in the competing business. A partner may, however, engage in a noncompetitive business, subject to any provision in the partnership agreement requiring him to devote all of his time and energy to the business of the partnership. In the absence of any express provision, a partner impliedly agrees to devote his time, efforts, and ability to the success of the partnership, within reasonable limits. A partner may avail himself of information obtained by him in the course of the partnership affairs for a purpose outside the scope of the partnership business and not competitive with it.

Is a partner entitled to compensation for his services? It is an implied duty of every partner to devote all his time, skill, and energy for the best interests of the partnership. He is not entitled to be paid for his services in carrying on the partnership affairs. The contract of partnership may, however, provide for the compensation of one or more of the partners for services rendered. This compensation may take the form of a fixed salary or of an additional share in the partnership profits. Contracts of partnership often specify an amount that partners may draw at regular intervals out of the business; generally, this is not by way of compensation for services rendered, but a division of the profits to which the partners are entitled. The Uniform Partnership Act provides that no partner is entitled to remuneration for acting in the partnership business, except that a surviving partner is entitled to reasonable compensation for his services in winding up the partnership affairs. At common law, when a partner dies, the surviving partner is held not to be entitled to reasonable compensation for his services in winding up the partnership affairs.

Power of a partner to execute instruments in the firm name. Under the common law, the power of a partner to bind his co-

partners by executing instruments in the firm name is subject to the following rules:

1. As to contracts not under seal, a partner has implied power to sign the partnership name, but only to contracts within the scope of the partnership business; the partnership will not be bound where a partner signs the firm name to evidence obligations outside of the partnership business.

2. As to instruments under seal, a partner has no implied authority, by virtue of the partnership relation alone, to bind the firm or other partners by instruments under seal; hence a sealed instrument, executed in the name of a firm by one of its members, without proper authority, where a seal was necessary, is the deed of such member only, and he alone is bound by it.

3. If a partner executes an instrument, which is not by law or by the custom of trade required to be under seal, and which would bind the partners if it were executed as a simple contract, it will bind them, although there may have been an unnecessary seal attached, and the seal is regarded as surplusage.

4. An instrument under seal executed by a partner is valid although the partner was not authorized to execute instruments under seal, where the instrument was executed in the presence of the copartners and with their knowledge; it is also valid if it appears that the copartners subsequently ratified the unauthorized act.

5. As an incident of the partner's implied power to collect and compromise firm debts, it has been held that a partner may execute a general release under seal releasing the firm obligation.

The Uniform Partnership Act makes no distinction between sealed and unsealed instruments. Under the Act, every partner is an agent of the partnership for the purpose of its business. The execution in the partnership name of any instrument pertinent to the business of the partnership binds the partnership, unless the partner so acting has in fact no authority to act for the partnership in the particular matter and the person with whom he is dealing has knowledge of the fact that he has no such authority.

Instruments executed in a partner's individual name; may a partnership be bound thereby? Where a partner signs his own individual name without signing the partnership name, the partner-

ship may nevertheless be bound if it is shown that the instrument was intended as a partnership obligation and that the transaction was one entered into for the partnership. The partnership may even be held liable where the other party to the contract was unaware of the existence of the partnership when the contract was made. The presumption is, however, that where a partner signs his individual name, it was intended to bind him individually. One partner has no authority to sign the individual name of another partner without his consent.

Partner's right to information and inspection of books. Every partner has the right to full information as to the partnership affairs. In furtherance of this right he may at any time inspect any and all partnership books and records and may make extracts therefrom. The books and records must be kept at the firm's place of business, and no partner may remove them from that place without the consent of the other partners. Of course, the right to inspect the books and to make extracts therefrom may not be used by a partner for a fraudulent purpose.

Under the Uniform Partnership Act, a duty is imposed upon partners to render on demand true and full information of all things affecting the partnership to any partner or the legal representative of any deceased partner or partner under disability. The act also requires that the partnership books be kept, subject to any agreement between the partners, at the principal place of business of the partnership, and that every partner shall at all times have access to the books and be permitted to inspect and copy any of them.

When has a partner a right to an accounting? A partner is always entitled to an accounting upon dissolution of the firm. An accounting without dissolution will also generally be granted under the following circumstances:

1. If the partner is wrongfully excluded by his copartners from the partnership business or from possession of partnership property.
2. Where a partner breaches his fiduciary relation and wrongfully derives profits for himself from the business or by use of its property.
3. Where the partners have agreed to a periodical accounting and to settlement of distinct transactions upon their completion, without a dissolution.

4. Where the interest of a partner in the partnership has been attached by his individual creditor.

The Uniform Partnership Act provides that any partner shall have the right to a formal account as to partnership affairs:

1. If he is wrongfully excluded from the partnership business or possession of its property by his copartners.
2. If the right exists under the terms of any agreement.
3. Where a partner is accountable as a fiduciary.
4. Whenever other circumstances render it just and reasonable.

Ordinarily partners can determine their respective interests in the partnership by an examination of the books, without a formal accounting, and may settle the firm's affairs in a private accounting without resort to the courts if there is no disagreement between them and if the rights of creditors are protected.

Duty of a partner to account for personal benefits. Partners are required to observe the utmost good faith toward one another. If one partner secures any private advantage from a transaction that concerns the partnership or through any wrongful use of partnership property, he is required to account to his copartners for the profits which he derives therefrom. For example, a partner who secretly and without knowledge of his copartners obtains for himself a renewal of a lease previously held by the partnership violates his duty toward his copartners. Even if the term of the lease to the partner individually is to begin upon the termination of the partnership existence, the benefits of the lease belong to the partnership, and the partner must account to the partnership therefor. The Uniform Partnership Act provides that every partner must account to the partnership for any benefit, and hold as trustee for it any profits derived by him without the consent of the other partners from any transaction connected with the formation, conduct, or liquidation of the partnership or from any use by him of its property. This provision also applies to the representatives of a deceased partner engaged in the liquidation of the affairs of the partnership as personal representatives of the last surviving partner.

May one partner sue another partner? Ordinarily one partner cannot bring an action at law against another partner on a partner-

ship claim or liability. Until the affairs of the partnership are wound up, what one partner may owe the partnership is not a debt due to his copartners, but to the partnership. Similarly, if the partnership owes a sum of money to one of the partners, it is not a debt due to him from his copartners, and he cannot bring an action against his copartners on his claim against the partnership. While a partner cannot sue at law to enforce the obligations of his copartners, he may, however, do so by applying to a court of equity for an accounting and settlement of the partnership affairs.

Where there is but a single partnership transaction that is fully closed, one partner may maintain an action at law against the others for his share of the profits of that single transaction without a formal accounting. Similarly, where the partnership accounts have been settled, a balance struck, and an agreement made to pay the balance due, an action at law may be maintained to recover the balance.

Expulsion of a partner from the business. When one or more of the partners ceases to be a member of the firm, the partnership is dissolved; that is, the partnership agreement is terminated and if the business is to continue, a new agreement must be entered into. Accordingly, a partner cannot be expelled from the business without dissolution of the partnership. This does not mean that the dissolution must be decreed by a court of equity. The partners may be able to arrive at a friendly accounting and determine their respective interests in the business. If, however, an amicable adjustment is impossible, resort must be had to the courts to compel an accounting and to decree a dissolution of the partnership. The remaining partners can then form a new partnership to carry on their enterprise. Partnership agreements sometimes provide for the expulsion of a member under certain circumstances and indicate the manner in which the capital contribution of the expelled partner is to be repaid. The expulsion of a partner under such a provision in the contract of partnership does not prevent the dissolution of the partnership; a new partnership must nevertheless be organized by the remaining partners.

May a partner transfer his entire interest in the partnership? The general rule is that the partnership is dissolved if a partner sells his interest in the partnership. Partners may agree in advance under their partnership contract to accept as a partner an assignee of a

partner's interest in the firm, but the partnership is nevertheless technically dissolved upon admission of the assignee and a new partnership is created.

Under the Uniform Partnership Act, a conveyance by a partner of his interest in the partnership does not of itself dissolve the partnership. The assignee is not entitled to interfere in the management of the partnership affairs, nor may he require any information or account of partnership transactions, or inspection of the partnership books; the assignee is merely entitled to receive the profits to which the partner who has assigned his interest would have been entitled.

Withdrawal of a partner. Where no time is fixed in the partnership agreement for the duration of the partnership, a partner may withdraw at any time, provided he does so in good faith and without injury to his copartners. Even if the term of duration of the partnership is fixed by the contract of partnership, a partner may withdraw from the partnership before the expiration of the period; he may, however, subject himself to liability to the other partners if the latter are injured by his withdrawal.

The withdrawal of a partner results in dissolution of the partnership. If the remaining partners desire to continue the business of the partnership, they must pay the retiring partner the value of his interest in the partnership, less any damages caused by his premature withdrawal. The goodwill of the business is not included in arriving at the withdrawing partner's interest. The remaining partners may agree to assume the liabilities of the partnership, but such an agreement will not relieve the withdrawing partner from liability to any creditor of the old partnership who has not consented to release him. The withdrawing, or outgoing, partner may also be liable to new creditors of the old partnership who extend credit to it without knowledge of his withdrawal. To avoid such liability, the withdrawing partner must advertise his withdrawal in a newspaper of general circulation in the place where the business of the partnership is conducted. Further protection against liability to creditors may be afforded the withdrawing partner by an agreement of indemnification by the remaining partners.

Admission of a new partner into the business. A new partner cannot be brought into the business without the consent of every

one of the partners. Further, although all the partners may agree to admit the new member, the old contract of partnership is terminated, and a new partnership agreement must be entered into. However, the transaction of the partnership business may continue without interruption.

The Uniform Partnership Act specifically provides that no person can become a member of a partnership without the consent of all the partners.

Liability of an incoming partner. Where a person is admitted as a partner into an existing partnership, he is not liable, under the common law rule, for partnership debts incurred before he became a partner, unless he has assumed such liability.

The Uniform Partnership Act provides that a person admitted as a partner into an existing partnership is liable for all the obligations of the partnership arising before his admission as though he had been a partner when such obligations were incurred, except that this liability shall be satisfied only out of partnership property.

Effect of death of a partner. A partnership is dissolved upon the death of a partner. Even if the contract of partnership provides for the continued existence of the partnership after the death of any partner, the legal representatives of the deceased partner cannot be compelled to continue the existence of the partnership. The surviving partners become the representatives of the partnership, and it is their duty to pay the firm debts and to distribute the remaining assets among the surviving partners and the representatives of the deceased partners: They have a right to wind up the affairs of the partnership without interference by the legal representatives of the deceased partner. The surviving partners cannot, however, bind the estate of the deceased partner by new contracts. They must render an accounting to the legal representatives of the deceased partner and pay them in cash the value of the deceased partner's interest, including goodwill as a partnership asset. The surviving partners are entitled to a reasonable sum as compensation for winding up the partnership affairs.

Surviving partners and all outsiders are, at common law, deemed to have knowledge of the death of a partner and of the resulting dissolution of the partnership; the power of the partners to act for the partnership automatically ceases upon death of a partner except

insofar as it may be necessary to wind up the affairs of the partnership. Under the Uniform Partnership Act, however, no such knowledge of death and notice of the termination of the partner's authority is imputed. Where a partner, having no knowledge or notice of the death of a partner, acts for the partnership and creates a liability, each partner is liable to his copartners for his share of the liability so created as if the partnership had not been dissolved. Further, under the provisions of the Act, the partnership may be bound by the acts of the partner after dissolution as to outsiders who had no knowledge or notice of the dissolution. Notice of dissolution should be advertised in a newspaper of general circulation in the place where the partnership business is regularly conducted.

Effect of bankruptcy of a partner. If any partner becomes bankrupt, the partnership is immediately dissolved, for the bankrupt loses his right to exercise control over his property, and his interest in the partnership passes to the trustee in bankruptcy. The Uniform Partnership Act expressly states that dissolution is caused by the bankruptcy of any partner or of the partnership.

Continuance of a partnership beyond its fixed term. Where the partnership agreement fixes a definite period for the duration of the partnership, but the business is continued after expiration of the period without any new agreement, the partners are, in effect, doing business as a partnership pursuant to an oral agreement. Whether or not their rights and duties are the same as under the original partnership agreement will depend upon the intention of the parties. It may be assumed, in the absence of any evidence to the contrary, that the partners intended to continue the same relationship that existed prior to the expiration of the original agreement.

The Uniform Partnership Act provides that when a partnership for a fixed term or particular undertaking is continued after the termination of such term or particular undertaking without any express agreement, the rights and duties of the partners remain the same as they were at such termination, as far as is consistent with a partnership at will. It further provides that a continuation of the business by the partners or such of them as habitually acted therein during the term, without any settlement or liquidation of the partnership affairs, is prima-facie evidence of a continuation of the partnership.

Difference between dissolution and liquidation of a partnership. A dissolution of a partnership is merely a termination of the original partnership agreement, which may be brought about by death of a partner, admission of a new partner, withdrawal of an old partner, adjudication of a partner as an incompetent person, or bankruptcy of a partner. The remaining partners may continue the business without interruption despite the dissolution, and proceed to organize a new partnership. A liquidation, on the other hand, involves not only a dissolution of the partnership, but also a sale of the partnership assets, payment of partnership liabilities, and distribution of the balance among the partners in the proportions to which they are entitled.

The Uniform Partnership Act defines dissolution of a partnership as the change in the relation of the partners caused by any partner ceasing to be associated in the carrying on, as distinguished from the winding up, of the business. It further provides that on dissolution the partnership is not terminated, but continues until the winding up of partnership affairs is completed.

Incapacity of a partner as ground for dissolution. Where a partner is temporarily incapacitated from performing his partnership duties, such incapacity does not furnish ground for dissolution. If, however, his incapacity is permanent, dissolution will be allowed by the courts, since the partner is unable to fulfill one of the essentials of his agreement—that is, to devote his time, effort, and ability to the success of the partnership enterprise.

Failure to make profits as ground for dissolution. Dissolution of a partnership will be allowed by the courts on the ground that it is reasonably certain that the business cannot be carried on at a profit. This is true whether the failure to make profits is the result of misconduct on the part of one of the partners or whether it is due to the business itself.

Powers of partners after dissolution. Upon dissolution of the partnership, the power of the partners to bind one another generally by their acts ceases. A partner does, however, have power to bind his copartners and the partnership property by such acts as are reasonably necessary to wind up the partnership affairs. In the absence of any agreement to the contrary, each partner has implied power

to take possession of the firm property and to sell, pledge, or otherwise dispose of it in order to wind up the business; to collect debts and settle claims; and to complete existing obligations. The partners have no power, however, to incur new obligations by the execution of new contracts, or to make acceptances or renewals of negotiable paper, or to make endorsements of negotiable paper other than endorsements without recourse.

The Uniform Partnership Act provides that, except, so far as may be necessary to wind up partnership affairs or to complete transactions begun but not then finished, dissolution terminates all authority of any partner to act for the partnership.

Who has power to liquidate the business upon voluntary dissolution? When dissolution is brought about by the acts of the partners themselves, each partner has, in the absence of any contrary agreement, an equal right upon dissolution of the partnership to the possession of its assets, and is under an equal obligation to apply the assets to the discharge of the partnership debts. Each partner may collect debts due and may pay off liabilities until the assets are exhausted.

The Uniform Partnership Act provides that, unless otherwise agreed, the partners who have not wrongfully dissolved the partnership, or the legal representative of the last surviving partner, not bankrupt, have the right to wind up the partnership affairs; provided, however, that any partner, his legal representative, or his assignee, upon cause shown, may obtain winding up by the court.

Division of profits and losses upon liquidation. If, upon complete liquidation of the partnership affairs, there are profits or losses, they must first be divided in the profit-or-loss ratio—that is, in the proportion in which the partners share profits and losses under the terms of the partnership agreement—and the remaining capital should then be shared by the partners in the capital ratio—that is, in the proportion in which they are entitled under the terms of the partnership agreement to a return of the capital which they have invested in the business. Where the partnership is insolvent, the sharing by the partners of losses in the profit-and-loss ratio may result in a deficit in capital for some one or more of the partners. Each partner with a deficit should contribute to the firm the amount of his deficit. If he is unable to pay into the firm any portion of

his deficit, the remaining partners must pay in, in the profit-and-loss ratio, an amount sufficient to cover this deficit. A partner who has paid in more than his share of the firm's liability has a right to enforce contribution from the other partners to the extent of the excess.

Distribution of capital upon liquidation * Liquidation may be accomplished in two ways:

1. All the assets may be converted, all the liabilities paid, the profits or losses distributed, and all the capital divided at one time.
2. A periodic distribution of the capital may be made before all the assets are converted.

Example of total distribution. The first method of liquidation is illustrated below.

EXAMPLE

From the following figures, show the amount of capital distributed to each partner at dissolution:

	A	B	C
Capital balance before conversion of assets	\$10,000	\$6,000	\$4,000
Profit ratio	40%	40%	20%
Assets converted into cash	\$30,000		
Liabilities to be paid	14,000		

Solution

Assets	Liabilities	Net Assets
\$30,000	— \$14,000	= \$16,000
Total Investment, \$20,000, less Net Assets, \$16,000 = Loss, \$4,000		

	A (40%)	B (40%)	C (20%)	Total (100%)
Capital balances before conversion of assets	\$10,000	\$6,000	\$4,000	\$20,000
Distribution of loss	1,600	1,600	800	4,000
Balances	\$ 8,400	4,400	3,200	16,000
Cash distributed	<u>8,400</u>	<u>4,400</u>	<u>3,200</u>	<u>16,000</u>

Changing a partnership to a corporation. A business that operates under a partnership form of organization may be converted

* The example of the method of total distribution is from Curtis and Cooper, *Mathematics of Accounting*. New York: Prentice-Hall, Inc.

into a corporate form only if all the partners consent. The following steps are generally taken to effect the change:

1. The partners re-evaluate the assets of the partnership in the light of current market conditions, goodwill being entered as an asset on the books.

2. If the value of the assets is thereby increased, the increased value is credited to the partners in the proportion in which they are entitled to share in the profits of the partnership.

3. The partnership sells all its assets to a corporation formed to carry on the business, the corporation undertaking to accept all the liabilities of the partnership. Many states have enacted statutes known as the Bulk Sales Act for the protection of creditors upon sale, transfer, or assignment in bulk of any part or the whole of a stock of merchandise pertaining to the conduct of the business, otherwise than in the ordinary course of trade. These laws differ in the various states, but in general they require that a certain number of days before such sale in bulk, notice thereof be given to creditors. Strict compliance with Bulk Sales laws may be necessary upon transfer of the partnership assets; otherwise the sale may be deemed fraudulent or void.

4. The corporation issues stock to the partners in payment of the assets so transferred to it. The amount of stock issued by the new corporation to each partner is generally determined by the amount of capital that he has contributed to the partnership. It should be remembered, however, that while each partner has, in the absence of a contrary agreement, an equal voice in the management of the partnership affairs and shares equally in its profits, a stockholder is ordinarily entitled to one vote for each share of stock that he holds in the corporation, and dividends are payable to him on each share. In order that the individuals may have the same relative interest in the corporation that they had in the partnership, some special arrangement may be required either in the nature or characteristics of the securities issued by the corporation to represent the respective interests, or through the payment of salaries to the individuals. In this respect, the partnership form of organization has greater simplicity than the corporation, for the contract of partnership may easily provide for any desired division of profits.

3. DUTIES, POWERS, AND LIABILITIES OF CORPORATE DIRECTORS

Who are qualified to act as directors. The statutes in most states require either that a director be a stockholder of the corporation, or that he be a stockholder if the articles of incorporation do not provide otherwise. Reasonable qualifications for its directors may also be included in the by-laws of the corporation. In the absence of any provision in the statute, charter, or by-laws prohibiting some person or class of persons from acting as a director, or requiring certain qualifications for directors, any person may be a director who is legally competent to contract. In some states one or more directors are required to be residents of the state of incorporation or are required to be citizens of the United States. Even though some of the members of the board may not have the required qualifications, the acts of the board in behalf of the corporation are binding so far as the public is concerned.

Number of directors that a corporation is required to have. The statute of the state of incorporation generally fixes the minimum number of directors that a corporation must have—usually three—and the maximum number of directors that a corporation may have. The actual number that a corporation decides to have, within the statutory limitations, is fixed in the charter or in the by-laws. This number may be increased or decreased in the manner provided by statute. If the number of directors is fixed by the charter, an amendment of the charter is generally required to change the number. If the number is fixed in the by-laws, those who had power in the first instance to enact the by-law fixing the number of directors may amend the by-law to change the number.

Term of office of directors. The by-laws usually fix the period for which directors are to hold office, but even if that period has expired, they continue to hold office until their successors are elected.

In some states the statutes provide that directors may be divided into two or more classes whose terms expire at different times. These statutes generally indicate the number of directors who must be elected annually and the maximum period for which any class of directors may hold office. Even in the absence of such statutes, a cor-

poration may classify its directors, unless its charter or by-laws require that all directors be elected annually. The chief advantage of classifying directors is that there are always some members of the board who are experienced as directors. For example, suppose a corporation is authorized to have nine directors and is permitted to classify them. At its organization, nine directors are elected, three directors to serve for a term of one year, three for a term of two years, and three for a term of three years. At the expiration of the first year, three new directors are elected for a period of three years, to take the place of those three directors whose term has expired; at the expiration of the second year, three new directors are again elected for a term of three years, to take the place of the second group whose term has now expired. At the end of the third year after organization, the third group of directors is replaced by three new ones elected for a period of three years. Each year thereafter, three new directors are elected to fill the vacancies caused by the expiration of the term of one group of directors; the board will always consist of six old directors and three new ones.

Removal of a director with or without cause. A corporation has an inherent right to remove a director for cause. It may remove a director even without cause:

1. If the director was not elected for a fixed term and removal for cause is not expressly required by statute, charter, or by-laws.
2. If removal without cause is expressly permitted by statute, charter, or by-laws.

A director who is elected for a fixed term can be removed only for cause unless removal without cause is expressly authorized by statute or charter. The power to remove a director rests with the stockholders unless otherwise provided under the laws of the state in which the corporation is organized; directors cannot remove a director unless expressly authorized to do so. The statutes in most states give the right of removal to the stockholders in express terms and specify not only what vote is necessary to effect the removal, but also the notice that must be given to the director proposed to be removed and to the stockholders. The corporation's by-laws often contain a provision regulating the removal of directors by the stockholders in accordance with statutory requirements. A director who is to be removed

for cause must be given reasonable notice of the intention to remove him, sufficient time to prepare his defense, and a fair hearing.

Resignation of a director. A director may resign at any time, even if he is elected for a fixed period, unless restricted by the corporation's charter or by-laws or by the laws of the state in which the corporation is organized. If a director has entered into a contract with the corporation to act as director for a fixed period, his resignation before the expiration of the period will make him liable to the corporation for damages caused by the breach of his contract.

Where the resignation states that it is to take effect on acceptance, acceptance is necessary to end the tenure of office. Where it states that it is to take effect immediately, no acceptance is necessary unless the statute, charter, or by-laws make it necessary. Any form of resignation, whether written or oral, is sufficient, provided the intention to resign is clear. It is advisable that the resignation be in writing, in order that a record may be made for future use in case of controversy, and that it indicate when the resignation is to take effect. In the absence of such a statement, a resignation takes effect immediately.

Filling of vacancies in the board of directors. The by-laws provide how vacancies in the board of directors shall be filled. These by-laws must be consistent with any provision contained in the charter of the corporation or in the statutes of the state in which the corporation is organized. A usual provision is that a vacancy in the board shall be filled by the board and that the directors so appointed shall hold office until the next annual election. This provision does not give the directors the right to fill newly created directorates. In the absence of any provision in the by-laws, charter, or statute, the power to fill vacancies in the board rests with the stockholders. The board of directors may continue to transact business even though a vacancy has occurred in the board, and even though the remaining number is less than the number of directors required by statute or by the charter, but it cannot transact business if the remaining number of directors does not constitute a quorum.

How to fill vacancies in board where several directors tender resignations at same meeting. The resignations of several directors should not be accepted at one time where the number of directors

remaining will constitute less than a quorum, for, in the absence of a quorum, the directors will be unable to fill the vacancies caused by the resignations or transact any business. Each resignation should be accepted separately, and, immediately after each acceptance, the place of the resigned director should be filled. The director filling the vacancy should then assume his duties as director and participate in the acceptance of the resignation of the next director and the election of his successor. The secretary of the meeting should make certain that the directors who are to be elected to fill the vacancies will be present at the meeting so that they can participate in the elections immediately upon their taking office. The necessity for separate acceptance of resignations and separate elections is eliminated where the statute permits resignations to take effect at a future date and vacancies to be filled by the board immediately but to take effect when the resignations take effect.

Are directors entitled to compensation for their services? Directors are not entitled to compensation for services rendered within the scope of their duties as directors, unless compensation is authorized in one of the following ways:

1. By charter.
2. By by-law.
3. By resolution of the stockholders.
4. By resolution of the directors before the services were rendered, where the directors have authority to fix their own compensation.
5. By express contract between the director and the corporation.

Nor are directors entitled to compensation for attending meetings, unless payment is expressly authorized. In some jurisdictions, however, directors are entitled to compensation for services rendered outside of their ordinary duties as directors, provided the services are performed at the instance of the corporation and with an understanding that compensation is to be paid. Where, for example, a director devoted practically all of his time to the corporation and acted as its manager and superintendent, it was held that he was entitled to be compensated.

Directors cannot, ordinarily, vote themselves compensation unless authorized to do so. Such vote must come from the stockholders. Directors may, however, fix the salary of a corporate officer, who is

also a director, for services performed as such officer and outside of his duties as a director, unless expressly prohibited from doing so. If, however, the resolution authorizing payment of compensation is carried only by including the vote of the director who is to receive the compensation, the resolution may be held not to be binding on the corporation. As a general rule, interested directors cannot even be counted in determining whether a quorum is present to vote upon the question of their own salaries. Where the directors fill all or most of the offices of the corporation and it is desired to vote them compensation for their services, the best solution is to have the stockholders either vote the salaries or ratify the action of the directors in voting the salaries. The votes of interested directors who are also stockholders may be counted.

An alternative to the above procedure is to introduce a separate resolution fixing the salary of each officer. The director whose salary as officer is being considered does not vote upon the resolution. This procedure has been held invalid in some cases, principally on the theory that introducing several resolutions is equivalent to breaking the resolution into parts, and all the directors are interested in the common object of getting a salary for each of them.

Power of directors to manage the corporation. The directors, acting as a board, have the power to manage the business of the corporation, to exercise the corporation's powers, and to control its property. This power is exclusive with the directors unless the governing statute, charter, or by-laws provide otherwise. In most states the statutes, in express terms, give to the board of directors entire control over the corporate affairs. In the absence of such statutes, management of the corporate affairs is expressly vested in the board of directors by provision in the charter or by-laws. Stockholders have no right to interfere with the management of the corporation by the directors, except insofar as the consent of stockholders is required by statute, charter, or by-laws, to effect certain transactions, such as an increase in the capital stock, transfer of all the corporate assets, dissolution, and so forth. The fact that the stockholders are holders of substantially all of the outstanding stock, while the directors hold only a few shares necessary to qualify them for office, does not change the general rule. The management is nevertheless vested in the board of directors.

When the courts will interfere with management of the corporation by the directors. The courts will not interfere with the management of the corporation by the board of directors merely because of errors of judgment on its part. Where, for example, the directors honestly and in the exercise of their judgment overexpand the business activities of the corporation to such an extent that the corporation suffers heavy losses, the courts will refuse to oust them from office. Similarly, the courts will not substitute their own judgment for that of the directors who have entered into a lease, in behalf of the corporation, which the directors deem fair and advantageous. Where, however, the directors have acted fraudulently, illegally, oppressively, or beyond their powers, the courts will interfere in order to protect the corporation.

A director cannot agree to relinquish his duty to manage the corporation. The stockholders have a right to expect from every director good faith, reasonable care, and prudence in the consideration of every question that is presented to the board of directors in managing the corporate affairs. A director cannot relieve himself of this obligation by contract. He cannot agree with the stockholders, with his codirectors, or with the corporation that he will act merely as a nominal or "dummy" director. So far as the law is concerned, a director's function is to direct, and no such thing as a "dummy" director exists.

Limitation on power of directors to effect fundamental changes in the corporation. The power of the board of directors to manage the corporate affairs includes the transaction of the ordinary business of the corporation. It does not include the making of fundamental and vital changes in the corporation, such as an increase or reduction in its authorized capital stock, a change in the purposes for which the corporation was organized, a transfer of all the assets of the corporation by sale or lease, a voluntary dissolution of the corporation, and so forth. In most states the statutes contain specific provisions requiring the approval of a certain percentage of the stockholders to enable the directors to effect such basic changes.

What powers may directors delegate to others? The board of directors may delegate to others the performance of ministerial acts and the transaction of the ordinary routine business of the corporation. For example, the board may engage an individual to manage

one of its branch stores, with power to hire and fire any and all employees necessary in running the store. It may authorize officers to prepare, execute, and deliver certain documents; to enter into contracts of employment; and to sell securities for the corporation. The directors cannot, however, unless the articles of incorporation specifically authorize them to do so, transfer to others any duties imposed upon them that involve the exercise of judgment and discretion. For example, the board of directors cannot give an employee general power to lease property of the corporation; it cannot delegate to officers the power to determine when calls shall be made for the payment of subscriptions to stock. Nor can the directors delegate powers given to them by the stockholders, which powers they would not otherwise have had. If the stockholders should adopt a resolution granting to the board of directors power to make and adopt all by-laws for the corporation, the board would have no power, in its turn, to adopt a resolution granting to the president the power to make and adopt by-laws.

Is a resolution necessary to effect a delegation of powers by directors? In delegating any of its powers to others, it is advisable that the board of directors, formally, at a duly called meeting, adopt a resolution setting forth clearly the nature and extent of the authority given. A resolution is, however, not essential. The board of directors, by its acquiescence in a course of dealing by the person to whom it has delegated authority informally, is bound by that person's acts performed pursuant to such delegation of authority. The election of a person to an executive office may in itself imply that that person has the usual powers accompanying the office. Even if a resolution delegating authority is adopted, and that resolution specifies the powers granted thereby, the corporation will be bound by the exercise of additional powers not mentioned in the resolution if the board of directors acquiesces therein.

Power of directors to appoint committees. The board of directors may appoint committees to perform various functions for it, the members of which may be directors or others. The power to appoint committees is expressly granted to the board by statute in some states and is confirmed in the by-laws of many corporations. The committee most commonly appointed by the board of directors is the executive committee, which exercises the powers of the board in ac-

cordance with the policy of the corporation and under the direction of the board during intervals between directors' meetings. The powers of the executive committee include the transaction of the ordinary business of the corporation; it may be authorized to make loans, to endorse notes in the corporate name, to make purchases for the corporation, to collect debts owing to the corporation. An executive committee that has powers of the board when the board is not in session may not assume sole control of the corporation for an indefinite period, amend by-laws that only the directors are by statute permitted to amend, change the number of members of the committee, remove a member by a majority vote, or appoint or remove officers and fix their salaries. Nor may such an executive committee execute a contract upon which the corporation is about to act. The calling of a meeting of the board may suspend the power of the executive committee to act in place of the board.

Power of directors to employ, compensate, and remove agents and servants. As an incident to its power to manage the corporation, the board of directors has the power to determine who shall carry out its orders, and to appoint such agents and servants for the corporation as it sees fit. This power is generally confirmed by the charter or by-laws of the corporation. In the absence of fraud, the courts will not interfere with the board of directors in its appointments. It is also within the discretion of the board of directors to fix the amount of compensation of agents and servants appointed by it, and the terms of their employment. The board may provide for payment of compensation in advance; it may authorize payment of commissions in addition to salaries; it may give bonuses to employees.

The power of the board of directors to remove agents and servants follows the power to appoint them. If the length of employment is not fixed by contract, the employee may be removed by the board of directors at any time. If the contract does fix a definite term of employment, a discharge by the directors before the expiration of the time fixed, without proper cause, may subject the corporation to liability in an action by the employee for breach of contract.

May directors appoint agents for a term beyond their own term of office? The board of directors may contract with agents to perform services for the corporation beyond the board's own term of office, provided the contract is reasonable in the light of the sur-

rounding circumstances. The following test of reasonableness has been laid down: Does the power given to the agents appointed beyond the directors' term of office deprive the stockholders of their right to change the management of the corporation at subsequent annual elections? If it does, it is not reasonable, and the contract of employment is invalid. A contract employing an officer for a period as long as the corporation continued in existence was held unreasonable. On the other hand, a contract employing a general manager for a period of ten years was held valid.

May directors ratify unauthorized acts performed by others in behalf of the corporation? The board of directors may ratify unauthorized acts of others only if it could in the first instance have granted authority to perform those acts. For example, the general manager of the corporation, who has no authority to make purchases in behalf of the corporation, buys a carload of merchandise. The board of directors may ratify the purchase, since it could have authorized the general manager to make the purchase in the first place. In order that ratification may be effective, however, it must be made with full knowledge of all the facts. If, for example, the general manager had made a secret profit in the purchase of the merchandise, and the board of directors, unaware of his personal interest in the transaction, had ratified the contract of purchase, the ratification would not be binding upon the corporation, and the directors could subsequently, upon learning the facts, repudiate the transaction.

Is a resolution necessary in order that directors may be deemed to have ratified an unauthorized act? The directors may ratify an agent's unauthorized act by resolution, but such resolution is not essential. Ratification may be implied from acquiescence by the board of directors in the unauthorized act, with full knowledge of the facts. Mere silence on the part of the board of directors does not always mean that the directors have acquiesced.

Power of directors to make contracts for the corporation. As an incident of their power to manage the corporation, the directors have the power to make any contracts in behalf of the corporation necessary, suitable, and proper in carrying out the corporate purposes. In the absence of fraud, their contracts are binding upon the corporation, although they may prove to have been unwise.

The directors may and often do delegate to officers and others

their power to contract. Contracts entered into in behalf of the corporation by officers and others without authorization from the board of directors have also been held binding upon the corporation where such unauthorized persons were held out as having had the authority to contract for the corporation, and where the rights of innocent third persons were involved. The directors are not required to sign contracts that they have authorized. Authority to sign in the name of the corporation is generally given to designated officers by statute, charter, by-law, or resolution of the board of directors.

May a director or officer contract with the corporation? A director or officer may enter into a contract with the corporation, provided that he deals openly with the corporation and that the contract is properly authorized. If a director is personally interested in a matter that is being authorized by the board he should not vote upon the question.

Contracts with interested directors are not void merely by reason of the relationship between the parties. A corporation may, however, avoid the contract under the following circumstances:

1. If the interested director or officer participated in authorizing the corporation to enter into the contract, and his vote was necessary to bind the corporation, it is generally held that such a contract may be set aside even if it was fair to the corporation and even if the interested director or officer acted in good faith.

2. If the interested director or officer participated in authorizing the contract, but his vote was *not* necessary to bind the corporation, the courts are in conflict as to the right of the corporation to set aside the contract. Two rules exist:

- (a) The Federal courts and those of a majority of the American jurisdictions hold that a contract with an interested director or officer who participated in authorizing the contract, but whose vote was not essential to such authorization, is voidable only if unfair to the corporation. These courts examine the contract closely for fraud, and place the burden of proof of fairness upon the officer or director.

- (b) Some jurisdictions, including New York, hold that a contract with a director or officer may be set aside where the interested director or officer participated in authorizing it, irrespective of whether or not the contract was a fair one, and without any showing that the

influence of the interested director or officer determined the action of the corporation. The theory on which this view is based is that a director or officer stands in the relation of a trustee to the corporation, and all contracts made by a trustee or fiduciary in which he is personally interested may be set aside at the election of the party he represents.

3. Whether or not the interested director or officer participated in authorizing the contract, it may always be set aside if it is shown that the contract was not fair to the corporation or that it was not entered into in good faith by the officer or director.

Power of directors to borrow money for the corporation. The power to borrow money rests with the board of directors as an incident of its power to manage the corporation. The directors may, however, delegate the power to borrow to an officer or agent of the corporation expressly by resolution of the board, impliedly by permitting it to appear that the officer or agent has authority to borrow, or by acquiescing in his acts. For example, the board of directors delegates to the vice-president the management of the business. In the course of his duties as manager, the vice-president from time to time borrows money from the bank in order to finance the purchase of merchandise necessary in carrying on the business. The corporation in this case is bound by the loan to the corporation, for the directors have, by entrusting management of the corporate affairs to the vice-president and permitting him to make loans, clothed him with authority to borrow in behalf of the corporation. Even if the vice-president had had no authority to borrow, either express or implied, the directors could not retain the benefits of the loan for the corporation and at the same time disown the acts of its vice-president.

The directors' power to borrow in behalf of the corporation is co-extensive with the power of the corporation to borrow. Where the statute or charter limits the amount of indebtedness that the corporation is authorized to incur, the directors are, of course, bound by that limitation. Some statutes impose personal liability upon directors who permit the corporation to incur debts beyond the amount limited by statute.

May the directors give security for loans to the corporation? As an incident of its power to borrow money for the corporation, the board of directors may issue evidences of the corporation's indebted-

ness in the form of promissory notes, bonds, and so forth, and may give security for the loans to the corporation. This security may be in the form of a mortgage or pledge of specific personal property, a mortgage of specific real property, or a mortgage of all the property owned by the corporation at the time of execution of the mortgage and to be acquired by it in the future. The board of directors may give a mortgage to secure future advances, the mortgage becoming operative when the advances are actually made. It may also give security for a debt that already exists against the corporation, provided the debt is a bona fide one, and the security is given in good faith. The fact that the creditor happens to be a director or stockholder of the corporation does not prevent the giving of security for an antecedent debt, but the courts will scrutinize such transactions closely to determine whether or not they were effected in good faith.

Must the directors obtain the stockholders' consent to mortgage corporate property? The general rule is that the power to mortgage property of the corporation rests with the board of directors as an incident of its power to borrow, subject to contrary provisions in the statute, charter, or by-laws. Officers have no power to mortgage the corporate property unless authorized to do so by the board of directors expressly by resolution, or impliedly by holding out the officer to the public as possessing the power to mortgage. In some states the statutes specifically require the consent of a fixed proportion of the stockholders to the mortgaging of property, and, as a protection to the stockholders, specify the formalities to be followed in obtaining such consent.

May a director or officer lend money to the corporation? A corporation needing funds to carry on its business may borrow them from a director or officer, unless it is specifically prohibited from doing so by statute of the state of its incorporation, or by the provisions of its charter or by-laws. Loans by directors or officers may be made in the form of direct advances of funds or by endorsement of paper executed and negotiated by the corporation. The director or officer may accept interest on the loan at the legal rate, and he may take security for repayment. The entire transaction must, however, be entered into in the utmost good faith, and the courts will subject it to rigid scrutiny. Where a corporation does not need funds, a loan by a director or officer to the corporation is improper,

and the director or officer may be compelled to account for any interest received on his loan and to return any security given.

May a director or officer borrow money from the corporation?

The statutes in many states prohibit loans by the corporation to directors, officers, or stockholders, and impose upon those authorizing the loan a liability to the corporation for the amount advanced. In other states such loans are permitted provided interest is paid and security given. In the absence of any restrictive statutes, loans may be made to directors, officers, and stockholders provided the transaction is entered into in the utmost good faith. It may be advisable not to lend any funds of the corporation to directors, officers, or stockholders, for such transactions are always regarded by the courts with great suspicion.

Power of directors to make guaranties in the corporate name.

In some states the statutes expressly grant to a corporation the power to bind itself as a guarantor; in others the power is expressly forbidden. In the absence of such statutes the general rule is that a corporation has the power to guarantee the obligations of others only where such an act is reasonable and necessary to enable the corporation to carry out the purposes for which it was organized. Where a corporation has power to guarantee the obligations of others, the power to make the guaranty rests with the board of directors. Thus the board of directors of a corporation having power to bind itself as a guarantor may endorse the note of, or guarantee payment of interest and principal on bonds of, a subsidiary corporation. The board of directors may ratify the unauthorized guaranty made by an officer in the corporate name if the corporation has the power to make the guaranty.

Power of directors to purchase and sell property in behalf of the corporation. The power of a corporation to purchase property is exercised by the board of directors. If the directors act in good faith, and the corporation has the power under its charter to acquire the property, the judgment of the directors in acquiring property for the corporation cannot be questioned.

The directors also have power to make sales of property in the course of the corporation's business, and to fix the terms of sale. In the absence of fraud, stockholders cannot object to sales made by the directors on the ground that the price is inadequate. If the directors, for example, in the exercise of their judgment, believe that it is ad-

visible to sell merchandise below market price or below cost, they have a right to do so. Directors may not, however, without the consent of stockholders, sell all the assets of the corporation or so substantial a portion of them that the business of the corporation cannot be continued. The test in determining whether or not the directors may sell property of the corporation without the consent of stockholders may be said to be this: Is the property sought to be sold essentially necessary to enable the corporation to transact its ordinary business? If it is, the property cannot be sold without the consent of stockholders; if it is not, the directors have power in their own discretion to sell it. For example, a corporation engaged in the business of buying and selling real estate and having numerous real estate holdings may have authority to sell any or all of the real estate holdings of the corporation upon the authorization of the directors alone and without action on the part of stockholders. Another corporation organized to own and operate one particular building may not sell that building without the consent of stockholders, for the sale would terminate the business for which the corporation was organized.

Power of directors to lease corporate property. Where a corporation has power to lease its property, that power may be exercised by the board of directors. A lease of corporate property by an officer of the corporation is not binding upon it unless authorized or ratified by the board. Consent of stockholders is not necessary to authorize a lease of property made in carrying on the ordinary business of the corporation unless required by statute, charter, or by-laws. Where, however, it is desired to lease all the property of the corporation, the directors have no power to lease it without the approval of stockholders. The statutes in the various states generally indicate the proportion of stockholders whose consent is necessary to the leasing of all the property of the corporation, and in many instances the statutes define the rights of stockholders who object to the lease. The same authority is necessary to effect a surrender of a lease as was required to make the lease in the first instance.

Corporate property may be leased to directors or stockholders of the corporation, provided the lease is made:

1. In good faith.
2. For the best interests of the corporation.
3. For an adequate consideration.

Power of directors to make gifts of corporate property. Ordinarily the board of directors has no power to give away any property of the corporation. It may, however, donate property in the course of the corporation's business where some benefit accrues to the corporation. For example, the directors may dedicate for public purposes a parcel of the corporation's real estate in order to enhance the value of other parcels of property owned by it and to stimulate their sale. Bonuses may be paid to employees to foster increased effort and efficiency. Donations to charities may be upheld where they are made to further the goodwill of the business. Endowments may be made to a university to carry on research that may benefit the corporation's future productive activities.

Power of directors to elect officers. The officers of the corporation, required by statute, charter, or by-laws, are generally elected annually by the board of directors. In addition to the power to elect these required officers, the by-laws often give to the board of directors the power to appoint such additional officers as it deems necessary in the interests of the corporation. Where the board creates an additional office pursuant to this power, it has the right to abolish that office.

Removal of officers by directors with or without cause. Directors may generally remove an officer for cause, and the courts will not interfere with their action unless it appears that the removal was entirely unwarranted. An officer may be removed without cause only under the following circumstances:

1. If the officer was not appointed for a definite term, and removal for cause is not required by statute, charter, or by-laws.
2. If the statute, charter, or by-laws expressly provide that an officer may be removed without cause.

An officer who is being removed for cause must be given notice of the proposed removal and an opportunity to defend himself.

Power of directors to issue stock. The amount of capital stock that a corporation is authorized to issue is fixed in the articles of incorporation. However, not all of the amount so authorized need be issued at one time. The power to issue stock from time to time rests with the board of directors. Ordinarily action with regard to

the issuance of stock must be taken by the board of directors at a meeting, properly called. An issuance of stock is not, however, necessarily invalid because formal action was not taken. If all the stockholders and all the directors are present and concur in the authorization of an issue of stock, the board of directors is presumed to have ratified the issuance even though it did not adopt any formal resolution of issuance. The kind of stock to be issued, the consideration to be received for the stock, and the manner and terms of issuing it, are determined by the board of directors, subject to provisions contained in the laws of the state in which the corporation is organized, its charter, and its by-laws. Directors have no power to issue stock without consideration. As a corollary of the directors' power to issue stock, the by-laws generally give the directors power to issue options to purchase stock.

Directors may incur liability for improper issuance of stock, as, for example, where they issue stock to themselves in order to gain control of the corporation, or where they issue stock to themselves without paying value therefor. For other liabilities of directors in connection with stock issuance, see page 1182.

Power of directors to declare dividends. The power to declare dividends and to determine the manner in which they shall be paid rests with the board of directors. This rule is, however, subject to the following limitations: (1) the directors must act in good faith; (2) a statute may limit or control the action of the board of directors; (3) the charter or by-laws of the corporation or some other governing instrument or contract may place an obligation on the directors to declare a dividend, or may limit its power to do so.

The courts will not interfere with the discretion of the directors in determining whether or not a dividend should be declared unless it appears that the directors have acted fraudulently, oppressively, or unreasonably. Dividends may, however, be declared only out of profits or surplus of the corporation and not out of capital. It is the duty of directors to determine not only whether it is expedient from a business standpoint to distribute profits or surplus to the stockholders but also whether a surplus or profit exists according to the law of the state in which the corporation is organized. These laws vary from state to state.

The by-laws generally give the directors power to close the stock-

transfer books of the corporation a certain number of days before a dividend date or to fix a record date to determine which stockholders are entitled to dividends.

Are formalities required in the declaration of dividends by directors? While no formalities are required in declaring a dividend, it is advisable in all instances for the board of directors to adopt a resolution at a duly convened meeting, declaring the dividend and indicating the following:

1. The rate or amount of the dividend.
2. The class of stockholders to whom the dividend is payable.
3. The date set for determination of who is entitled to the dividend.
4. The date when the dividend will be paid.
5. The medium in which the dividend is to be paid.

The minutes of the directors' meeting at which the resolution is adopted should also show the names of those present at the meeting and of those who voted against passage of the resolution declaring the dividend.

May directors revoke a dividend? Ordinarily directors cannot, without the consent of stockholders, revoke a dividend once it has been declared, for a declaration of a dividend creates a debt from the corporation to the stockholders. Revocation of dividends has, however, been upheld by the courts in the following instances:

1. Where the directors illegally declared a dividend that would impair the capital of the corporation, acting under a mistaken belief that there were profits legally available for dividends.
2. Where the action of the board in declaring the dividend had not been made public, and no funds had been set apart for payment.
3. Where, after declaration of the dividend, some event occurred making it inadvisable to pay the dividend; as, for example, where a fire destroyed property of the corporation after declaration of a dividend, and the directors honestly believed it advisable to use the money to restore the property rather than to pay the dividend; or, where war broke out after declaration of a dividend, seriously affecting the corporation's business and making payment of the dividend highly inadvisable.
4. Where the dividend was declared payable in stock, and the stock

out of which the dividend was to be paid had not yet been issued. Where, however, the stock dividend was declared payable out of treasury stock, it was held that the dividend could not be revoked.

Liability of directors for illegal dividends. In most states the statutes specifically provide that directors who declare illegal dividends are liable personally to the corporation and to its creditors. The extent of the liability is determined by the governing statute. The liability may be limited to the amount of debts outstanding when the dividend is declared; it may be extended to debts incurred at any time during continuance of the directors in office; or it may apply to the amount withdrawn from capital, with interest. Penalties in the forms of fines and imprisonment are also imposed in some states. Directors who dissent from the declaration of the illegal dividend or were absent from the meeting at which the illegal dividend was declared may be relieved of liability by statute. The statutes may, however, specify the manner in which such dissent or absence should be indicated or noted in the minutes of the meeting, and these instructions must be followed in order to obtain the exemption from liability. Directors cannot avoid liability for illegal dividends on the ground that they did not know the dividend was illegal, where the facts could have been ascertained with reasonable diligence.

A director who dissents from the declaration of a dividend should, in any event, note his dissent on the minutes of the meeting. A director who was absent from the meeting at which an illegal dividend was declared should inform the board of directors, immediately upon learning of the declaration of the dividend, of his dissent, in order to avoid liability for the acts of his codirectors. See page 1182 for further discussion of director's responsibility for wrongful acts of his associates.

The corporation may recover the illegally paid dividends from stockholders. The fact that the stockholder who received an illegal dividend has transferred his shares does not relieve him of liability for repayment of the dividend.

Power of directors to prosecute and defend suits and to employ counsel. The board of directors has the power to determine whether or not suit should be brought in behalf of the corporation, and, in the absence of fraud, the courts will not interfere with the exercise of the board's discretion. The directors also have the power to employ

counsel to protect the interests of the corporation in instituting, prosecuting, or defending actions, and to incur incidental expenses in the conduct of litigation for the corporation. The litigation must, however, involve the corporation, not the directors personally. Where, for example, stockholders bring suit against the directors personally for mismanagement of the corporation, the directors have no right to engage counsel to defend them at the corporation's expense. They may, however, employ counsel at the corporation's expense where minority stockholders bring action against the corporation itself, even though such action is based upon alleged misconduct on the part of the directors or their agents. (See also page 1206.) Actions to enforce the liability of a director to the corporation are also instituted by the board of directors.

Power of directors to compromise claims. The board of directors has the power to compromise claims against the corporation if, in the honest exercise of their judgment, the directors believe such compromise to be for the best interests of the corporation. In the absence of fraud, the courts will not interfere with their action, even though it appears that better terms could have been secured. Even if the directors have acted fraudulently, the courts may refuse to interfere if the rights of an innocent third person are involved, and the corporation may be relegated to its remedies against the directors themselves.

Liability of directors for negligence and neglect of duty. Directors are personally liable for losses to the corporation resulting from their negligence in the conduct of the corporation's affairs. This liability exists regardless of whether or not the statutes of the state of incorporation impose liability for acts constituting negligence. They are not liable for mistakes or mere errors of judgment, but they are required to use reasonable care, skill, and prudence in the performance of their duties. Whether or not a director has used reasonable care and diligence is a question of fact, to be determined from the circumstances surrounding each particular case. Gross inattention to the business of the corporation that results in loss to the corporation constitutes negligence for which the directors are liable. A director must devote his time and attention to the affairs of the corporation. The fact that the directors have delegated their powers to others does not relieve them of liability. They cannot com-

pletely abandon their duties and have others act for them. (See also page 1164.)

Are directors liable for failure to attend board meetings? It is the duty of every director to attend meetings of the board with a fair degree of regularity. If a director fails to do so, he may be held liable for losses that the corporation may sustain because of his negligence in attending. For example, if one director is continually absent from board meetings, and his codirectors during his absence dissipate the assets of the corporation by voting themselves enormous salaries, the absent director as well as his codirectors may be held liable, even if he knew nothing of their action. Had he been present at board meetings, he might have been able to prevent the wrongful action of the other directors. A director is presumed to know everything concerning the corporate affairs that he could have ascertained had he used reasonable diligence in performing his functions. Absence of a director from a particular board meeting because of pressing business or illness, however, does not constitute actionable negligence.

If no directors' meetings are held, the whole board may be liable for losses sustained by the corporation by reason of its failure to manage the corporate affairs. For example, if the president, in the absence of directors' meetings, has assumed entire management of the corporation, using the corporate property for his own purposes, the directors may be held liable to the corporation for the value of the property diverted.

Liability of directors for misapplication of assets. Directors hold the property of the corporation in trust for the corporation, its stockholders, and its creditors. They must account for all assets that come into their hands, in the form of cash or otherwise, and are liable for misapplication of any of the assets, whether the misapplication is innocent or fraudulent. For example, a director may be forced to account for a loan made to him in violation of a State statute; he may be required to return the amount of a gift voted to him by his codirectors; he may be held liable for an amount paid by the corporation as compensation for counsel employed to defend the director personally; he may be compelled to reimburse the corporation for the use of corporate assets to pay his personal debts. The liability of directors for misapplication or misappropriation of

corporate assets applies whether or not a State statute imposing a liability exists. The statutes in many states specifically make the directors liable for excessive and improper loans to directors or stockholders and for improper issuance of stock.

The directors will not be held liable if no rights of creditors are affected by their improper acts, and all the stockholders have consented thereto.

Liability of directors for acts beyond the corporate powers. Acts that are outside the corporation's powers are known as *ultra vires* acts. A director who participates in such acts is liable for any loss resulting therefrom. For example: A corporation is organized to manufacture pianos. The directors decide that it would be profitable for the corporation to manufacture and sell sporting goods and contract to purchase a complete line of bicycles. The purchase and sale of bicycles is clearly not within the scope of the corporation's powers. The directors may be prevented from carrying out the transaction, or they may be held personally accountable for the full amount expended by the corporation in the *ultra vires* transaction, together with interest. Of course, if the stockholders acquiesce in the unlawful transaction, they cannot afterwards hold the directors liable for having entered into it.

Liability of directors for secret profits. Directors are required to act in the utmost good faith in all transactions affecting the corporation. If they secretly profit personally by any transaction either with the corporation or affecting the corporation, without full disclosure of the facts, the corporation may recover such profits. For example, where the corporation purchases a parcel of real estate and the seller secretly pays a commission on the sale to one of the directors of the purchasing corporation who was instrumental in bringing about the sale, the director can be compelled to account for the secret commission that he has received. Even if he has given part of the commission to others, he must account for all of it. The corporation may also, upon discovery of the facts, rescind the contract, even though the purchase price may have been a fair one and the purchase advantageous to the corporation. A director who enters into a direct transaction with the corporation in which he has an interest must account for any profits made by him in the transaction if he fails to disclose his interest. For example, a director sells to his corpora-

tion at a fair price some merchandise that he owns. He fails to disclose that he has bought the merchandise at a very low price with the express purpose of reselling it to the corporation. The corporation, on learning the facts, may either rescind the sale or hold the director liable for the profit that he made on the transaction. On the other hand, had he disclosed the facts, he would not be compelled to surrender his profits, for a director may deal with the corporation provided he does so fairly.

Liability of directors for fraudulent statements and acts. A director is personally liable for his fraudulent statements and acts to anyone who was damaged by relying upon them. It is not necessary that the fraudulent statements shall have been made directly to the person injured. For example, a director sends to a credit agency a statement of the corporation's affairs that he knows to be false. The credit agency submits the statement to one of its subscribers who has applied for information concerning the financial strength of the corporation. Acting upon the false statement, the subscriber extends credit to the corporation, which, as a matter of fact, is hopelessly insolvent. The subscriber may hold the director personally liable. The fact that the director was acting for the corporation and not in his own behalf does not relieve him of liability.

May a director prefer one creditor over others? Although a director to whom a corporation is indebted may not obtain an advantage over other creditors of the corporation by paying off his own debt in the face of the corporation's insolvency, he incurs no personal liability if he gives a preference to some other creditor in whose claim he has no interest. The preference itself may be illegal, and the creditor who receives it may be held accountable, but the director himself will incur no personal liability to other creditors.

Are directors liable to creditors and stockholders or only to the corporation? Ordinarily directors are liable primarily to the corporation for their acts of malfeasance, misfeasance, and nonfeasance in the management of the corporate affairs. Neither the creditors nor the stockholders may sue to enforce such liability except in a representative capacity on behalf of the corporation. Where, however, the misconduct of a director toward an individual creditor or stockholder has resulted in loss to him, he may hold the director

liable in an individual action. The statutes in some states also make directors liable to creditors under specified circumstances; as, for example, where directors assent to the creation of a debt beyond the amount of indebtedness permitted by statute, or where directors authorize the declaration of an illegal dividend.

Common law liabilities of directors. In the preceding discussion the liability of directors under the common law were indicated. In summary, they are:

1. For secret profits.
2. For waste of corporation assets.
3. For losses due to negligence.
4. For acts beyond the corporate powers.
5. For fraudulent statements and acts.

Acts for which directors may incur criminal liability under State laws. The following are some of the offenses for which directors are made liable by statute in the various states:

1. Doing business before receiving proper authorization therefor; doing business as a foreign corporation without a license.

2. Conducting the business of a corporation for an unlawful purpose.

3. Issuance of stock certificates before payment of franchise tax.

4. Signing or issuing improper certificates of stock.

5. Exhibiting false records to public officers examining the corporation's affairs.

6. Fraudulent reissuance of cancelled stock certificates.

7. Refusal to exhibit list of stockholders entitled to vote.

8. Signing, issuance, sale, or assignment of notes, bonds, stock, and so forth, fraudulently and without authority.

9. Receiving gratuities for making contracts or transacting business.

10. Sale of position of director of certain classes of corporations, or receipt of consideration for resigning.

11. Failure to notify other directors or officers of service upon director of application for injunction affecting the property or business of the corporation.

12. Refusal or failure to make proper entries in corporate books and records; making of false entries in books, statements, and reports.

13. Failure or refusal to make reports.
14. Illegal authorization of dividends.
15. Misuse of corporate funds.
16. Illegal loans.
17. Making of false statements in advertising for corporation.
18. Engaging in agreements and practices in violation of laws against trusts and monopolies.
19. Violation of laws against political contributions by corporation.

Some of these statutes refer expressly to both directors and officers; others merely impose a liability upon officers or upon offenders in general, and directors are liable thereunder by implication. In a few instances, penal statutes refer only to directors and not to officers; as, for example, a New Jersey statute making it a crime to fail to display the corporate name as required by law.

How a director can avoid liability for action taken by his co-directors. The general rule is that, in the absence of a statutory provision, a director is responsible for the wrongful acts of his associates where they have come to his knowledge, and where he acquiesces therein and takes no steps to avert the injurious consequences of the acts when, by due diligence, he might have prevented them from being done. An absent director will not be held liable for acts of his associates if he has not connived at or participated in the acts, or if he was not negligent in failing to act. (See also page 1178.) If he is present at a meeting at which action that he believes to be against the best interests of the corporation is taken, he should have his disapproval noted on the records. A director who fails to do so may be deemed to have concurred in the action taken by the board.

Some statutes specifically require that a director's dissent be noted on the records of the meeting in order that he may avoid liability for action taken at the meeting.

Directors' liabilities under Federal laws. Most of the Federal laws that affect the conduct of business, such as tax laws, anti-trust statutes, fair-trade acts, and laws regulating wages and hours, impose civil or criminal liabilities, or both, for violations of the law. Although all of these statutes do not expressly apply the civil or criminal penalties against directors and officers, there is always the possi-

bility that under interpretations of the penalty provisions directors and officers of corporations that have violated the law will be subject to the penalties. Under certain Federal laws, however, civil and criminal liabilities are imposed directly upon directors and officers for failure to comply with the provisions of the laws. The Securities Act of 1933, the Securities Exchange Act of 1934, and the Public Utilities Holding Company Act of 1935 are examples.

The imposition of heavy penalties against directors and officers by Federal and State laws has tended to make individuals more cautious about accepting corporate office.

Indemnification of directors and officers. The legislatures of several states have recognized the justice of indemnifying or reimbursing directors and officers for expenses incurred in successfully defending stockholders' suits brought against them. (See page 1206.) The United States Supreme Court has held that such statutes are constitutional and that they also apply to suits in Federal court if jurisdiction is based upon diversity of citizenship. Some of the states give the right of indemnification not only to past and present directors and officers, but also to employees.

The statutes that afford protection to the directors and officers are of two types: (1) they give the directors and officers the right to reimbursement whether or not the articles or by-laws of the corporation make provision for indemnification; or (2) they authorize provisions for indemnification in the articles of incorporation or the by-laws.

Even when there is no specific statutory authority, it is advisable, if permissible, to include an indemnification or reimbursement provision in the articles of incorporation or in the by-laws. Whether this can be done depends upon: (1) policy of state departments in accepting articles of incorporation including the provision; and (2) attitude of the courts in sustaining the provision. Most of the state departments allow articles of incorporation to include an indemnification provision, although the statutes are silent on the subject. Some courts have allowed reimbursement even in the absence of statutory authority, particularly when the successful defense of the suit has preserved corporate property. But the weight of authority, numerically at least, is against such reimbursement where there is no statute authorizing it.

A by-law that permits indemnification of directors and officers usually provides:

1. They must not be guilty of negligence or misconduct in their duties.
2. The liability against which they are indemnified includes attorney's fees and other expenses.
3. They are indemnified whether or not they are in office at the time the expenses are incurred.
4. Their right to indemnification passes to their heirs, executors, and administrators.
6. The indemnification may be against liability incurred for acts committed prior, as well as subsequent, to adoption of the by-laws.
7. The right to indemnification is not exclusive of other rights the directors and officers may have as a matter of law.

4. DUTIES, POWERS, AND LIABILITIES OF CORPORATE OFFICERS

What officers is a corporation required to have? The statutes in most states specify what officers a corporation must have and leave the creation of additional offices to the discretion of the board of directors or of the stockholders. The officers specifically required by statute generally include a president, a secretary, a treasurer, and a resident agent for service of process upon the corporation. In the absence of any statutory requirement as to the number of officers, the charter or by-laws may fix the number to meet the needs of the particular corporation. The following are the most usual officers of a corporation:

- | | |
|--|-------------------------|
| 1. Chairman of the board of directors. | 5. Secretary. |
| 2. President. | 6. Assistant secretary. |
| 3. Assistant to the president. | 7. Treasurer. |
| 4. One or more vice presidents. | 8. Assistant treasurer. |
| | 9. Controller. |
| | 10. General manager. |

Who are qualified to act as officers? The statutes in some states prescribe certain qualifications for officers; as, for example, that the president must be a director of the corporation or that some or all

of the officers must be stockholders. More frequently, however, the charter or the by-laws specify the qualifications of officers. One person often holds two offices in the same corporation, and the power to do so is confirmed by statute in some states. Two corporations may have the same officers, without impairing transactions between the corporations that have been entered into in good faith. However, in certain classes of corporations that are subject to special legislation, such as banks, public utilities, holding companies, and investment companies, statutory restrictions may prevent an officer or director of one company from holding office in another corporation at the same time.

How officers are chosen. The statutes in most states vest in the board of directors the power to elect or appoint officers. The by-laws also generally contain a provision, consistent with any statutory requirements, for the election of officers. It is sometimes provided that the officers shall be elected by the board of directors after its election by the stockholders and that a meeting may be held without notice for this purpose immediately after the annual meeting of stockholders and at the same place. Formal acceptance of office is not required, but an individual cannot be forced into an office against his will. The power to fill vacancies in office rests with those who originally had the power to elect or appoint the officers, unless the statute or by-laws give to others the power to fill vacancies in office.

Effect of failure to elect officers. If new officers are not elected, the old officers continue to hold their offices, regardless of whether or not they were elected for a fixed term, until they are removed, until they resign, or until the new officers are elected and qualify. The failure to elect required officers does not ordinarily cause a dissolution of the corporation. Some statutes do, however, provide that a corporation may be dissolved upon a petition to the courts by a creditor, where the corporation has not elected officers or done business within a fixed time.

Term of an officer. The term of office is usually fixed by the statute of the state in which the corporation is organized, or by the corporation's charter or by-laws. The term may be:

1. One or more years.
2. At the pleasure of the board of directors, in which case the board

may not have power to enter into a contract for a definite period of time.

3. For such time as the board of directors may by contract or resolution determine.

4. Until the next annual meeting of directors and until their successors are elected.

If the term of office is not fixed, an officer holds his office at the pleasure of the corporation or until he resigns and his successor is elected. An officer's term of office does not expire merely because the term of the directors who appointed him has expired.

Resignation of an officer. An officer may resign at any time, although elected for a fixed period, unless he is restricted by the corporation's charter or by-laws, by the laws of the state in which the corporation is organized, or by the terms of his contract with the corporation. He may resign even if it is provided that officers of the corporation shall hold office until their successors are elected or appointed. A resignation must be tendered in good faith. Where, for example, all the officers resign at one time in order that the corporation may be placed in a receiver's hands, the resignation will not be recognized by the courts, for it will be deemed to be fraudulent.

If a resignation is tendered to take effect on acceptance, it must be accepted before it is effective. If it is tendered to take effect at once, acceptance is not necessary unless made so by statute, charter, or by-laws. The resignation may be written or oral, and no particular form is required.

Removal of an officer with or without cause. A corporation may remove an officer for cause, even if his term of office is fixed. An officer may be removed without cause if his term of office is not fixed, and removal for cause is not required. An officer may also be removed without cause even though his term of office is fixed, if the statute, charter, or by-laws expressly authorize removal without cause. The power to remove an officer rests with the person or persons authorized to elect or appoint him. Generally, this power is given to the board of directors. An officer who is removable at the pleasure of the board need not be given notice of removal or a hearing. Where, however, an officer is being removed for cause, reasonable notice of intention to remove, adequate time to prepare his defense, and a fair

hearing are required. An officer who has been removed unlawfully may apply to the courts for reinstatement.

Can the officers bind the corporation by their acts? The officers of a corporation are its agents. They can bind the corporation by their acts only when such acts are within the scope of the authority granted to them. Authority to act may be given to an officer by statute, by the corporation's charter, by its by-laws, and by express resolution of the stockholders or directors granting him authority to act. An officer also has implied authority to do acts that are reasonably necessary to carry into effect the express powers granted. For example, if a corporation gives an officer power to borrow money in its behalf, the officer also has power to arrange the terms of the loan and to agree to give security therefor.

In addition to express and implied powers, officers have so-called "apparent" powers by which they can bind the corporation. For example, where a corporation permits an officer to assume certain powers or holds him out as possessing those powers, the corporation cannot afterwards deny, as against an innocent person who relied upon the officers' apparent authority, that the officer had authority to act. Similarly, if a corporation ratifies an unauthorized act of its officer, that act will be binding upon it. The corporation may not, however, ratify an act of the officer in its behalf that is beyond the powers of the corporation itself. Those who deal with an officer of the corporation are deemed to know the limitations on his authority. Where, however, a limitation is contained in a by-law, an innocent person who knew nothing of the limitation is not bound by it.

Duties performed by officers. Officers have very few inherent powers; that is, powers that exist merely by virtue of their holding a particular office. Such powers as they do have are derived from the State corporation laws, from the corporation's charter and by-laws, and from resolutions of the board of directors and of the committees appointed by the board. The duties performed by persons holding the same office vary widely from one corporation to another. The following lists indicate the detailed duties generally assigned to the chief officers of the corporation. The table on pages 1193-97, compiled from 115 complete replies to a questionnaire, indicates in percentages the number of corporations in which certain administrative functions are supervised by certain officers.

Duties of chairman of the board of directors. The following are the usual duties of the chairman of the board.

1. Acts as senior officer of the corporation.
2. Presides at meetings of the board and of the stockholders.
3. Directs the policy of the corporation.
4. Has primary control over methods and amounts of capital financing.
5. Delegates powers to the president.
6. Acts as ex officio member of all standing committees.
7. Appoints members of all committees not otherwise ordered by the by-laws.

In some corporations, the chairman of the board is not the senior officer, but ranks immediately below the president.

Duties of the president. The following are the usual duties of the president.

1. Calls meetings of stockholders.
2. Signs statements and reports required to be filed with State officials.
3. Makes acknowledgments of instruments.
4. Acts as executive officer and has general management and direction of business.
5. Performs all duties of chairman of board in his absence or in case of his inability to act.
6. Signs certificates of stock with secretary or assistant secretary.
7. Signs and executes in corporate name all deeds, mortgages, bonds, contracts, and so forth.
8. Executes stockholders' consents, and attends and votes at stockholders' meetings of corporations in which the company owns stock.
9. Acts as ex officio member of all committees.
10. Prescribes duties for officers and employees not otherwise defined.
11. Countersigns checks, drafts, and orders for payment of moneys.
12. Appoints officers and employees, except those selected by the board of directors; removes such officers and fills vacancies.
13. Employs and discharges all employees and fixes their salaries.
14. Compensates directors for special services.
15. Appoints his assistants.

16. Sees that all orders and resolutions of the board are carried into effect.

17. Reports to the chairman of the board and consults with him.

See also table on pages 1193-97, indicating that the president often handles real-estate matters, leases, investments, loans, reports to stockholders, budgets, and publicity.

Duties of assistant to the president. The following are the usual duties of the assistant to the president:

1. Relieves a busy president of some of his duties, such as representing him at conferences and meetings.

2. Directs administration of a distinct department of the business, such as production, engineering, sales promotion, merchandising, office management, and so forth.

3. Co-ordinates activities between individual executives or department heads.

4. Serves as member of committees, such as executive committee, management advisory committee, workers' council, pension board, and employee stock-purchase committee.

Duties of the vice president. The following are the usual duties of a vice president:

1. Performs the duties of the president in his absence or in case of his inability to act.

2. Acts as assistant to the president and under his direction.

3. Performs such duties as are assigned to him by the board of directors or by the president.

4. Signs certificates of stock with the secretary.

5. Signs bonds, debentures, and dividend checks.

See also table on pages 1193-97, indicating that the vice president is sometimes charged with budgeting, leases, loans, patents, and real-estate matters.

Duties of the secretary. The following are the usual duties of the secretary:

1. Prepares schedules of meetings and gives notices of meetings.

2. Drafts resolutions, attends and records proceedings of meetings of stockholders and directors; acts as secretary at meetings of executives, branch managers, and department heads.

3. Signs or attests statements and reports filed with State officials, published, or submitted to stockholders.

4. Signs acknowledgments of instruments.

5. Maintains the register of stockholders and other stock books and allows inspection by stockholders; prepares stock list and keeps it open for inspection.

6. Executes proxies or powers of attorney to vote stock owned by the corporation.

7. Signs certificates of stock with some other designated officer.

8. Gives notice of sale of stock forfeited for nonpayment of assessments.

9. Keeps the records and seal of the corporation, and affixes the seal where necessary.

10. Sees that books, reports, and documents are properly prepared, kept, and filed; guides other officers in matters pertaining to corporate procedure and issuance of corporate reports.

11. Maintains a calendar or follow-up record of dates on which various departments are required to take action, and notifies them in advance of the action to be taken.

12. Advises officers and directors of their election.

13. Prepares abstracts of papers belonging to the corporation, and records them.

14. Publishes action in respect to dividends.

15. Registers bonds of the corporation.

16. Transmits to auditor, for recording, copies of contracts providing for payment of money to or by the corporation.

17. Looks after physical care of buildings, real estate, and so forth.

18. Maintains insurance on corporate property.

19. Has charge of correspondence and personal relations with security holders. See also table on pages 1193-97, indicating various administrative functions supervised by the secretary.

Duties of assistant secretary. The following are the usual duties of an assistant secretary.

1. Acts in place of the secretary in his absence or in case of his disability.

2. Performs secretarial duties where the corporation has principal offices in several cities.

3. Where assistant secretary acts for subsidiary, he keeps in com-

munication with secretary of holding company, and sends copies of resolutions, records, documents, and so forth, for filing in main office.

Duties of the treasurer. The following are the usual duties of the treasurer.

1. Files reports of financial condition and tax reports with officials of the State.
2. Prepares reports upon demand of stockholders.
3. Has charge and custody of and is responsible for all funds and securities of the corporation.
4. Deposits funds and maintains bank accounts in banks designated by the board of directors.
5. Keeps books of account of moneys received and paid out in behalf of the corporation.
6. Exhibits books and records to directors during business hours.
7. Receives and gives receipts for moneys due the corporation.
8. Renders a statement of condition of finances at regular meetings of directors and renders full annual report at stockholders' annual meeting.
9. Signs certificates of stock with a designated officer.
10. Arranges for listing of corporation's securities on stock exchange.
11. Signs checks, bills of exchange, and promissory notes.
12. Advises the corporation in regard to financial matters.
13. Handles surety bonds.

Duties of assistant treasurer. The following are the usual duties of an assistant treasurer:

1. Performs all the duties of the treasurer in his absence or in case of his inability to act.
2. Assists treasurer and performs duties assigned to him by the treasurer or by the board of directors.

Duties of the controller. The following are the usual duties of a controller:

1. Acts as principal accounting officer in charge of accounting books and records.
2. Audits payrolls and vouchers and causes them to be properly certified.

3. Initiates, prepares, and issues standard practices relating to all accounting matters and procedures and co-ordinates systems throughout the corporation, including clerical and office methods, records, reports, and procedures.

4. Obtains from agents and from departments of the corporation reports for recording general operations or for directing accounts.

5. Maintains and enforces classification and other accounting rules prescribed by regulating bodies.

6. Causes to be prepared and filed reports and statistics required by law or prescribed by the president.

7. Prepares balance sheets, income accounts, financial statements, and reports.

8. Prepares, as budget director, in conjunction with other officers and department heads, an annual budget covering all activities of the corporation, for submission to the board of directors prior to the beginning of the fiscal year.

9. Approves for payment vouchers, drafts, and other accounts payable, when properly authorized by the president or others designated by the president.

10. Endorses checks, notes, and obligations for collection, deposit, or transfer.

11. Countersigns warrants drawn by the treasurer for depositing securities in safe-deposit boxes or for withdrawing the same.

12. Countersigns checks drawn by the treasurer against funds of the corporation, except as otherwise provided by resolution of the directors.

13. Appoints an auditor and subordinate employees and fixes their compensation.

14. Has charge of records and clerical and office procedure throughout the departments of the corporation and its subsidiaries.

See also table on pages 1193-97, indicating that the controller sometimes handles dividend payments, insurance, leases, and tax matters.

Duties of the general manager. "General manager" is the title given to one who has general direction and control of the corporate affairs. While an officer of the corporation, such as the president, vice president, secretary, or treasurer, may also hold the office of general manager, the latter is ordinarily not an officer of the corporation. He is an agent with power to bind the corporation by contracts nec-

essary in the prosecution of the corporate business. His powers vary with the nature of the business, but usually include the following:

1. Directing and supervising the ordinary details relating to manufacturing, sales, and transportation.

2. Keeping complete records showing all business transacted by him, and all contracts and trade commitments made.

3. Reporting to the president the exact nature, extent, terms, and conditions of all business transacted by him, and contracts and commitments made.

4. Performing such other duties as are prescribed by the board of directors.

TABLE SHOWING DIVISION OF ADMINISTRATIVE
FUNCTIONS AMONG OFFICERS

<i>Duty</i>	<i>Officers Responsible</i>	<i>Percentage of Total Replies</i>
Accounting: supervision of department	Controller	61
	Treasurer	18
	Secretary	8
	Combination of officers	5
	Miscellaneous (including asst. treas., asst. controller, asst. sec., v.p., general auditor, chief accounting officer)	8
Annual report: preparation	Combination of officers	42
	Treasurer	15
	Secretary	11
	President	10
	Controller	10
	Public relations director	4
	Miscellaneous (including asst. treas., asst. to pres., chair- man of board, v.p.)	8
Bonds: registration, inter- est and coupon pay- ments (other than trustee or interest pay- ing agent)	Treasurer	77
	Secretary	13
	Combination of officers	7
	Miscellaneous (including asst. treas., v.p.)	3
Budgeting	Controller	36
	Combination of officers	25
	Treasurer	20
	President	6

TABLE SHOWING DIVISION OF ADMINISTRATIVE
FUNCTIONS AMONG OFFICERS (*Continued*)

<i>Duty</i>	<i>Officers Responsible</i>	<i>Percentage of Total Replies</i>
Budgeting (<i>Cont.</i>)	Secretary	3
	Miscellaneous (including asst. treas., asst. to pres., v.p., prod. mgr., dir. of budget, dept. heads)	10
Credits and collections: officer to whom department head is responsible	Treasurer	66
	Controller	15
	Secretary	2
	Combination of officers	2
	Miscellaneous (including pres., v.p., credit mgr., asst. sec., asst. treas., etc.)	15
Dividend payments (other than dividend disbursing agent)	Treasurer	63
	Secretary	23
	Combination of officers	6
	Controller	3
	Miscellaneous (including asst. treas., v.p., chairman of fin. com., fiscal agent)	5
Documents and records: custody of same	Secretary	65
	Combination of officers	18
	Treasurer	11
	Controller	2
	Miscellaneous (including asst. sec., asst. treas., dept. heads, etc.)	4
Filing: supervision of general system	Heads of individual departments	28
	Office manager	24
	Secretary	18
	Combination	11
	Controller	8
	Treasurer	5
	Miscellaneous (including asst. treas., personnel mgr., etc.)	6
Insurance	Treasurer	38
	Secretary	18
	Controller	13
	Combination of officers	12

TABLE SHOWING DIVISION OF ADMINISTRATIVE
FUNCTIONS AMONG OFFICERS (*Continued*)

<i>Duty</i>	<i>Officers Responsible</i>	<i>Percentage of Total Replies</i>
Insurance (<i>Cont.</i>)	Vice-president	8
	Insurance manager	6
	Miscellaneous (including pres., asst. treas., legal dept., etc.)	5
Investments	Treasurer	54
	Combination of officers	25
	President	11
	Secretary	1
	Miscellaneous (including chair- man of board, v.p., asst. treas., chairman of fin. com.)	9
Leases	Secretary	27
	Combination of officers	16
	Treasurer	14
	Real estate department	13
	Vice-president	12
	President	8
	Controller	1
	Miscellaneous (including asst. treas., asst. sec., legal dept., operating com., etc.)	9
Loans	Treasurer	43
	Combination of officers	29
	President	12
	Vice-president	10
	Controller	1
	Miscellaneous (including chair- man of board, asst. treas., asst. to pres., operating com., etc.)	5
Notices of stockholders' and directors' meetings: preparation	Secretary	97
	Treasurer	1
	Combination of officers	1
	Miscellaneous (including asst. sec.)	1
Patents	Legal department	43
	Patent department	25
	Secretary	14

TABLE SHOWING DIVISION OF ADMINISTRATIVE
FUNCTIONS AMONG OFFICERS (*Continued*)

<i>Duty</i>	<i>Officers Responsible</i>	<i>Percentage of Total Replies</i>
Patents (<i>Cont.</i>)	Combination of officers	6
	Miscellaneous (including v.p., pres., patent com., etc.)	12
Proxies: preparation	Secretary	86
	Combination of officers	8
	Treasurer	3
	Miscellaneous (including legal dept., asst. sec.)	
Proxies: review after re- turn	Secretary	74
	Combination of officers	18
	Treasurer	2
	Miscellaneous (including proxy com., asst. sec.)	6
Public Relations	Public relations director	35
	President	21
	Combination of officers	18
	Vice-president	12
	Secretary	6
	Miscellaneous (including asst. to pres., adv. mgr., chair- man of board, etc.)	8
Real estate matters	Secretary	21
	Real estate department	20
	Combination of officers	20
	Treasurer	12
	Vice-president	11
	President	10
	Miscellaneous (including legal dept., asst. treas., purchas- ing agent, works manager, chief engineer)	6
Standard practice instruc- tions	Combination of officers	33
	Controller	27
	Department heads	25
	Treasurer	5
	Secretary	3
	Miscellaneous (including per- sonnel director, director of standards, asst. treas., pres., procedure dept.)	7

TABLE SHOWING DIVISION OF ADMINISTRATIVE
FUNCTIONS AMONG OFFICERS (*Continued*)

<i>Duty</i>	<i>Officers Responsible</i>	<i>Percentage of Total Replies</i>
Tax matters	Treasurer	25
	Controller	24
	Combination of officers	24
	Secretary	10
	Legal department	6
	Tax department	6
	Miscellaneous (including v.p., asst. treas., etc.)	5
Transfer of stock (other than transfer agent)	Secretary	72
	Treasurer	23
	Combination of officers	4
	Miscellaneous (including legal dept.)	1

Are officers entitled to compensation for their services? Officers of the corporation who have discretionary control over the management of the corporation's business are not entitled to compensation for services rendered as an incident of their office unless authorized:

1. By charter.
2. By by-law.
3. By resolution of the board of directors or the stockholders.
4. By agreement between the officer and the corporation, express or implied.

Like directors, however (see page 1162), they may be entitled to compensation for services rendered outside of the ordinary duties of their office. Ministerial officers who are neither directors nor stockholders are entitled to be paid a reasonable amount for their services, unless it was mutually intended that no compensation was to be paid. A ministerial officer may include a secretary, assistant secretary, manager, superintendent, cashier, treasurer, or other officer, depending upon the nature of the officer's duties.

An officer who is guilty of gross misconduct or fraud in management of the corporation's affairs forfeits his right to compensation. He is not however, deprived of compensation because of absence on account of illness, particularly where he had some other officer perform his duties and the corporation suffered no loss.

May an officer lend money to or borrow from the corporation?

The principles set forth on pages 1170-71, covering the right of a director to lend money to or borrow money from the corporation, are equally applicable to an officer.

Liability of an officer for mismanagement. An officer occupies a fiduciary relation toward the corporation. By accepting office, he impliedly undertakes to give the corporation the benefit of his best care and judgment and is bound to exercise the utmost good faith in transactions touching his duties to the corporation and its property. He may not profit as an individual by his official position; he is liable for secret profits, even though the corporation suffered no damage. An officer is not, however, personally liable for depletion of the corporate assets unless he was grossly negligent in managing the business entrusted to his care or was guilty of willful destruction. In the absence of positive misfeasance, the courts are reluctant to hold an officer liable for losses suffered by the corporation because of the manner in which the officer discharged his duties. An officer is not chargeable with losses to the corporation caused by mere mistakes or errors in judgment. He is, however, bound by restrictions in the corporation's charter and by-laws and is liable for loss resulting from his failure to observe such restrictions.

Various Federal laws act as a check against the use of inside information by directors and officers for personal gains.

Acts for which officers may incur criminal liability. The liabilities listed on page 1181 *et seq.* for directors are also applicable to officers.

5. STOCKHOLDERS' RIGHTS

Have stockholders a right to participate in management of the corporation? Stockholders have no right to participate in the conduct of the ordinary affairs of the corporation. Management of the corporation is entrusted by the corporation laws of the various states to the board of directors. However, since the board of directors is elected by the stockholders, the stockholders have some measure of control over the conduct of the corporation's affairs. Further, the State statutes or the articles of incorporation may require that the consent of all or of a proportion of the stockholders be obtained be-

fore certain action is taken. The following matters are generally subject to approval of the stockholders:

1. Acceptance of the corporate charter.
2. Amendment of the corporate charter.
3. Adoption of by-laws, unless the power is expressly given to the board of directors by the State laws or by the articles of incorporation.
4. Amendment of the by-laws, if the power to amend is not expressly given to the board of directors.
5. Removal of directors.
6. Merger or consolidation of the corporation with another company.
7. Transfer of all the assets of the corporation by sale or lease.
8. Voluntary dissolution and liquidation of the corporation.
9. Assessments on fully paid stock.

The fact that the consent of stockholders is required for certain action does not mean that the stockholders can take such action without action by the board of directors. Action taken by stockholders without the board of directors will, however, be binding on the corporation if the board of directors ratifies it, or if the corporation acquiesces in the stockholders' action and receives the benefits of the transaction.

Right of stockholders to adopt and amend by-laws. By-laws are simply rules adopted by the corporation for the regulation of its affairs. Since the stockholders constitute the corporation, the power to adopt by-laws rests with them. The board of directors may, however, be authorized to adopt by-laws either by the State statutes or by the provisions of the corporation's articles of incorporation, or the stockholders themselves may by resolution delegate the power to adopt by-laws to the board of directors.

The power to amend by-laws also rests primarily with the stockholders, but the directors may be given the right to effect changes in the by-laws by State statute, by the articles of incorporation, by resolution of the stockholders, or by the by-laws themselves. Directors who are given power to adopt by-laws have no power to amend by-laws adopted by the stockholders, unless the power to amend as well as the power to adopt is expressly given to the directors. Where both stockholders and directors have the power to make and amend

by-laws, the by-laws of the directors are subject to the by-laws of the stockholders.

The manner in which the by-laws are amended is prescribed by statute in some states. In the absence of statutory provision therefor, the by-laws themselves may specify the notice and vote necessary to effect an amendment.

Power of stockholders to elect directors. The right to elect directors annually is generally given to the stockholders by statute. The manner in which the election is to be conducted is also regulated in some states. Many statutes require that election shall be by ballot and that it shall be conducted by inspectors or judges of election, appointed as provided in the by-laws. By-laws cannot modify any statutory requirement as to election. If the statute for example, provides that directors may be chosen by a plurality of votes, a by-law cannot require a majority vote for election. The right to fill vacancies in the board for an unexpired term may be taken away from the stockholders by statute and given to the directors. Even under such statutes, however, the stockholders and not the directors generally have the right to elect newly created directors where the number of directors has been increased.

Liability of stockholders to corporation for payment of stock. The stockholder is liable to the corporation for the amount that he has agreed to pay for his stock. This is true even though the certificate of stock issued to him is marked "fully paid and nonassessable." If the stock has a par value, he must generally pay a price not less than the par value. If it is without par value, the price is usually fixed by the directors, under authority granted by the stockholders or the charter.

The time when and the manner in which payment must be made depends upon the terms of the contract between the stockholder and the corporation. If the contract of purchase does not indicate when payments are due, it is implied that they are payable upon call of the directors, made pursuant to statutory provisions. A call is an official declaration that a sum is required to be paid upon a stock subscription. The length of notice of the call that must be given to the stockholders depends upon the provisions of the statute, charter, by-laws, or contract. Failure to respond to a call for payment gives the corporation the right to sue for the amount called for. In addi-

tion, the statutes of the various states gives other remedies, including the right to sell the shares and apply the proceeds to the payment of the installment, or to forfeit the shares and all previous payments made thereon.

Liability of stockholders to creditors. The extent of the liability of stockholders to creditors depends upon whether or not the stock has been fully paid. Where a stockholder has paid the full amount due on the stock, the following rules prevail with respect to his liability to creditors:

1. The general rule is that the stockholder is not personally liable for the debts of the corporation beyond the amount paid on his stock, unless the statute of the state where the corporation is organized imposes an additional liability.

2. In some states stockholders of insolvent corporations are made liable for debts due laborers, servants, and other classes of labor, although they have fully paid for their stock. Whether or not a stockholder is relieved of liability for labor debts by a transfer of his shares depends upon the law of the particular state. Generally, the stockholder is not liable for debts contracted after he has made a valid transfer. Some states make both the transferor and the transferee liable for debts contracted prior to the transfer.

Where a stockholder has not fully paid for his stock, the following rules prevail with respect to his liability to creditors:

1. The liability of stockholders to creditors to pay the amount due on their subscriptions arises generally only upon insolvency of the corporation and is governed by constitutional or statutory provisions of the state in which the corporation is organized.

2. The stockholders' liability is limited to the amount which remains unpaid on his stock, unless the statute imposes an additional liability.

3. The stockholders are generally liable to pay to creditors only so much of the amount due on the stock as is necessary to satisfy creditors' claims.

4. Each stockholder is required to bear only his proportionate share of the amount necessary to pay the debts. While each stockholder may be compelled to pay the entire sum remaining unpaid on his shares, if the amount that he has been compelled to pay is more

than his proportionate share of the debts, measured by the proportion which his stock bears to the whole stock, he is entitled to contribution from the other stockholders who have not borne their proportionate share of the debts of the corporation.

Liability of stockholders for assessments on fully paid stock. An assessment is a demand upon stockholders for payment of an amount above the par value or contract price of the stock held by them. A stockholder who has paid for his stock in full cannot be required to pay any additional amount unless an assessment on fully paid stock is authorized by statute or by charter, or unless the stockholder has consented to the making of the assessment.

Issuance of a duplicate certificate of stock upon loss, theft, or destruction of a certificate. A stockholder has a right to the issuance of a duplicate certificate of stock in the event of loss, destruction, or theft of his old certificate. The statutes in most states confirm this right and indicate the conditions under which the new certificate may be issued. Generally these conditions are also outlined in the corporation's by-laws. The following are the usual requirements:

1. An order from the stockholder upon the corporation, instructing and authorizing the corporation to stop any transfer of the lost certificate.
2. An affidavit from the stockholder, setting forth the facts surrounding the loss of the certificate of stock.
3. Advertisement by the stockholder of the loss of the certificate of stock, and furnishing of evidence of the advertisement to the corporation.
4. A bond of indemnity furnished to the corporation by the stockholder, with surety approved by the board of directors, in the amount required by statute, or by the board of directors if the amount is not fixed by statute. The amount of the bond is usually double the current value of the stock.
5. The lapse of a specified period of time, usually from three to six months, after the stockholder has complied with the requirements, before issuance of the new certificate of stock.

The board of directors may pass a resolution authorizing the issuance of a new certificate of stock in each instance, or it may pass a

blanket resolution authorizing a designated officer or its transfer agent and registrar to issue duplicat  certificates of stock upon compliance with the required conditions.

The corporation must issue a duplicate certificate of stock when the required conditions have been met; otherwise it will subject itself to liability for damages and may be compelled to issue the new certificate by court procedure. The corporation may be compelled to recognize not only a bona fide holder of the new certificate of stock but also a bona fide holder of the old certificate for the reasons mentioned below. In that event, it is protected by the indemnity bond which it requires the stockholder to furnish as a condition precedent to issuance of the duplicate certificate of stock.

The rights of a purchaser of the old certificate of stock may have to be recognized even though he purchased from a person who found or stole the lost certificate. Under the Uniform Stock Transfer Act, which has been adopted in all the states, a bona fide purchaser of a stock certificate that has been properly endorsed acquires a good title to the stock although he has purchased from a finder or a thief. If, however, the endorsement was forged, the rights of the purchaser, even though he purchased in good faith, may be defeated by the superior claim of the true owner of the certificate.

In some states a corporation is not required to issue a duplicate certificate of stock unless a court order has been obtained. A corporation may, nevertheless, voluntarily issue a new certificate without a court order.

Power of stockholders to increase stock. The power to increase the amount of capital stock that the corporation is authorized to issue rests with the stockholders. It may, however, be conferred upon the directors by express resolution of the stockholders or by charter, unless a statute expressly prohibits such delegation of power. The laws of the state in which the corporation is organized usually indicate the manner in which the increase is to be effected. An amendment of the charter, effected in the following manner, is generally required:

1. The board of directors adopts a resolution, at a meeting properly called and held, recommending an amendment of the charter to increase the amount of the authorized capital stock and calling a meeting of stockholders to pass upon the amendment.

2. The stockholders, at a meeting duly called and held, adopt a resolution authorizing an amendment of the charter to increase the authorized capital stock and instructing the proper officers of the corporation to file the necessary papers required by law to carry out the amendment.

3. The officers execute and file with the State official designated by statute a certificate of amendment or other documents required by law.

In some states, an amendment of the charter is not required to effect an increase in the authorized capital stock. The steps required to be taken to effect an increase are, however, similar to those outlined above, instead of a certificate of amendment of the charter, a certificate of increase is required to be filed.

Stockholders' pre-emptive rights upon issuance of additional stock. The pre-emptive right is the right of each stockholder, upon the issuance of additional shares of stock, to purchase his proportion of the new stock in order to maintain his relative control and interest in the corporation. For example, if A owns \$10,000 of the \$100,000 worth of stock issued and outstanding, and the corporation increases its authorized capital stock to \$200,000, A will have a right to purchase $\frac{1}{10}$ of the new issue, or an additional \$10,000 worth of stock, before the stock may be offered to outsiders. The stockholder has a right to purchase the stock at the price fixed by the corporation and, if he fails to take it, it cannot be offered to anyone else upon more favorable terms. He must be given reasonable notice of his right to subscribe, and a reasonable opportunity to exercise the right. Stockholders who are not in a position to take and pay for the stock to which they are entitled may sell the rights to anyone who can.

The pre-emptive right of stockholders is governed by statute in many states. These statutes indicate the kind of issues to which the pre-emptive right attaches and in some instances provide that the certificate of incorporation may deny the pre-emptive right to any issue or to any class of stock. Thus statutes may show whether the pre-emptive right applies to issuance of additional stock out of an amount previously authorized; whether it applies only upon an increase in the authorized capital stock; whether it applies upon the issuance of stock for property or for cash; and whether it applies upon the issuance of treasury stock. Frequently the certificate of

incorporation will regulate the pre-emptive rights of stockholders pursuant to the governing statute. In the absence of regulating statutes and charter provisions, the court decisions in the particular jurisdiction must be examined to determine under what circumstances the pre-emptive right exists. These decisions, it must be admitted, are in many instances conflicting and confused.

A stockholder may waive his pre-emptive right by agreement with the corporation.

Right of stockholders to reduce capital stock. The right to reduce capital stock rests with the stockholders, as does the right to increase it. The directors have no power to effect a reduction without the approval of the stockholders, unless expressly authorized by statute, by the corporate charter, or by the stockholders themselves. An amendment of the charter is generally required to authorize a reduction in the amount of authorized capital stock. The amendment is effected in the same manner as an amendment to increase the capital stock; that is, by resolution of the directors recommending the amendment and calling a meeting of stockholders, and by resolution of the stockholders approving the amendment. The vote of a majority or two thirds of the stockholders, given at a meeting duly called, is usually required. In addition to the filing of a certificate of amendment with some designated official, some states also require the filing of a statement signed by officers and directors to the effect that the proposed reduction will not reduce the actual value of the assets of the corporation to an amount less than the total amount of its debts and liabilities, plus the amount, as reduced, of its capital stock.

Stockholders' rights to inspect corporate books and records. Stockholders have a right to protect their interest in the corporation by keeping themselves informed as to whether the directors, officers, and agents of the corporation are attending to their duties properly. They may, at reasonable times and for a proper purpose, inspect the books and records of the corporation, including:

1. The corporation's records of its by-laws.
2. Minutes of its meetings.
3. The stock book or register.
4. Account books, ledgers, etc.
5. Minutes of directors' meetings.

A demand for inspection must be made at the office of the corporation in which the books and records are kept or at the principal place of business of the corporation. The inspection need not be made by the stockholder personally; his agent or attorney may inspect and make copies and abstracts of the records. The right of stockholders to inspect the books and to examine the corporate records is confirmed by statute in many states. In some instances, these statutes restrict the right of inspection and examination to designated books and records, such as the list of stockholders, the stock-transfer books, the books of account and financial records, and reports required by law to be filed in some public office. Where the right to inspect is given by statute, it may generally be exercised irrespective of the motive of the stockholder in seeking an inspection. The statutes sometimes impose upon the corporation and its officers or directors penalties for refusing to permit inspection upon proper demand.

Stockholders' rights upon failure of directors to live up to obligations. Should the directors prove to be incompetent to handle the affairs of the corporation, the stockholders' redress is to elect a new board at the next annual election. This remedy may be more apparent than real. If the directors are guilty of fraud or bad faith, the stockholders may take legal action to remove them. Furthermore, they may demand that the corporation sue the faithless directors for damages. If the board of directors fails to institute an action, any stockholder may sue on behalf of the corporation and any amounts recovered go to the corporation. Such a suit is called a "derivative stockholder action."

Many such suits have been brought in recent years. As a result, there has been a tendency for the legislatures to pass laws that discourage such suits. Under these laws, generally, a complaining stockholder who does not own \$50,000 in stock or 5 per cent of the outstanding stock of the company must post a bond covering the costs and attorneys' fees of the corporation and the individual defendants. If the suit is unsuccessful, the defendants have recourse to the security. Such restrictive legislation practically deprives the small individual stockholder of his only effective means of making officers and directors of large corporations account for grievous wrongs.

Another result of the increase in the number of stockholder suits in recent years is the inclusion of a provision in the corporate by-laws

to permit a corporation to reimburse directors and officers for costs and expenses incurred in successfully defending a suit brought against them by stockholders on behalf of the corporation. A number of states have passed laws permitting corporations to do this. Of course, if stockholders are successful in a suit, a corporation may not indemnify the recreants. See page 1183.

6. PREPARING FOR CORPORATE MEETINGS

Kinds of corporate meetings. In the conduct of business by a corporation, the following classes of meetings are held:

1. **Stockholders' meetings.** These are sometimes called "corporate" meetings. They may be regular or special. Regular meetings—which are sometimes called "general" meetings, "stated" meetings, or "annual" meetings—are usually required to be held once a year, for the election of directors. Special meetings—which are sometimes termed "called" meetings or "extraordinary" meetings—are held as the need for them arises.

2. **Directors' meetings.** Meetings of directors are also regular or special. The regular meetings are those held at regular intervals, as fixed by the by-laws, usually monthly; all other meetings of the board are special meetings.

3. **Committee meetings.** These meetings are held, for example, by the executive committee, which in large corporations is appointed by the board of directors to exercise during intervals between board meetings all the powers of the board in accordance with the policy of the corporation. The meetings of the executive committee are also usually regular and special.

Who makes preparations for corporate meetings. Preparations for stockholders' meetings are made by the following people, depending upon the division of responsibility in the organization:

1. The secretary.
2. The secretary and the attorney for the corporation.
3. The secretary, the attorney for the corporation, and an organization employed by the attorney to attend to the holding of meetings.

Preparations for directors' meetings and for executive committee meetings are generally made by the secretary of the corporation.

Employment of a service organization to hold annual corporate meetings. The services of an outside organization are employed principally where the holding of meetings is merely a perfunctory matter, and where it is inconvenient for anyone interested in the corporation to attend the meeting. For example, a corporation is organized under the laws of the state of Delaware by a parent corporation, incorporated under the laws of New York and located in New York, to hold title to certain patents. The only stockholder of the Delaware corporation is the New York corporation. The principal office of the Delaware corporation, in Delaware, is in the charge of a resident agent, generally supplied by the service organization. Under the charter of the Delaware corporation, a meeting of stockholders must be held annually for the election of directors. The directors of the New York corporation, who are also the directors of the Delaware corporation, do not want to hold the meeting of the Delaware corporation in New York, for they do not want to do anything that might indicate the Delaware corporation is doing business in New York. Nor do the directors want to journey to Delaware to hold the meeting. The officers of the Delaware corporation, therefore, direct their attorney to advise the service organization, which maintains the principal office of the corporation in Delaware, to hold the annual meeting of the stockholders in Delaware by proxy. The directors of the Delaware corporation will appoint as proxies those who are actually to be present in Delaware at the meeting. The meeting is held by the proxies, and the necessary election takes place. Ordinarily the minutes for such a meeting are prepared by the service organization and examined and approved by the corporation's attorney.

There are several companies offering the type of service described above. The service is available only to attorneys, since such companies are prohibited from practicing law.

Preparations for a stockholders' meeting where responsibility rests with the secretary. A secretary's preparations for a stockholder's meeting can be divided into two parts:

1. Permanent preparations for all meetings.
2. Preparations for a particular meeting.

Permanent preparations for all stockholders' meetings. A permanent-meeting file in which is kept the following material (to be

taken by the secretary to every meeting of stockholders) must be maintained:

1. A pamphlet copy of the corporation laws of the state in which the corporation is organized.
2. A copy of the corporation's charter and by-laws and the amendments thereto.
3. A form of check list of preparations for stockholders' meetings (see page 1212).
4. A sheet showing the order of business as usually followed.

Preparations for a particular stockholders' meeting. The following are the steps to be taken in preparing for a particular stockholders' meeting (some of the items refer only to an annual meeting and will, of course, be omitted when preparations are being made for a special meeting):

1. *Send notice of the meeting and proxies to stockholders.* The notice of the meeting may be:

(a) A post card, in which case the proxy will be attached to the notice in the form of a business-reply card.

(b) An announcement sent in a sealed envelope. The announcement may be accompanied by a "proxy statement" required of corporations that are subject to the Securities Exchange Act of 1934. The proxy in this case may be on a separate business-reply card enclosed with the announcement, or it may be attached to the notice, to be detached and returned in a stamped and self-addressed envelope or in a business-reply envelope that is enclosed with the notice and proxy.

The selection of the style of notice and proxy to be used depends upon such factors as:

(a) Cost.

(b) The necessity for receiving a large number of proxies.

Experience has proved that a greater number of proxies are returned if the notice and proxy are forwarded by first-class mail than if the post-card method is employed.

Figure 89 shows a single-sheet arrangement of the notice of meeting and the proxy.

2. *Prepare for handling proxies as they are received by the corpora-*



**PLEASE DETACH
AND MAIL
PROXY CARD**

PROXY: The undersigned does hereby constitute and appoint Sewell L. Avery, Silas H. Strawn and Stuart S. Ball, or any one or more of them, with full power of substitution, as my proxy, or proxies, to vote for me and in my name with like effect as if I were personally present and voting at the annual meeting of the shareholders of Montgomery Ward & Co., Incorporated, called to be held on April 25, 1941 and at all adjournments thereof, for the election of directors and upon such other matters as may properly come before the meeting, hereby revoking any proxy or proxies heretofore given.

Date _____ Signature _____
Use Pen or Pencil - Whichever You Prefer

Annual Shareholders' Meeting

Notice is hereby given that the Annual Meeting of the Shareholders of Montgomery Ward & Co., Incorporated will be held at the office of the Company, 619 West Chicago Avenue, Chicago, Illinois, on the 25th day of April, 1941 at 10:30 o'clock a. m. for the purpose of electing directors for the ensuing year and the transaction of such other business as may properly come before such meeting.

MONTGOMERY WARD & CO., INCORPORATED
 STUART S. BALL, Secretary

Shareholders of record March 19, 1941, will be entitled to vote.

IMPORTANT. If you do not expect to attend the annual shareholders' meeting, please sign the attached proxy, detach it from the card, and mail it. No stamp is necessary.

The shareholders of this company number approximately 60,000. The holding of an annual meeting depends on the presence at the meeting in person or by proxy of the holders of more than half the shares. It is therefore vital to the interests of your company that a sufficient number of shareholders attend the meeting or be represented by proxy to make the holding of the meeting possible.

The proxies named are:

SEWELL L. AVERY, Chairman of the Board of Directors
 SILAS H. STRAWN, Chairman of the Executive Committee
 STUART S. BALL, Secretary

Figure 89. Notice of Annual Meeting and Detachable Proxy.

tion. A plan for handling the proxies upon their return should be worked out in advance and should make provision for:

(a) Assignment of responsibility for receiving and checking proxies.

(b) Arrangement of the proxies according to class of stock and in numerical order. Proxies should be numbered consecutively before they are sent out, so that when they are returned, they will be in alphabetical order when filed numerically.

(c) Inspection of the proxies and acceptance or rejection in

accordance with a set of rules furnished to the inspectors by the secretary. See page 1228.

(d) Tabulation daily of the number of shares represented by proxies returned, and report to the secretary.

(e) Examination of questionable proxies by the secretary or the attorney of the corporation.

3. *Decide, if possible, who shall be nominated as directors.* In most cases the selection of directors depends upon ownership of the controlling interests, relationships with financial institutions, and other factors that make it possible to know in advance who will be the directors for the forthcoming period.

4. *Compile the list of stockholders.* The statutes or by-laws generally require that the corporation prepare a complete alphabetical list of the stockholders a certain number of days before each annual election. In some states it is necessary to file the list for a certain number of days before the meeting at the place where the meeting is to be held. The secretary usually prepares the list as of the date required and has it ready for use at the annual meeting. Where the corporation has an independent transfer agent, the latter prepares the list.

5. *Prepare the ballots.* The preparation of ballots depends upon the method of voting to be employed at the meeting. No particular form of ballot need be used even where a ballot is required, but the ballot for the election of directors should show the name or names of the person or persons voted for, the number of votes cast for each person, and the name of the person casting the vote, with provision for indicating that several stockholders are being represented by one person acting as proxy.

6. *Schedule the order of business.* The business to be transacted at the meeting need not follow any particular order, even though one is prescribed in the by-laws. A logical order of business, however, expedites the business of the meeting. The following is the order generally pursued at an annual meeting of stockholders:

(a) Call to order.

(b) Election of chairman and appointment of secretary, if necessary.

(c) Presentation of proofs of the due calling of the meeting.

(d) Presentation and examination of proxies.

- (e) Announcement of a quorum present.
- (f) Reading and settlement of minutes of previous meeting.
- (g) Presentation of list of stockholders.
- (h) Reports of officers and committees.
- (i) Appointment of inspectors of election.
- (j) Opening of polls.
- (k) Election of directors.
- (l) Closing of polls.
- (m) Report of inspectors.
- (n) Declaration of election of directors.
- (o) New business.
- (p) Adjournment.

7. *Decide who shall be nominated as inspectors of election.* See page 1234 for the necessity of this step.

8. *Prepare a tentative draft of the minutes of the meeting and of any resolutions to be presented at the meeting.* This may take any number of forms, including:

- (a) A synopsis of the minutes.
- (b) A digest of the topics to be discussed.
- (c) A skeleton of the minutes, with spaces to be filled in with the missing details as they develop in the meeting.
- (d) Prepared resolutions.

The form of minutes of meetings given on page 1253 may be used as a guide in preparing tentative minutes.

Check list of preparations for a stockholders' meeting. The following is a form of check list that will aid the secretary in:

1. Preparing for the meeting.
2. Making notes of essential data at the meeting.
3. Writing up the minutes of the meeting.

The check list is filled in as the various matters are attended to and is retained permanently by the secretary, who keeps the list in the file pertaining to a particular meeting.

CHECK LIST OF PREPARATIONS FOR STOCKHOLDERS' MEETING

STOCKHOLDERS' MEETING

OF

(NAME OF COMPANY)

<i>Date</i>	To be held	as	{ Regular . . .
			{ Special . . .
<i>Adjournments</i>	Adjourned to		
<i>Notices</i>	Prepared (date)	Mailed	(to be procured:
	Published (date)	Waiver	(date)
	date)		
	Special purposes to be contained in notice		
			
			
			
<i>Quorum</i>	Shares required for quorum		
<i>Present</i>	(If a small meeting is held, names may be inserted here; if many attend, the roll may be made up on separate sheets. If these sheets are preserved, they may be "incorporated by reference" into the minutes, and thus space may be saved in the minute book.)		
<i>Official</i>	Lists of those entitled to be present:		
<i>Lists</i>	To be prepared by	(check when in hand)	
	As of (date)		
	To be available	(check when in hand)	
<i>Proxies</i>	Name of proxy committee		
	Substitute proxies to be given to		
	(Check when substitute proxy is given, or check names of committee, first when they have been notified to be present, and again when they have given their word that they will be present. Check proxies; list names of persons to do this, and indicate date when their report is available. Ordinarily a preliminary report will be available a day or two before the meeting, and final checking of proxies tendered by persons at the meeting will have to be done while the meeting is in progress. This, of course, applies only to large meetings and not to those of small companies, or of subsidiaries. Refer-		

ence should be made to the rules and regulations of the Securities and Exchange Commission regarding restrictions against solicitation and use of proxies.)

<i>Chairman</i>	Chairman: Notified to be present (date) (If regular chairman has indicated inability to be present, arrange for substitute and for proper selection at the meeting.)
<i>Reports</i>	(List officers responsible for reports; indicate dates reports are to be ready in manuscript, and if to be printed, dates for submission to printer; indicate date reports are to be available for meeting. Check off dates as each step is taken.)
<i>Action</i>	(List action to be taken. If any matters require resolutions that can be prepared in advance, list them by number, and correspondingly number sheets on which resolutions appear. Prepare resolutions in sufficient number to facilitate discussion and amendment; for latter purpose, it is well to triple-space the typewritten copies of resolutions.) (The following should follow title of each proposed action: Proposed by Seconded by For: . . . shares Against: shares) (Note: It may be well to omit the action at this place, but to have separate sheets therefor in order that as many items and as many "proposed action sheets" as are necessary may be included.)
<i>Inspectors</i>	Inspectors: (Name them if selected in advance, and check if present; otherwise, write in names as selected, and note how selected.)
<i>Nominations</i>	(Leave space for names of persons nominated.)
<i>Opening and Closing of Polls</i>	How opened How closed
<i>Results</i>	(List names of those elected here; above, under nominations, set opposite each nominee's name the number of votes received.)
<i>Certificate Received</i>	(Put down time for receipt of formal certificate of judges or inspectors of election, and note later time when received.)

<i>Publication</i>	(Note any requirements as to publication or filing of reports; this note can be made before the meeting.)
<i>Memoranda of Follow-Up</i>	(A space should be left to note action that must be taken to follow up resolutions that have been passed.)
<i>Adjournment</i>	Hour of adjournment (If the meeting is adjourned, a new checkup sheet should be prepared for the adjourned meeting and attached to that for the original meeting.)

Preparations for a stockholders' meeting where secretary and attorney are responsible for meeting. Where the responsibility for holding the stockholders' meeting is delegated to the attorney of the corporation, the secretary has little if any preparation to make. Whatever action he takes will be at the request of the attorney, who will ask the secretary for information needed in making his preparations. Proxies are ordinarily returnable to the corporation, even in instances where the attorney is responsible for the preparation and conduct of the meeting, and the secretary makes all arrangements for handling the proxies as they are returned. Also, the corporation secretary may have to prepare the list of stockholders who have the right to vote (see page 1225).

Preparations for a directors' meeting. The steps in the preparation for a directors' meeting, regular or special, include the following:

1. *Send notice of the meeting to directors.* The notice may be:
 - (a) A printed card with blanks to be filled in by the secretary as to the place, date, and hour.
 - (b) A typewritten notice.
 - (c) A notice with space for the recipient to indicate whether or not he will be present at the meeting.

The last-named form of notice is essential if directors are not actively engaged in the conduct of the business. The secretary can tell from the replies received whether a quorum of directors will be present, and if replies indicate that there will not be a quorum present, he can notify the directors that the meeting will not be held as scheduled. The following is a form of notice of a directors' meeting, illustrating the last type of notice.

NOTICE OF DIRECTORS' MEETING

..... CORPORATION

You are requested to attend a regular meeting of the Board of Directors at the office of the Corporation, No. . . . , New York, on Tuesday,, at three o'clock P.M.

Please notify me whether or not you will be present.

Respectfully,

.....
Secretary

.....
I will
will not be present

2. *Gather data to be presented at the meeting.* Secretaries usually devise their own systems for accumulating the papers and documents likely to be required at the meeting, for conferring with officers in advance of the meeting, and for notifying officers of reports that are to be ready for the meeting.

3. *Write up the agenda.* The agenda (or "docket," or "order of business," as it is sometimes called) is the outline of action to be taken at the meeting. It is prepared several days in advance of the meeting and has attached to it the papers, reports, and documents that will be required at the meeting as each item of business is taken up. The following order of business may be observed in the agenda:

(a) Call to order (by chairman of board, or president, if there is no chairman or if he be absent).

(b) Announcement of quorum present.

(c) Reading and approval of minutes of previous meeting.

(d) Reports of officers and committees.

(e) Unfinished business.

(f) Election of officers (if there is to be an election).

(g) Declaration of dividends (if there is to be one).

(h) Other new business.

(i) Adjournment.

4. *Prepare material for use of directors at the meeting.* To facilitate the conduct of a meeting, secretaries sometimes furnish the directors, at the time of the meeting, with:

- (a) Copies of the agenda and reports to which the agenda refers.
- (b) Copies of the minutes of the previous meeting.
- (c) Copies of resolution to be voted upon at the current meeting.

If this practice is followed, the secretary must see that the proper number of copies is made ready.

5. *Arrange for the payment of fees.* Directors are frequently paid fees for attendance at meetings in cases where the directors are not employed by the corporation and are not receiving a salary. Where the distribution of fees is delegated to the secretary, he usually requisitions from the treasurer the sum required, in the correct demonminations, and makes whatever preparations are necessary for the distribution either at the meeting or by mail after the meeting.

6. *Make preparations for recording minutes.* These preparations are the same as for meetings of stockholders. See page 1212.

7. STOCKHOLDERS' MEETINGS

Necessity for holding stockholders' meetings. Meetings of stockholders are necessary for the following reasons:

1. The courts generally hold that the stockholders must act concurrently; that is, they cannot bind the corporation if they act individually, even though a majority of them concur and express their consent in writing, unless consent in writing is sufficient under a governing statute.

2. The laws of the state in which the corporation is organized, the charter, and the by-laws give the stockholders certain rights and powers that must, under the law, be exercised at a meeting. Sometimes these powers can be exercised, under the statute, by consent in writing, and a meeting may not be necessary; however, as a matter of expediency, it is wise even in such cases to hold a meeting to obtain the written consents.

3. The corporation is an entity and is entitled to the joint action of its owners, each one of whom has a right to be enlightened by the views of the others. Without a meeting, such interchange of views is impossible.

However, according to the decisions of the courts, the validity of a corporate act does not always depend upon whether or not a meeting

of the corporate body has been held in a formal way, even if the act is one of major importance. Irregularities in the holding of the meeting do not necessarily invalidate the proceedings of the meeting; before an objecting stockholder can succeed in nullifying the proceedings at a meeting, he must show that, by the irregularity in the meeting, his rights have been affected.

Calling stockholders' meetings. Stockholders' meetings are called as follows:

1. By the officers empowered by the by-laws of the corporation to call regular and special meetings of the stockholders. Occasionally the certificate of incorporation and in some instances the statute, designates who shall call meetings of stockholders. A statutory provision on the subject must be observed, and if the by-laws conflict with the statute, the latter governs.

2. By the board of directors, in the absence of statutory or by-law provision as to who shall call the meeting.

3. By a certain number of the stockholders, if the power is given to the stockholders by statute, charter, or by-laws. Many of the statutes specifically provide that if an election of directors is not held on the day designated in the by-laws, a meeting for the election of directors may be called by a certain number of the stockholders, if notice has been given as prescribed by the statute. Stockholders may also obtain the power to call a meeting by bringing a suit for mandamus to compel the corporate officers to call a meeting if they have wrongfully refused to do so.

Necessity for notice of stockholders' meetings. The necessity for notice of stockholders' meetings depends upon the kind of meeting that is to be held, as indicated below:

Regular meetings. If the statute, charter, or by-laws do not require notice of regular meetings to be given, and the charter or by-laws fix the time and place at which regular meetings are to be held, the charter or by-laws themselves are sufficient notice to all stockholders, and no further notice is necessary. In all other cases, notice of regular meetings is necessary.

Special meetings. Notice of special meetings must be given to the stockholders in the manner provided in the statute, charter, or by-laws.

Adjourned meetings. Unless otherwise prescribed by the by-laws, notice of an adjourned meeting is unnecessary if the notice of the original meeting was given as prescribed. In order that the notice of the prior meeting shall extend to the adjourned meeting, however, the latter must be held for the same purpose as the original meeting and must be virtually a continuation of it.

Notice need be given only to those stockholders who are entitled to vote, unless the statute expressly provides otherwise. Where the statute does not specifically require the publication of notice, newspaper notices may be omitted.

Length of notice. Great care should be exercised to give the notice in due time. The by-laws or statutes usually indicate how many days before the meeting notice must be given, and such requirements must be strictly observed. Thus, where the by-laws require thirty days' notice, a meeting will be invalid if only twelve days' notice is given. If the statute requires publication of the notice for ten days, it means that the notice is to continue in the publication for a period of ten days. In a daily paper this would require ten different inserts; in a weekly paper, two inserts.

Stockholders' meetings that are valid without required notice. If notice has not been given as required, action taken at a stockholders' meeting will be valid under the following circumstances:

1. If notice is waived by participation in the meeting. A person who is present in person or by proxy, and who participates without dissent in a meeting, thereby waives defects in the notice.
2. If the stockholders waive notice in writing. The signature of a stockholder to a waiver of notice of a meeting should be obtained either before or at the meeting, although waivers signed after the meeting have been held to be effective. The following is a form of waiver of notice of meeting that may be used for any meeting of stockholders.

WAIVER OF NOTICE OF STOCKHOLDERS' MEETING

The undersigned, being all the stockholders of the Corporation, a corporation created and organized under the laws of the State of . . . , do hereby waive any and all notice as provided by the statutes of . . . , or by the Articles of Incorporation or By-laws of the said Corporation, and do hereby consent to the holding of a meeting of the stockholders of the said Corporation,

to be held on the . . . day of , 19 . . . , at o'clock in the noon, or any adjournment or adjournments thereof, at the office of the Corporation, Room , No. , City of , State of , for the following purposes [*insert purposes of meeting*], and do hereby consent to the transaction of any other business that may come before the meeting.

Dated at , this day of , 19
 , holding shares
 , “ “
 , “ “

(*Signatures of stockholders*)

Contents of notice of stockholders' meeting. The notice of the meeting should contain information as to the following:

1. Time of the meeting, including the hour. The general rule is that a meeting must take place at the time designated in the by-laws or the charter. Generally, where an annual meeting is not held at the time specified in the by-laws, the directors may call a meeting within a reasonable time thereafter.

2. Place of the meeting. Some statutes require meetings to be held within the state; others provide that they may be held either within or without the state. Statutory provisions as to the place of meeting must be followed. If the statute prohibits corporations from meeting outside the state, the proceedings at meetings held without the state will be void, and the board of directors elected at such meetings will have no more power than if no election had been held.

As a matter of practice, if the governing statute requires stockholders' meetings to be held within the state, and a meeting at such place is inconvenient at the time, the meeting may be held at the most convenient place, and all transactions concluded at the meeting may be ratified at a meeting held within the state by dummies acting on stockholders' proxies. If no provision is made in the statute, charter, or by-laws, the stockholders' meetings must be held within the state. However, where all the stockholders participate, a stockholders' meeting held without the state will be valid. Furthermore, if the stockholders waive the invalidity of a meeting convened without the state, or ratify the acts done at the meeting, they cannot later claim that the meeting was invalid.

3. The purpose of the meeting. It is not absolutely essential that the notice of a regular meeting include the purpose of the meeting, unless so required by statute or by-laws. However, if some unusual business is to be transacted at a regular meeting, such as a sale of the corporate property or the amendment of the corporate charter, notice of such unusual business should be given. In the case of special meetings, the notice should include a statement of the matters to be discussed at the meeting.

4. The officer or others who are calling the meeting. This is necessary to indicate that the meeting is called by competent authority.

Time at which stockholders' meeting should start. A meeting is not legal if it is held before the exact time specified in the notice of the meeting, unless all the stockholders are present. It is not essential that the meeting start on the stroke of the hour for which it is called; it is sufficient if it is convened within a reasonable time after the hour fixed in the notice.

Getting a stockholders' meeting started. Several clerks should be appointed to act as ushers, if a large number of stockholders is expected to attend the meeting. The clerks may conduct the stockholders to seats, or they may permit the stockholders to take any seat they wish. Usually the stockholders are permitted to sit where they please. As each person arrives, the clerk asks his name and address, whether he is a stockholder, and whether he has been appointed proxy for a stockholder. The stock records or a list of the stockholders, as well as the filed proxies, should be in the meeting room. The clerk immediately checks the information. If the stockholder has not filed a proxy, he may be asked whether he wishes to do so. If he has filed a proxy, the clerk may inquire whether the stockholder wishes to revoke the proxy or to let it stand. Some corporations discard the proxy if the stockholder is present in person at the meeting.

It is generally advisable to have some executive officer present at the meeting of stockholders, although there is no requirement that the directors or officers attend. In large corporations, general counsel is usually present at the stockholders' meeting to act as adviser to the chairman.

Who presides at a stockholders' meeting. The person who is to preside at the meeting of stockholders is determined in the following ways:

1. The by-laws may designate the officer who is to preside at all stockholders' meetings. By-laws generally give the president or some other officer this right. Occasionally the provision appears in the corporate charter. Provision in the charter or in the by-laws as to who shall preside at the meeting of stockholders must be observed.

2. The stockholders present at the meeting may elect a chairman, if no provision is made in the character or by-laws as to who shall preside. In making the selection the stockholders may vote by a show of hands, a stock vote not being required to give validity to the meeting, in the absence of a statute or by-law providing otherwise. Where the by-law states that "at stockholders' meetings each stockholder shall cast one vote for each share of stock owned by him," the by-law applies to the election of a chairman as well as to the proceedings carried on after the meeting has been regularly organized. Similarly, where the by-law provides that upon demand of a stockholder the vote on any question shall be by stock vote, a stockholder has the right to demand a stock vote for the election of the chairman, and in the absence of such a demand the chairman may be elected by a viva-voce vote.

Selection of a secretary. When a secretary must be selected because the person designated by the by-laws to act as secretary at the stockholders' meetings is not present, the chairman may appoint a secretary. Any stockholder, however, may require an election of a secretary to be held immediately.

Necessity for a quorum to be present at stockholders' meeting. A valid meeting of stockholders cannot be held unless a quorum is present, and if the amount of stock necessary to constitute a quorum is not represented, in person or by proxy, the meeting must adjourn to another time. A quorum, as specified in the statute, charter, or by-laws, must be present not only to begin a meeting but to transact business. Thus, if during the meeting a number of stockholders depart, leaving less than a quorum present, the meeting must be disbanded by adjournment. However, if a meeting is once organized and all the parties have participated, no person or faction can then, by withdrawing capriciously and for the sole purpose of breaking a quorum, render the subsequent proceedings invalid. If stockholders have withdrawn for the purpose of breaking a quorum, because of

whim, caprice, or chagrin, the law will consider the action as unavailing and will permit the meeting to proceed.

A quorum is always presumed unless it is questioned at the meeting, or unless the record shows that a quorum in fact is not present.

What constitutes a quorum. The person conducting the meeting should at the outset determine whether or not a quorum is present. The number necessary to constitute a quorum is determined as follows:

1. The by-laws, statute, or charter may fix the amount of stock required to be represented at a meeting. If the by-laws conflict with the statute, the statute must be followed, since the by-law is then void. Thus, if a provision in the by-laws fixes the amount of stock necessary to constitute a quorum at stockholders' meetings, and a provision of the statute specifies that directors shall be elected at an annual meeting of such stockholders as shall attend for that purpose, the directors may be elected by those present, even if the shares represented at the meeting do not constitute a quorum in accordance with the by-law provision.

2. If the statute, charter, or by-laws do not indicate what proportion in interest of the stock outstanding shall constitute a quorum, the persons present at the stockholders' meeting constitute a quorum, no matter how few they are, although there is authority to the effect that at least two persons must be present.

In determining whether or not a quorum is present, only issued stock is counted; stock that has been subscribed and not paid for is not included, unless there is a provision to the contrary in the law or in the certificate of incorporation. Stock that cannot be voted cannot be counted for quorum purposes.

Meaning of terms relating to quorum. If the by-laws or statute does not explicitly define what constitutes a quorum, the following definitions arrived at by the courts may be helpful:

1. *Majority.* The term "majority" used in defining a quorum means more than one half.

2. *Three fifths of the stockholders.* A provision in the by-laws that "three fifths of the stockholders shall constitute a quorum" applies to stockholders per capita, and not to stockholders in interest.

3. *Majority of stock issued and outstanding.* A by-law provision stating that "a majority of the stock issued and outstanding shall constitute a quorum, and all questions shall be decided by a majority of the votes cast" means that quorum members must be voting members.

Who has the right to be present at a stockholders' meeting. Every stockholder who has a right to vote at a meeting has the right to be present at the meeting. Stockholders who have no voting power are not entitled to be present at the meeting. As a matter of policy, however, it may be advisable to permit nonvoting stockholders to attend, unless it is anticipated that nonvoting stockholders will object to action in which they have no voice. An outsider may be permitted to attend a meeting of stockholders even though he has no legal right to do so, but if objection is made to his presence, the matter of whether the outsider is to remain may have to be put to a vote and decided in the same way that other questions are settled.

Conducting a stockholders' meeting. In the absence of express regulation by statute or by-laws, stockholders' meetings, including those for the election of directors, are controlled largely by accepted usage and custom. The fundamental rule is that all who are entitled to take part will be treated with fairness and good faith. While a stockholders' meeting is not of such a formal nature that the rules of parliamentary law must be observed, the ordinary parliamentary usages apply to it.

If the by-laws provide that stockholders' meetings shall be conducted according to the rules prescribed by a manual of parliamentary procedure, the requirement must be enforced.

Who may vote at a stockholders' meeting. Every owner of capital stock has, as an incident of the ownership of shares, the right to vote the stock at all meetings of stockholders, unless such right is denied by some statutory or charter provision, or by an agreement under which he holds his shares. Whoever has the legal title to the stock has the right to vote. Since the officers of a corporation would be placed in an embarrassing position if they had to determine who was the owner of the legal title to stock, it is generally provided in the by-laws that the right to vote rests with the person who appears as the registered owner of the stock on the books of the

corporation. In some instances the statute or charter makes this provision.

Holders of record on a certain day to vote. Unless there is some provision to the contrary, a stockholder's right to vote at a meeting is to be determined as of the time when the meeting is held. It is clear that if only the true owners of stock at the time when the meeting is held were permitted to vote stock, just prior to the meeting the corporation would be inundated with demands for transfers of stock in order that the true owner might be present and vote at the meeting. This would mean that until the last minute before the meeting, the corporation could not prepare a list of the stockholders entitled to vote. To avoid this difficulty, there developed the practice, sanctioned by statute, of closing the transfer books a certain number of days before the meeting in order to provide ample time for compiling the necessary list of stockholders. During the period that the books are closed, no transfers can be effected. This expedient, however, proved unsatisfactory and another practice, now used more than that of closing the books, was instituted—namely, that of preparing a list of the stockholders of record on a certain day before the meeting. The list is *prima-facie* evidence of ownership of the stock and is used to determine who has the right to vote at a stockholders' meeting. The advantage of using the stock list, as against closing the transfer books, is that transfers of stock are not interrupted, but are merely disregarded for purposes of determining the rights of stockholders to vote at a meeting.

In determining who may vote at an adjourned meeting, the chairman may disregard the fact that the meeting is a continuation meeting. Thus new stockholders of record, and stockholders who were not present or represented at the original meeting, but who are present or represented at the adjourned meeting, are permitted to vote.

Disputes as to who may vote. When a dispute arises as to who has the right to vote, the meeting must be guided by the corporate records or the list of corporate stockholders prepared for the meeting. The officers need not look behind the books to ascertain who are the real owners of the shares, although a court of equity will do so in a dispute in which it is seeking to settle the rights

between the claimants as such. If one of the stockholders claims that the record is incorrect, he may apply to a court of equity for a writ compelling the acceptance of his vote. This writ must be obtained before the meeting and must be presented to the chairman; in the absence of such writ, the stockholder of record on the books of the corporation should be given the right to vote. The courts have frequently held that a duly qualified stockholder does not lose his right to vote if his name fails to appear on the proper stock-record book or on the list of stockholders because of the negligence, contrivance, or ignorance of the corporation in maintaining its records.

Some instances in which questions as to who may vote arise. Most of the difficult problems as to who has the right to vote arise through the following circumstances:

1. *Sale of stock by the registered holder without transfer on books.* If a stockholder has sold his shares to another, and the transfer has not been registered before the day fixed for determining who has the right to vote at the meeting, the transferee may not vote. The purchaser, however, although not registered as a stockholder, may secure a proxy from the seller and thus obtain the right to vote. If there is no provision in the statute, charter, or by-laws requiring transfer to be made on the books, the purchaser of the stock is entitled to vote if he produces evidence that the stock has been transferred to him.

2. *Pledge of shares by the registered holder.* As between the pledgor and pledgee, the pledgor has the right to vote, since he retains legal title to the stock pledged. If, however, the pledgor permits the pledgee to register the pledgee's name on the books of the corporation as the owner of stock without reservation, the corporation will be justified in recognizing the pledgee as having the right to vote. It has been held that if the pledgor fails to appear at a meeting in person or by proxy, the pledgee has the right to be represented at the meeting.

3. *Stock not fully paid for.* If there is no provision to the contrary, the subscribers to the capital stock of a corporation who are in fact stockholders are entitled to vote at a meeting of stockholders, even if no certificates of stock have been issued. If the subscription to the stock is such that it does not make the subscriber a stock-

holder, as, for example, where the subscription is merely a contract with the corporation to purchase stock, the subscriber is not entitled to vote.

4. *Stock held by a minor.* Where there are no statutory provisions on the subject, the rule seems to be that minors cannot personally vote their shares. The guardian of the minor, or the trustee who holds the shares for a minor, has the voting power.

5. *Death of a registered holder.* When an owner of stock dies, title to the stock passes immediately to the deceased owner's legal representatives. When a representative is able to establish his appointment as administrator or executor he may vote stock of the decedent without causing a change in the corporate records. When the legal title is vested in several executors, they can vote only as co-owners. (Sec 7, below.) Letters testamentary that are issued by competent authority to an executor are conclusive proof of title to the shares of stock of the corporation and of the right to vote in respect thereof. After delivery of the stock to the heirs, the administrator does not have the right to vote the stock in defiance of the transferees' wishes even though the transferees fail to transfer the stock out of the name of the administrator to themselves.

6. *Stock registered in the name of a trustee.* The trustee, not the beneficiary, has the voting power. Even if the statute gives to the beneficiary the right to vote, his right will not accrue unless his name appears on the company's records.

7. *Stock owned in the name of two or more people.* Co-owners of stock must unanimously agree as to the manner in which the stock shall be voted; otherwise their vote will not count. As a matter of practice, one co-owner may present proxies from the other co-owners and exercise the right to vote on that basis. Where stock stands in the name of a partnership, and one partner alone attends the meeting, he may vote the stock in behalf of his partners. If one of the partners dies, any surviving partner may vote the stock standing in the name of the partnership.

8. *Stock registered in the name of a corporation.* Where stock is registered in the name of a corporation, it is voted by proxy properly authorized by the corporation owning the stock. A corporation that has acquired its own stock cannot vote the stock. Nor can the directors of a corporation vote stock of the company held by one of the corporation's subsidiaries.

Voting by proxy. Absent stockholders are generally given the right by statute, charter, or by-laws to vote at a meeting by written proxy. The provisions of the statute, charter, or by-laws must be strictly observed, and proxies that do not meet the requirements should be thrown out. Ordinarily the presiding officer at the meeting is the person who decides whether or not a proxy is acceptable, but in large corporations the power to pass on the validity of proxies is frequently delegated to a special committee of inspectors. These inspectors may be furnished with a set of rules, drawn in the light of the statutory, charter, and by-law requirements of the particular corporation, and with knowledge of the general principles of law relating to proxies. From the following principles relating to various parts of the proxy, a set of rules can be drawn up that will be suitable for a particular corporation.

Acceptance of proxies. The following are the principles forming the basis of rules as to acceptance of proxies.

1. *Compliance with statutory provisions.* While the statutory provisions vary from state to state, the following are the usual provisions:

- (a) The proxy must be in writing.
- (b) It is revocable at the pleasure of the person making it.
- (c) It will expire a certain number of months or years from the date of its execution unless the stockholder signing the proxy indicates the length of time it is to continue in force.
- (d) The term of the proxy is limited to a definite period.

2. *Form of proxy.* Proxies need not be drawn in any particular form, unless otherwise provided by the statute, charter, or by-laws. Thus, even if a corporation has sent out its own form of proxy with the notice of the meeting, it cannot throw out a proxy simply because some other form has been substituted.

The Securities and Exchange Commission's regulations governing the solicitation of proxies by companies subject to the Securities Exchange Act of 1934 set forth certain requirements as to the form of the proxy. These should be strictly followed. For example, the proxy must contain a space wherein the person solicited may specify how his vote shall be cast on each matter or group of matters described in the proxy statement.

3. *Date.* The proxy need not be dated; hence it should not be thrown out because no date appears on it. The secretary may instruct the examiners of proxies to fill in a date approximating the date of mailing. He may also instruct them that if a proxy is dated prior to the time when it was sent to the stockholder, it may be accepted, provided the stockholder who sends the proxy is actually a stockholder on the date shown on the proxy.

4. *Witnesses.* A witness to the signature of a proxy is not necessary unless the statute, charter, or by-laws provide otherwise. However, witnessing is advisable, for in case the signature is questioned, the witness can assist in proving the signature.

5. *Seal.* The proxy need not be sealed.

6. *Name of person appointed as proxy.* Unless the statute or by-laws otherwise provide, it is not essential that the person to whom the proxy is given should himself be a stockholder. The proxy may be designated as, for example, "any member of the firm of A-B & Co.," without the individual being specifically named. In some of the larger corporations, a proxy committee is selected at the annual meeting of stockholders, which committee, in effect, represents those who control the corporation. The names of members of the proxy committee are placed on what is known as the official proxy, which is sent out with notices of meetings during the course of the year.

7. *Number of shares filled in.* It is not essential that the space provided for the number of shares be filled in. Nor does the filling in of an incorrect amount by the stockholder invalidate the proxy. The inspectors of the proxies may be instructed to insert the correct number of shares owned by the stockholder.

8. *Name of the corporation.* A proxy is not invalid merely because the name of the corporation is incorrectly given, if the name agrees with the name given in the notice of the meeting.

9. *Legibility.* A proxy that is illegible should not be accepted.

10. *Signature of the stockholder.* The most important part of the proxy, with regard to its acceptability, is the signature. The following is a suggested set of rules to be observed by inspectors of proxies in examining signatures:

(a) A proxy in which the name of the stockholder is written in the body, but not at the close of the proxy, is void and should not be accepted.

(b) The name signed to the proxy should be the same as that in which the certificate is issued. Proxies may be accepted, however, if the initial of the given name, rather than the full name, is given, even though the full name appears in the certificate. If the name is different from that of the registered name, authority for such different signature should accompany the proxy.

(c) If the certificate is issued in the name of two or more persons as trustees, the signatures of all the trustees must appear on the proxy, unless the certificate, as issued, specifically empowers one or certain of the trustees to sign.

(d) If the certificate is issued to a corporation, authority from the board of directors authorizing the officers to sign the proxy should accompany the proxy. As a matter of practice, however, many corporations accept proxies without the filing of the authority, if the proxy is not challenged.

(e) If the certificate is issued to a company that has been succeeded by another corporation, and the proxy is signed and sealed by the successor company, proof of the succession should be obtained, although the proxy may be accepted if not challenged.

(f) If a certificate is signed as an attorney, executor, administrator, or guardian, papers showing the authority should accompany the proxy.

Powers of proxies. The word *proxy* is applied both to the document evidencing the authority of one person to vote for a stockholder and to the person acting as representative. The relationship created by a proxy is governed by the general rules of principal and agent. Proxies may be either general or limited. A general proxy, like a general agent, can represent his principal in all ordinary business, but not in extraordinary business, such as voting on the question of dissolution. Where a proxy is given limited power, or is given instructions as to how to vote, he must act within the limitation and according to instructions. Consequently the secretary should accept a vote only if it is cast in accordance with the instructions; if a proxy attempts to vote otherwise, he acts outside of the scope of his authority, and his vote is not valid. It would seem that the secretary cannot alter the proxy's vote to make it conform to the instructions contained in the proxy, for the vote is given not by the written authorization but by the person. If the administration desires that the vote

be in accordance with the instructions, the correct practice would be to adjourn the meeting, notify the stockholder to revoke the proxy, send a new proxy, and get the vote at the adjourned meeting. To save the time of the other stockholders, their proxies could be taken immediately, so that they might be voted at the adjourned meeting in accordance with the administration's desires.

Where a proxy votes for his own personal interests and contrary to the interests of his principal, and the latter promptly repudiates the vote, the action of the proxy may be set aside, unless the interests of third parties would be adversely affected. A proxy may act on questions subsidiary to the principal question on which he is authorized to act; thus he may waive irregularities in a meeting at which he represents a stockholder as proxy, such as a defect in the notice.

Under the regulations issued by the Securities and Exchange Commission, and applicable to a corporation subject to the Securities Exchange Act of 1934, the person to whom the proxy is given may have conferred upon him discretionary authority with respect to matters as to which no specification has been made by the person solicited, with respect to matters not known or determined at the time of the solicitation, and with respect to the election of directors or other officers.

Where several persons are named to act as proxies, and they are not named in the alternative, all those named must agree as to the vote; otherwise their vote will not be received.

Methods of taking the vote at a stockholders' meeting. A vote in an election or upon any question may be taken in the following ways, depending upon the statutory and by-law requirements:

1. By ballot. A ballot must be used if the statute or by-laws so require; otherwise its use is optional.

2. By a show of hands, or by a viva-voce vote; that is, a call for "ayes" and "noes." This method is impractical in stockholders' meetings if there is any dissent, for it shows the per-capita desires of the stockholders and not the per-share determination of the question.

3. By reading the roll of stockholders. Since the roll indicates the number of shares owned by each stockholder, a count of the per-share votes is thus obtained.

4. By written consent of the stockholders. Where written consent to any action is required, a document setting forth the consent should

be prepared and signed by the stockholders, with an indictaion of the shares held by each stockholder.

How many votes is each stockholder entitled to? At common law each member of an incorporated body was entitled to one vote. Today, however, the general rule is that each stockholder is entitled to one vote for each share of stock that he owns, unless the statute, charter, or by-laws provide otherwise.

Sometimes the statutes make special provision regarding the right to vote, as, for example, that stockholders who are in arrears or who are in debt to the corporation may not vote, or that stockholders whose stock has been attached may vote until title is divested. Furthermore, the certificate of incorporation may provide some other method of voting. For example, the holders of a certain class of stock may be given ten votes for the first ten shares and one vote for each ten shares thereafter until a maximum of one hundred shares is reached, whereupon voting rights in respect to shares cease.

Cumulative voting; how conducted. Under the system of cumulative voting each shareholder is entitled to a number of votes equal to the number of shares he owns multiplied by the number of directors to be elected. He may cumulate the votes—that is, cast all the votes for one candidate—or he may distribute his votes among the candidates in any way he sees fit. The majority under this method is always certain to obtain control of the board of directors, and the minority is certain to be represented on the board, if the votes are cast properly.

The corporation laws of some of the states prescribe that directors shall be elected by cumulative voting. In other states, cumulative voting is permitted when the certificate of incorporation or the by-laws so provide. The right to cumulative voting cannot be claimed unless that method of voting is provided for as follows:

1. By statute.
2. By the corporation's charter or by-laws.
3. By contract among all the stockholders, provided the agreement is not otherwise illegal.

To illustrate how cumulative voting operates to give the minority the opportunity to be represented on the board of directors, take as an example the following situation: The corporation has outstanding

100 shares; the majority controls 51 shares and the minority 49 shares. The faction strength is nearly equal. If 5 directors are to be elected, the majority is entitled to 255 votes (51×5) and the minority to 245 votes (49×5). If the majority contents itself with casting this cumulative vote for three out of five directors, it can secure their election by giving each director 85 votes. The minority can elect only 2 directors by giving one of the directors 122 votes and another 123 votes. In this case, if the majority frittered away its strength among the five directors, while the minority concentrated its strength upon four, the minority would gain control of the board.

Determination of shares necessary to control an election under cumulative voting. Often it becomes necessary to determine how many shares one should hold or control under the system of cumulative voting, to insure the election of a certain number of directors. The following method may be used:

1. Multiply the total number of shares entitled to vote by the number of directors it is desired to elect.
2. Divide the figure found in (1) by one more than the total number of directors to be elected.
3. Add one to the figure obtained in (2); the result will be the least number of shares that it will be necessary to hold or control in order to elect the desired number of directors.

Thus, if a company has outstanding 1,000 voting shares, 5 directors are to be elected, and it is desired to elect 2 out of the 5, the least number of shares that it will be necessary to hold or control in order to accomplish this result will be found as follows:

$$\frac{1,000 \times 2}{5 + 1} + 1 = 334\frac{1}{3}$$

The desired result, therefore, can be accomplished only if 335 shares are held or controlled (where there is a fraction, it is to be counted as an extra share).

Elections of directors. It is not necessary to elect all of the required number of directors at one meeting. In the election of directors, nominations need not be seconded. A motion to close the nominations may be made and put to a vote at any time. No person has the right thereafter to make nominations, but the closing of the

nominations will not prevent the casting of ballots for other persons. Where the election is unanimous, the secretary may cast a ballot for the slate; the ballot is deemed a vote from all voting stock represented at the meeting, and the election is recorded accordingly. The polls may be kept open for a prescribed period during which votes will be taken. After the polls are closed and the vote is announced, they cannot be reopened to receive additional votes. The election is not vitiated, however, if after the polls are closed additional votes are received, provided, of course, that the election results have not been announced. The final results of an election may not be announced until the time has arrived for the closing of the polls, unless a majority of the voting stock has been voted in favor of a slate. Any stockholder may change his vote at any time before the results of the election are announced.

Conduct of election of directors by inspectors. A common regulatory provision of the statutes concerning the election of directors is that the election shall be conducted by inspectors or judges of election appointed in the manner prescribed by the by-laws. It would seem that, in the absence of a statutory requirement, inspectors are not essential. In large corporations it is advisable that inspectors of election be appointed, regardless of whether or not they are required. The function of the inspectors is to distribute and collect the ballots, count the vote, and report, under oath, the result of the election. The inspectors are ministerial officers with some discretionary powers in passing upon the eligibility of the voters. Their decisions, however, are subject to review by the courts. The inspectors may reject votes and may keep the polls open for a reasonable time after the closing hour in order to give stockholders who are ready to vote the opportunity to do so.

Vote necessary to decide an election of directors. The vote necessary to decide an election is determined by:

1. The provisions of the statute, charter, or by-laws.
2. In the absence of any provision, a majority of the votes cast, as distinguished from a majority of those present, will decide the result of an election.

This latter rule applies even if those voting do not constitute a majority of the stockholders, or do not represent a majority of the stock.

A majority of the votes actually cast will determine the election, even if stockholders present who had an opportunity to vote refrained from doing so.

Rules governing tie vote in election of directors. The following illustration explains the effects of a tie vote in an election of directors. Five directors are to be elected by cumulative voting. Six candidates have been nominated. Four hundred votes have been cast. The ballots are tabulated, and the following is shown to be the result of the voting:

A.....	80 votes
B.....	80 "
C.....	60 "
D.....	60 "
E.....	60 "
F.....	60 "

The chairman of the meeting may not declare that no board has been elected and that the old board shall continue in office. A and B will be considered elected, and the chairman must permit the stockholders to vote again and again, if necessary, until it is demonstrated that further balloting is futile.

The above rule applies also in the following situation, where straight voting is in effect. 100 shares of stock are to be voted. The shares are divided among four stockholders as follows: Jones, 2 shares; Smith, 25 shares; Brown, 40 shares; and Grey, 33 shares. The by-laws require that directors must be elected by a majority of the votes cast. Three directors are to be elected, and there are six candidates. Each stockholder would have as many votes for each of three directors as he has shares. The votes cannot be split among the six candidates. The votes are cast as follows:

A.....	100 votes
B.....	100 "
C.....	2 "
D.....	25 "
E.....	40 "
F.....	33 "

A and B are considered elected and the balloting continues for the election of a third director.

Where the votes are divided between two factions, it is inadvisable

for either faction to remain silent or to refuse to vote while the other faction votes, for by so doing the voting group is enabled to carry the election.

Results of failure to elect a board of directors. If a majority of the board has been elected, the number is sufficient to constitute a new board of directors, provided the election is valid. The entire old board steps out; the elected majority assumes the duties of the board; and the places of directors not filled at the election are considered vacant. The vacancies are filled in the manner in which vacancies due to causes such as resignation and removal are filled. This procedure has been explained on page 1161.

If less than a majority of the board is elected, those elected cannot be inducted into office, and the old board of directors holds over until its successors are elected.

A similar rule applies in case no election of directors whatever is held on the day designated for the election of directors. The old directors continue to hold office and may discharge their duties until their successors are elected. The statutes generally direct that another meeting for the election of directors be held as soon after the day fixed by the by-laws for the election of directors as may be convenient, or within a certain number of days thereafter.

Vote necessary to decide questions other than election. The vote necessary to decide questions other than an election is determined as follows:

1. By the requirements of the statute, charter, or by-laws.
2. By a majority of the stock represented at the meeting, in the absence of statutory, charter, or by-law requirements. This rule holds even though the majority is less than a majority of the number of stockholders, and less than a majority of the total amount of stock outstanding.

Determining whether vote required by statute is obtained. Where the consent of stockholders is being obtained in accordance with a statutory requirement, care should be exercised to determine just what proportion of the corporate stock is necessary to carry the proposal. Ordinarily the statute specifically states what percentage of the outstanding stock is required. Sometimes the statute is ambiguous and does not state whether the proportion required applies

to the individual stockholders or to the number of shares outstanding, irrespective of the number of holders thereof. A provision in the statute or by-laws requiring the approval of "a majority of the stockholders" upon a particular question has been held to mean a majority in interest of the stockholders, and not a majority in number only. But the more general view is that the term "majority of the stockholders," as ordinarily used, means a per-capita majority when the right to vote is per capita, and a stock majority when each share of stock is entitled to vote.

In some cases the statute is so worded that the percentage of consent required is a percentage of the total amount of stock outstanding, irrespective of the classes into which the stock is divided. In other cases certain percentages of each of the several classes of stock are required. Sometimes the statutes require that the consent be obtained from stockholders having the right to vote. In still other cases the statutes provide that the consent be obtained from the stockholders, and the question as to whether stock that is ordinarily nonvoting has the right to participate in the action is left open. It would seem that nonvoting stock should have the right to vote in any matter specifically affecting the rights of the holders thereof, unless the statute is very clear in indicating that their consent is not required.

Revocation and reconsideration of action by stockholders. The stockholders, while they are still in session, may alter or change any resolution or motion adopted by them at the meeting. They may also reconsider and repeal any vote or resolution after the meeting, unless such action will disturb rights that have become vested as a result of the vote or resolution. Thus, if the stockholders had by resolution authorized the offer of certain shares of stock to an individual at a certain price per share, and the offer was accepted by such individual, the stockholders could not revoke the resolution or alter its terms, without the consent of the individual, for by doing so they would disturb rights that had become fixed under the first resolution.

Adjournment of meeting. In the absence of a provision in the statute, charter, or by-laws to the contrary, a meeting that is regularly convened is not legally adjourned unless the motion to adjourn has been passed by a majority of the stock represented at the meeting, even though it has been passed by a majority of those present at the meeting. The adjournment may take the following forms:

1. To a day certain.
2. *Sine die*; that is, without naming a date. In this case, the adjournment is final.
3. Subject to call of the chair.

If the motion to adjourn indicates no special form, the adjournment is final.

Adjourned meeting; business that can be transacted. At any adjourned meeting at which a quorum is present, unless all the stockholders are present and consent to the transaction of other business, only such business may be transacted as might have come before the original meeting, since an adjourned meeting is only a continuation of the original meeting. In regard to voting at an adjourned meeting, see page 1225. In regard to notice of adjourned meetings, see page 1219.

8. DIRECTORS' MEETINGS AND COMMITTEE MEETINGS

Necessity for holding directors' meetings. As a general rule, the directors can bind the corporation by their acts only when they are fully assembled at a meeting. The reason for this rule is that the stockholders have the right to expect the directors to give conscientious consideration to all questions through the interchange of ideas at a formal meeting duly called and noticed, at which all the directors may be heard and their opinions deliberated upon by the other members of the board.

The above rule has the following important exceptions that make it possible for the directors to bind the corporation even though they have not consulted together as a board:

1. If the statute authorizes specific acts to be done by the directors separately, no meeting is necessary.
2. If by usage or custom the directors have managed the affairs of the corporation without formal meetings, and the corporation and its stockholders have by long practice acquiesced in an informal manner of doing business, the acts of the directors, if they are within the scope of their power, are valid; otherwise, great injury may be done to third persons relying on this course of conduct.
3. If the stockholders waive the necessity for directors' meetings,

transactions consummated without any meeting can be attacked only by the state. This right of waiver is based on the fact that the directors derive all their power from the stockholders.

4. Where the directors own all the stock, acts done outside of a formal meeting by all the directors, even though done separately, are valid.

5. If the stockholders, or directors, with knowledge of the facts, acquiesce in informal action by the directors, they are bound thereby, if the acts done or authorized are within the power of the board in the first place. However, it has been held that where the law authorizes an act to be done by the board of directors only at a meeting, validity cannot be given to the acts done by the directors acting severally at different times and places through the signing, by all of the members, of a paper falsely reciting that they were present at a meeting of the board and consented to the acts.

6. Unanimous consent of the directors, even though the consent of each is given separately, may obviate the necessity for a board meeting. However, in some cases, acts of directors have been held invalid even though all of the directors consented thereto.

Calling directors' meetings. Directors' meetings are called as follows:

1. By the officers empowered by the statute or by-laws to call meetings of directors. If the by-laws give the president the power to call special meetings of directors, and provide that, in his absence, the vice president shall take his place and perform his duties, the vice president may call any special meeting that the president could have called had he been present.

2. By a certain number of the directors, if provision is made therefor in the by-laws. Where the by-laws provide that special meetings of the directors shall be called by the president or, at his request, by the secretary, the secretary and another member of the board, even though they constitute a majority of the board, have no authority to call a special meeting.

In the absence of other provisions in the statute or by-laws, the meeting need not be called in any particular manner.

Directors' meetings falling on a Sunday or holiday. If the day set for a regular meeting of directors falls upon a Sunday or a holiday, the following should be done:

1. Follow the by-laws, if provision is made for such a contingency.
2. If no provision is made for holding meetings that fall upon a Sunday or holiday on some other day, give the directors ample notice that the meeting will be held at some other time. The directors should not hold the meeting on the day following the regular day set by the by-laws without notice, for action taken at such a meeting may be invalid. In one instance, a sale of stock sold for failure to pay an assessment levied by directors at a meeting held on the day following the regular day, because the regular day fell on a holiday, was declared invalid.

A statutory provision holding that if the day on which an act of a secular nature, appointed by law or contract to be performed on a particular day, falls on a holiday it may be performed on the next business day, does not apply to meetings of directors, since meetings are held according to by-law regulations, and a by-law is not a contract within the meaning of such statutes. While it would seem, therefore, the directors' meetings can be held on a Sunday or holiday, if proper notice is given where necessary, and if there is no prohibiting statute, attention should be given to the laws prohibiting the transacting of business on a Sunday or holiday, if the transactions to be authorized at the meeting are to include the making of contracts. A meeting of directors held on a Sunday is valid if affirmed at a subsequent weekday meeting.

Necessity for notice of directors' meetings. The rules as to the necessity for giving notice of directors' meetings vary, as shown below, with the kind of meeting to be held.

Regular meetings. Unless expressly required by statute, no notice of regular meetings need be given where the by-laws, charter, or resolution of the board of directors specifies the time of the regular meeting.

Special meetings. Notice of a special meeting must be given to every director, unless:

1. There is some express provision in the charter or by-laws, or established usage, to the contrary.
2. It is impractical or impossible to give the notice to each director. For example, failure to give notice is excused where an emergency demands immediate action, and the directors who are not

given notice cannot be notified in time to enable them to attend the meeting.

Where the exceptions are not present, a special meeting held in the absence of some of the directors and without any notice is illegal, and the action of such a meeting, even though affirmed by a majority of the directors, is invalid.

Adjourned meetings. If notice of the original meeting was given, notice of an adjourned meeting need not be given either to directors who were present at the original meeting or to those who were absent, unless otherwise required by the by-laws. An adjournment of a regular meeting at which some directors were absent, without a statement of the hour at which the adjourned meeting will be held, requires notice to be given to the absentees.

When directors' meetings are valid without the required notice. If notice has not been given as required, action taken at the meeting will not be invalid under the following circumstances:

1. If all the directors attend the meeting and do not object to the lack of notice. In many cases the courts have held valid action by the directors in instances where some of the directors did not receive proper notice of the meeting, but where a meeting had been held with a sufficient number of directors present to constitute a quorum, and where the absent directors did not complain or find any fault with what the majority did. In explanation of this leniency, one court has said:

To hold that in all instances technical conformity to the requirements of the law of corporations is a condition to a valid action by the directors would be to lay down a rule of law which could be used as a trap for the unwary who deal with the corporations, and to permit corporations sometimes to escape liability to which an individual in the same circumstances would be subjected.

2. If the action is ratified at a subsequent meeting. Action taken by the directors at a meeting for which proper notice has not been given may be ratified at a subsequent meeting at which all the directors are present. If the subsequent meeting is called upon proper notice, the business transacted at the improperly called previous meeting may be ratified, even if all the members of the board do not attend the subsequent meeting.

3. If the directors sign a waiver of notice prior to the meeting. Directors who were absent from a meeting, the time and place of which were not fixed, cannot waive the required notice after the meeting has been held. The following is a form of waiver of notice of a directors' meeting.

WAIVER OF NOTICE OF SPECIAL MEETING OF DIRECTORS

We, the undersigned, being all the directors of the Corporation, a corporation organized and existing under the laws of the State of, do hereby waive any and all notice as provided by the statutes of, or by the Articles of Incorporation or By-laws of the said Corporation, and do hereby consent to the holding of a special meeting of the Board of Directors of the said Corporation, to be held on the ... day of, 19..., at o'clock in the noon, or any adjournment or adjournments thereof, at the office of the Corporation, Room, No., City of, State of, for the following purposes [*insert purposes of meeting*].

We hereby also consent to the transaction of any other business that may come before the meeting.

Dated at, this ... day of, 19...

.....

 (Signatures of directors)

Form of notice of directors' meeting. Unless a statute, the charter, or a by-law prescribes a particular form of notice of directors' meetings, any form will be satisfactory. If written notice is prescribed, oral notice is not sufficient unless all the directors attend the meeting. The requirement that the notice be in writing does not mean that it must be signed by the person calling the meeting.

If the notice is received by a director or if he attends the meeting, it is immaterial by what means notice was conveyed to him. The manner of serving notice becomes important only when a director is absent from the meeting and a question arises as to whether notice was properly served upon him. If the by-laws are silent regarding the manner in which written notice shall be served, the best practice is to mail notices to directors. There are some cases, however, which

hold that when no method of giving notice of directors' meetings is provided for in the by-laws or regulations of a corporation, personal notice must be given to each director.

Contents of notice of directors' meeting. Notice of a meeting of directors should disclose the following information:

1. *Time of the meeting.* In the absence of any statute, by-law provision, or practice of the corporation fixing the time or method of calling meetings of the board of directors, a reasonable notice is necessary for the validity of the meeting. What is reasonable notice depends upon the circumstances. One day's notice of a meeting that is to be held at a place 24 hours by rail from the place at which notice is served on a director is insufficient.

2. *Place of the meeting.* The statutes of most of the states authorize the holding of directors' meetings, as provided in the by-laws, either within or without the state. If the statute specifies that meetings shall be held within the state, a meeting held outside the state will not be legal, and the action taken by the directors at such a meeting will not be binding. In the absence of any express provision naming a particular place, the directors may designate any reasonably convenient place within the state. The courts generally agree that the directors may meet outside the state, in the absence of a provision restricting the place of meeting to the state of incorporation, to transact any business in which they act as mere agents of the company or as superintendents of the business. A difference of opinion exists concerning the power of directors to meet outside the state to act upon such matters as the election of officers and the levying of assessments; in other words, to act in a purely corporate capacity. Thus, in one case it was held that the directors may not meet outside the state to make calls upon stock, while in another it was held that a meeting for this purpose may be held outside the state of incorporation.

3. *Purpose of the meeting.* The purpose of a directors' meeting need not necessarily be mentioned in the notice of the meeting, although if the meeting is extraordinary, it is best to state the purpose. The general rule is that at a special meeting called by a general notice any business whatever may be transacted. If the notice of a special meeting states the purpose, the courts are likely to hold that any

extraordinary business outside of that stated in the notice cannot be transacted unless all the directors are present.

Quorum at directors' meeting. A quorum of directors must be present at a meeting to enable the directors to transact business. If there is less than a quorum present, the meeting must necessarily adjourn. A quorum is presumed to be present unless the presumption is questioned, or unless the record discloses that one is not present. A director who is disqualified from voting because of a personal interest in the transaction cannot be included in determining whether or not a quorum is present. A director cannot be tricked into attendance at a meeting against his will in order that a quorum be obtained.

Where there is no provision in the statute, charter, or by-laws, a majority of the required number of directors is the minimum requirement for a quorum, even where there are vacancies in the board. If, by reason of vacancies in the board, the number is reduced to less than the number required for a quorum, the board cannot transact any business until the vacancies are filled. But if the number of directors is reduced below the minimum required by law, business may still be transacted by the board if a quorum still exists and is present.

Vote necessary to authorize action at directors' meeting. Unless expressly provided otherwise in the statute, charter, or by-laws, a majority vote of the directors present at a meeting, as distinguished from a majority of the full board, is sufficient to authorize action. Any director present at a meeting may vote on any subject in which he is not pecuniarily interested. Directors cannot vote by proxy.

Conduct of directors' meeting. In the case of smaller corporations, meetings of the board of directors are usually conducted in an informal manner. Larger corporations, however, generally conduct their directors' meetings with considerable formality.

The chairman of the board sits at the head of the directors' table. The president sits at the right of the chairman, or, if the office of chairman of the board does not exist, the president sits at the head of the table. Usually the secretary sits next to the chairman, often at his left, so that he can be consulted conveniently on any matter in the order of business and hand documents and records to the chairman with a minimum of disturbance. The president generally presides at meetings of directors, unless some other provision is made by

the by-laws. Votes are usually taken in an informal way at directors' meetings generally by a call for "yes" or "no" answers. (For the conduct of directors' meetings at which vacancies are to be filled see page 1161. For preparation for a directors' meeting, see page 1215.)

Right of directors to rescind action taken at former meeting. The directors have the right to repeal any resolution passed at a previous meeting, or to rescind any previous action, provided the repeal or rescission does not involve a breach of contract or disturb a vested right. (For right of directors to revoke declared dividends, see page 1175.)

Executive and finance committee meetings. The executive and finance committees are the most active bodies in many large corporations. They are generally created in accordance with the provisions of the by-laws, or by resolution of the board of directors. The by-laws usually prescribe the manner of calling committee meetings, the number of persons necessary to constitute a quorum, the method of filling vacancies, the number of votes necessary to take action, and similar regulations. The by-laws or the resolution creating the committees may provide that the committees shall set up their own rules of procedure. In the absence of special rules governing the conduct of committee meetings, the rules governing meetings of directors apply. Thus the executive or other committee must act as a whole. In the absence of specific requirements, a majority of the committee will constitute a quorum, and a majority of those present at any meeting will have the power to decide questions that come before the meeting. Committee meetings are ordinarily not conducted with as much formality as meetings of the board.

9. HOW TO KEEP MINUTES OF MEETINGS

Necessity for keeping minutes of meetings. Minutes of stockholders', directors', and committee meetings are necessary for the following reasons:

1. The statute, charter, or by-laws may require minutes.
2. A written record of the proceedings eliminates misunderstanding and guides the directors in carrying out their own decisions and those of the stockholders.
3. Minutes are useful if the corporation brings a legal action or

is sued upon a matter that was taken up at a meeting. Ordinarily the minutes are prima-facie evidence of what they purport to show as to the corporate business transacted at the meeting; frequently they are the best evidence. The minutes, however, are subject to contradiction by oral evidence to show what the actual proceedings were, if the minutes do not correctly record them.

From a legal standpoint it is not essential to the validity or binding effect of acts done or authority given by the directors or the stockholders that their votes or decisions be recorded, unless a record is required by the statute, charter, or by-laws. In fact, failure to keep minutes, even when they are expressly required, will not invalidate an act of the board or of the stockholders, if the act is admittedly that of the corporation or if invalidation would injuriously affect the rights of third parties.

Necessity for adopting resolutions. Since, from a legal standpoint, it is not necessary that minutes be kept, it follows that it is not essential that a formal resolution be adopted in order either to bind the corporation or to confer authority to bind the corporation. However, the rule does not diminish the necessity for resolutions from the standpoint of expediency. Resolutions minimize misunderstandings, form a permanent and accurate record of the action agreed upon, and are invaluable as proof of proceedings at a meeting.

When action should be taken by resolution. No hard and fast rules specifying when action should be authorized in the form of a resolution can be drawn. Under the following circumstances resolutions are either required or appropriate:

1. If the matter is one that the statute, charter, or by-laws require to be covered by resolution.
2. If a certificate showing that the authority granted by stockholders or directors to perform a certain act is required to be filed, or likely to be required at some future time.
3. If the matter regulates the management of the corporation and is meant as a permanent rule until changed.
4. If the matter is one of importance.
5. If the matter is one that is likely to be referred to from time to time.
6. If the matter consists of amendments to the charter or by-laws.

Motions and resolutions. Most matters of business that come before a meeting are introduced by a motion recommending that the body assembled express an opinion, take certain action, or order something to be done. A motion, in other words, is a proposal, and the expression "I move" is equivalent to "I propose." A resolution is adopted by a motion, made and seconded, that the resolution be adopted. Every motion need not be followed by a resolution. For example, someone may move that the meeting be adjourned, that a particular discussion be postponed, or that the report of a committee be accepted. Action frequently takes place with neither motion nor resolution. For example, the report of the inspectors of election may be unanimously approved and the secretary directed to file a duplicate in the office of the county court in the state and to attach another to the minutes of the meeting.

When action should be embodied in a by-law rather than made a resolution. In some instances either a resolution or a by-law will accomplish the object desired, and it is a matter of discretion with the directors as to which shall be used. It should be remembered that the by-laws are permanent and continuing rules adopted to govern the corporation, its officers, directors, and stockholders, and that by-laws are less easily changed than is a resolution. It is advisable to embody action in a by-law, rather than in a simple resolution, in the following circumstances:

1. If the subject is to become a fixed policy of the corporation.
2. If notice of the action is to be conveyed to all of the directors and stockholders.

Drafting resolutions. The drafting of resolutions is generally done by the secretary. Frequently resolutions are drafted in advance of a meeting in order to clarify the subject matter and to facilitate discussions. The secretary may submit the draft of the resolution to the officer or department which originated the proposition to make sure that the resolution expresses the wishes of those sponsoring the matter.

The necessity for simple, unambiguous language in recording the minutes of meetings and in drafting resolutions cannot be too strongly emphasized. The courts have repeatedly held that a resolution of the directors or stockholders may constitute a contract. In

writing up the minutes, the secretary should use words in their ordinary and general sense. When taking action pursuant to a statute, it is a good plan, in framing the necessary resolution, to follow as nearly as possible the wording of the statute.

Resolutions involving routine matters are usually drafted by the secretary without the aid of counsel. Resolutions relating to matters that involve legal technicalities are generally drafted by counsel. However, the secretary sometimes prepares the initial draft of a resolution requiring legal knowledge, and then refers it to the legal department, with appropriate oral or written explanations. In some organizations the resolutions are submitted to the president for his approval after they have been examined by counsel.

Certain action may require the passage of a resolution in a form satisfactory to some outside person or organization. For example, a resolution to amend the charter may have to be in a form prescribed by the secretary of state; in such case, of course, counsel for the corporation, or the secretary, need only obtain the form and complete it as required. Other resolutions may be prescribed by other outside institutions, as, for example, by the trustee, if the action relates to cancellation of a mortgage; by the transfer agent, if the resolution refers to the appointment of a certain bank or trust company to act as transfer agent; by the bank in which the company is authorizing its officers to deposit funds of the corporation.

Where new topics are brought up unexpectedly at a corporate meeting for discussion, and the secretary has had no opportunity before the meeting to draft a resolution, he may immediately write out the resolution in full and have it approved by the chairman, or he may follow the practice of writing out the resolution after the meeting. The resolution, under the second plan, is accurately worded in the typewritten minutes but is not read until the succeeding meeting. This practice is more suitable for directors' than for stockholders' meetings. At stockholders' meetings it is advisable that adequate time be taken to frame an exact resolution to be voted upon at the meeting.

Recording discussions in the minutes. Generally the argument on particular questions and the discussion that take place at a meeting are not made part of the record, unless some member present specifically requests that his views be made a matter of record. Fre-

quently it is advisable to include an explanatory statement of the resolution or motion in order to clarify the proposal. Where this is necessary, the statement may well become a part of the resolution by being included in the preamble, under the "whereas" clause. The secretary should not hesitate to record in his minutes full details of the transaction; too many secretaries err on the side of brevity.

How to record motions, resolutions, and votes taken. The names of proposers and seconders of motions are generally omitted, although in some cases it may be advisable to show by whom the proposal was introduced. In most cases it is not necessary that the names of those voting for or against a proposition be recorded, unless the statute, charter, or by-laws require this information to be shown. In the case of stockholders' meetings, it is generally sufficient to show the number of shares voting for and against a proposition. Furthermore, by recording the vote in this way, the minutes show that a quorum was present when the business was authorized. Where a special request is made for the recording of dissenting votes by a minority, the entries should be so made by the secretary. It is advisable to indicate in the minutes that a director personally interested in a particular transaction did not vote, or that he left the room.

If no vote is taken on a certain question, and the chairman obtains the consensus of the directors in an informal manner, it is sufficient to note in the minutes that "it was the consensus that," or that "each director present expressed his approval of," or that "doubt was expressed as to," followed by a statement of the facts. This puts on record some evidence of the points covered and the general reaction.

All important written proposals, contracts, or other papers brought before the meeting may be ordered "spread upon the minutes"—that is, written out in full in the minute book.

In certain actions dissenting directors should be particularly careful to have their opposition noted. For example, where the statute places a personal liability upon directors who consent to the issuance of stock for property in excess of the actual value of the property, the minutes should show the names of the directors concurring in the judgment of the value of the property. In connection with the declaration of dividends, recording of dissent may be necessary to save the directors from personal liability for dividends illegally declared.

Arrangement of minutes. The secretary is not required to write the minutes out in his own handwriting. While the minutes can be written in any form, the most usual arrangement is the following:

1. Heading designating whether it is a stockholders', directors', or committee meeting.
2. Time and place of the meeting.
3. Presiding officer and secretary.
4. Proof that notice was given or waived.
5. Statement of amount of stock represented in person or by proxy, with a notation that a quorum was present.
6. Approval of minutes of previous meeting.
7. Report of all business transacted, usually arranged in accordance with the established order of business.
8. Adjournment.

Rules for typewriting minutes of meeting. The following is a suggested set of rules relating to the form to be followed by those who typewrite the minutes in the minute book:

1. The heading designating the meeting should be capitalized and centered.
2. Paragraphs should be indented ten spaces.
3. Names of attending directors and absentees, or similar lists, should be indented fifteen spaces.
4. The text of the minutes should be double-spaced.
5. Double space should be left between paragraphs, and triple space between items in the order of business.
6. Resolutions should be indented fifteen spaces and single-spaced.
7. The words "Board of Directors" and the word "Corporation," when reference is being made to the corporation whose minutes are being written, should be capitalized.
8. Captions in margins should be in capitals or in red type.
9. A margin of an inch and a half or two inches should be left on the left-hand or right-hand side of the page, depending upon whether it is a left-hand or right-hand page, for captions and indexing.
10. The minutes should be summarized in marginal headings.
11. The words "Whereas" and "Resolved" should be capitalized and followed by a comma, and the word "That" after resolved should be capitalized.

12. Sums of money, when mentioned in a resolution, should be written first in words and then in figures in parentheses, as follows: Ten Thousand (\$10,000) Dollars.

13. Both sides of the paper should be used.

Examples of minutes. The reproduction of minutes of a regular directors' meeting shown in Figures 90a and 90b indicates the large-size minute page (13 x 8½ inches) adopted by many corpora-

162 REGULAR DIRECTORS' MEETING	THE CORPORATION DIRECTORS' MEETING APRIL 30, 19 .. ---oOo---
APRIL 30, 19 ..	A regular meeting of the Board of Directors of The Corporation was held at the office of the Corporation in Chicago, Illinois, on Thursday, April 30th, at ten thirty o'clock in the forenoon.
PRESENT	There were present: F.S. Chairman presiding. C.L. A.E. M.E. P.S. J.M. A.D. M.F. comprising a quorum of the board; also A.G. Secretary.
ABSENT	Absent: W.I. H.F. A.G. P.H. I.H. H.H. F.B.
MINUTES APPROVED	The minutes of the annual directors' meeting held on April 7, 19 .., were read and approved. On motion duly made, seconded, and carried, the minutes of the Finance Committee meetings of February 12, March 10 and 30, April 16 and 24, 19 .., were approved.
PRESIDENT'S REPORT	The president reported that results this year slightly exceeded those of last year, both in the number of sold and in the amount of the net profits, which were \$1.84 per share on the common stock. Plant operations, which were under curtailment in January and February, were increased to capacity in March. in dealers' stocks and in transit to them, including demonstrators, on April 1st were 46% less than on the same date in 19 .., and 25% less than in 19 .. The regular dividends on the preferred and common stocks were paid March 1st, which action in the case of the latter stock completed the tenth consecutive year of dividends. The balance sheet shows substantial increases in cash and decreases in inventories, plant investments, and liabilities. Eleven plants are now operating at capacity, and production for the second quarter will exceed 4,000 Demand greatly exceeds output, and ... are therefore being distributed among dealers on a pro rata basis. April collections will be about \$ Generally speaking, conditions with us were never better.

Figure 90a. Minutes of Directors' Meeting, Page 1.

tions. Oblong holes are punched in the sheets so that they may be inserted in the locking binder. The left-hand margin is $1\frac{1}{2}$ inches wide; thus ample room is provided for the use of convenient index captions. Each sheet must be numbered in the upper outside corner.

A set of minutes that may be used as a model for an annual stockholders' meeting is given on page 1253. A set of minutes for an annual meeting of directors is given on page 1255 *et seq.*

The treasurer submitted a general profit and loss statement for the first three months of the year 19 .., showing a net profit for that period, after deduction of all interest charges and reserves, of \$, He also submitted a general balance sheet as of March 31, 19 .., showing a surplus on that date (exclusive of Special Surplus Account) available for dividends of \$, These reports were ordered placed on file.	183
On motion duly made and seconded, the following resolution was unanimously adopted:	
WHEREAS, it appears from the report of the treasurer that the net profits of this Corporation for the three months' period ending March 31, 19 .., after deduction of interest charges and reserves, amounted to the sum of (\$) Dollars, and	611
WHEREAS, it appears from the report of the treasurer that the surplus (exclusive of Special Surplus Account) available for dividends on March 31, 19 .., was (\$) Dollars, and the treasurer has reported that the same has not been diminished since that date, it is therefore	
RESOLVED, That for the purpose of paying the regular June quarterly dividend of one and three-quarters (1$\frac{3}{4}$%) per cent on Million Two Hundred Thirty-five Thousand (\$) Dollars preferred stock of the Corporation, there is hereby set apart, out of the surplus, net profits arising from the business of the sum of (\$) Dollars, and from such sum so set apart, the treasurer is hereby authorized and directed to pay, or cause to be paid, the said regular June quarterly dividend of one and three-quarters (1$\frac{3}{4}$%) per cent on June 1st, 19 .. to the preferred stockholders of record at the close of business on May 9th, 19 ..	PREFERRED STOCK DIVIDEND
The treasurer further reported that the present condition of the Special Surplus Account complied in all respects with the conditions required by the Certificate of Incorporation to exist for the payment of dividends on the common stock, and that the surplus available for dividends on the common stock on March 31st, 19 .., after deduction of the sum of \$ heretofore at this meeting set apart for the payment of the June quarterly dividend on the preferred stock, is \$	612
On motion duly made and seconded, it was unanimously	
RESOLVED, That for the purpose of paying a quarterly dividend of One (\$1.00) Dollar per share on (.....) shares of the common stock of the Corporation now outstanding, there is hereby set apart, out of the surplus net profits arising from the business of the Corporation, the sum of (\$) Dollars, and from such sum so set apart the treasurer is authorized and directed to pay, or cause to be paid, the said quarterly dividend of One (\$1.00) Dollar per share on June 1st, 19 .. to the common stockholders of record at the close of business on May 9th, 19 ..	COMMON STOCK DIVIDEND 613
The vice-president in charge of manufacturing read a written report on manufacturing conditions in the plants, which was ordered received and placed on file.	REPORT OF V.P. IN CHARGE OF MFG
In the absence of the vice-president in charge of sales, the president made a report in which he stated that dealers' stocks are very low, and that the demand for is greater than it has ever been. Mechanically the are excellent, and practically no complaints are received in this regard. Report ordered received and placed on file.	REPORT ON SALES
On motion duly made and seconded, the meeting adjourned.	
..... Secretary	 President

Figure 90b. Minutes of Directors' Meeting, Page 2.

MINUTES OF ANNUAL MEETING OF STOCKHOLDERS
HELD PURSUANT TO WRITTEN NOTICE OF MEETING

[*Note—The headings in italics ordinarily appear in the minute book as marginal captions.*]

[*Time and place of meeting*] The regular annual meeting of the stockholders of the Corporation, a [*give state of incorporation*] corporation, was held at the office of the Corporation, Street, in the City of, State of, on the . . . day of, 19 . . ., at o'clock . . . m., pursuant to a call made by the President, and written notice given by the Secretary.

[*Presiding officer; Secretary*] Mr., President of the Corporation, presided at the meeting, and Mr., Secretary of the Corporation, was secretary of the meeting, as provided by the By-laws.

The Secretary presented and read the following notice of the meeting:

[*Insert notice of meeting*]

[*Proof of notice*] The Secretary presented an affidavit, duly signed and sworn to by himself, showing that notice of the meeting had been mailed to each stockholder, addressed to such stockholder at the address given by him to the Corporation, postage prepaid, as required by the By-laws of the Corporation. The affidavit was approved and ordered attached to these minutes.

[*List of stockholders; quorum*] A certified alphabetical list of the stockholders of the Corporation was presented, and upon a call of the list and an inspection of proxies, it was found that there were present in person stockholders of the Corporation holding shares of stock and represented by proxy, stockholders of the Corporation holding shares of stock, being more than a majority of the total number of shares outstanding and entitled to vote.

The proxies were filed with the Secretary.

Thereupon the President announced that legal notice of the meeting had been given, that a quorum was present, and that the meeting was now regularly and lawfully convened and ready to transact business.

[*Inspectors of election*] Upon motion duly made and seconded, and were unanimously elected Inspectors of Election to count the votes presented to the meeting in person or by proxy. The Inspectors of Election thereupon submitted their oaths as such Inspectors, duly subscribed by them, and the Secretary was directed to attach the same to these minutes.

[*Approval of minutes*] The Secretary then presented the minutes of the annual meeting of stockholders held on, 19 . . , which were read and approved.

[*Approval of acts of directors and annual report*] Thereupon the President presented to the meeting the following papers and documents, all of which were laid upon the table and were publicly declared by the President to be open for inspection by any stockholder:

1. The minutes of the Board of Directors, covering all purchases, contracts, contributions, compensations, acts, proceedings, elections, and appointments by the Board of Directors since the annual meeting held on, 19 . .

2. The (insert number) annual report, a copy of which has been mailed to every stockholder of record.

Upon motion duly made and seconded, it was unanimously

RESOLVED, That all purchases, contracts, contributions, compensations, acts, proceedings, elections, and appointments by the Board of Directors since the Annual Meeting of Stockholders of the Corporation on, 19 . . , and all matters referred to in the Annual Report to Stockholders for the fiscal year ending, 19 . . , be and the same hereby are approved and ratified.

The meeting then proceeded to the election of five directors as successors to the directors whose terms expire with this annual meeting, to hold office for the term of year(s), and until their successors shall be elected and shall qualify.

[*Nomination of directors*] The following were nominated and seconded to be directors:

A	F
B	G
C	H
D	I
E	J

There were no other nominations.

Upon motion duly made, seconded, and unanimously carried, the nominations were closed.

Upon motion duly made and seconded, it was unanimously

[*Voting*] RESOLVED, That the polls remain open for one hour, commencing at o'clock . . M., and closing at o'clock . . M.

The President stated that the polls were now open, and would remain open as stated, and that the Inspectors of Election were prepared to receive the votes of the stockholders.

At o'clock, the polls having been kept open for one hour, and no others desiring to vote, it was, on motion duly made and seconded, unanimously

RESOLVED, That the polls be closed.

The Inspectors of Election thereupon inspected the proxies and counted the ballots, and submitted their report in writing.

[*Report of Inspectors of Election*] Upon motion duly made and seconded, the report of the Inspectors of Election was unanimously approved, and the Secretary was directed to file the original report and to attach a copy to the minutes of this meeting.

The report of the Inspectors of Election is as follows:

[*Insert report of Inspectors of Election*]

[*Declaration of election*] The Chairman thereupon declared that the five persons receiving the highest number of votes, namely [*insert names*], had been duly elected directors of the Corporation, to serve for the term of year(s), and until their successors shall be elected and shall qualify.

[*Adjournment*] No other business having come before the meeting, it was, on motion duly made and seconded, adjourned.

.....
President

.....
Secretary

MINUTES OF ANNUAL MEETING OF DIRECTORS

[*Note—The headings in italics ordinarily appear in the minute book as marginal captions.*]

[*Time and place of meeting*] The annual meeting of the Board of Directors of the Corporation was held at the office of the Corporation, in the City of, State of, on the .. day of, 19.., at o'clock in the noon, immediately following the adjournment of the annual meeting of the stockholders.

[*Attendance*] The following directors, being all the directors of the said Corporation, were present:

.....
.....
.....
.....
.....

[*Chairman; Secretary*] Mr., President of the Corporation, presided, and Mr. acted as secretary of the meeting.

[*Quorum*] The Chairman announced that a quorum of the directors was present, and that the meeting, having been duly convened, was ready to proceed with its business.

[*Notice of meeting*] The Secretary presented the notice of the meeting pursuant to which the meeting was held. The same was ordered to be entered in the minutes and is as follows:

[*Insert notice of meeting*]

[*Presentation of minutes of annual stockholders' meeting*] The Chairman laid before the meeting the minutes of the annual meeting of the stockholders of the Corporation, held on the . . . day of . . . , 19 . . . , showing the election of the following persons as directors of the Corporation, to hold office for the term of . . . year(s), and until their successors shall be elected and shall qualify.

.....

[*Election of officers*] On motion duly made, seconded, and unanimously carried, the Board of Directors thereupon proceeded to elect the following officers of the Corporation—to wit: President, Vice President, Secretary, and Treasurer.

Mr. was nominated for the office of President of the Corporation. No other nominations being made, upon motion duly made, seconded, and unanimously carried, Mr. was elected President of the Corporation, and was declared duly elected to the said office.

Mr. was nominated for the office of Vice President of the Corporation. No other nominations being made, upon motion duly made, seconded, and unanimously carried, Mr. was elected Vice President of the Corporation, and was declared duly elected to the said office.

Mr. was nominated for the office of Secretary of the Corporation. No other nominations being made, upon motion duly made, seconded, and unanimously carried, Mr. was elected Secretary of the Corporation, and was declared duly elected to the said office.

Mr. was nominated for the office of Treasurer of the Corporation. No other nominations being made, upon motion duly made, seconded, and unanimously carried, Mr. was elected Treasurer of the Corporation, and was declared duly elected to the said office.

Each of the officers so elected was present and thereupon accepted the office to which he was elected.

Upon motion duly made, seconded, and unanimously carried, the Board of Directors proceeded to fix the salaries to be paid to the President, Vice President, Secretary, and Treasurer for the year 19...

[*Compensation of officers*] The Chairman announced that the salary of each officer would be voted upon separately, and that the officer whose salary was under consideration would not participate in the vote.

Mr., President, thereupon left the room.

On motion duly made, seconded, and affirmatively voted upon by all the directors then present, it was

[*Salary of President*] RESOLVED, That the salary of Mr., President of the Corporation, be fixed at \$ for the year beginning, 19, and ending, 19..., payable in semimonthly installments on the fifteenth day and the last day of each calendar month.

The vote having been taken, Mr. was recalled to the meeting.

The Vice President then left the room.

(Repeat the minutes given above for each officer)

[*Adjournment*] There being no further business to come before the meeting, the same was, upon motion, adjourned.

.....
President

.....
Secretary

How to correct errors in minutes. One of the purposes of reading the minutes of a previous meeting is to offer an opportunity to make corrections of any misstatements or errors that may have crept into the record. The fact that corrections are made after the minutes are prepared is comparatively unimportant, from a legal standpoint, if the entry faithfully shows what was done.

The manner of correcting errors depends upon the importance of the matter to be changed. The chairman may informally direct correction of simple errors such as mistakes in the spelling of names. If a dispute arises as to the correctness of a statement, motion, or resolution reported in the minutes, it may be necessary to put the matter to a vote to determine how the minutes shall read. If the

error can be corrected immediately, the correction may be made at the meeting, and the minutes, as changed, offered for approval. If, however, the correction involves a revision of the minutes, the minutes of the current meeting will report the corrections of the minutes of the previous meeting.

Manner of revising minutes. Either of the following methods may be used for revising minutes:

1. Strike out the erroneous matter by drawing a red line through each line of the incorrect material and write in between the red lines the correct minutes. Make a reference in the margin of the minutes to the minutes of the following meeting, showing when the correction was ordered.

2. Strike out the erroneous material in red, and put a note in the margin showing where the revised minutes appear; insert the correct minutes at the end of the original minutes.

Where loose-leaf books are used, it is inadvisable to throw away the pages that were incorrectly written. The better practice is to retain the original pages, to indicate that the minutes are obsolete by reference to the minutes of the meeting at which the errors were discussed, and to insert the corrected minutes in a subsequent page.

If the effect of a resolution adopted at a meeting is to create a contract between the corporation and some other party, the resolution cannot be changed by a memorandum entered on the records after the adjournment of the meeting, without the knowledge or consent of the parties to the agreement. Clerical errors in the writing of minutes are immaterial where the proof is clear that the entry is erroneous. Thus, where it is evident that the directors met on the same day as the stockholders, immediately after the stockholders' meeting adjourned, and that both meetings were held on a certain day, a different date at the head of the minutes of the directors' meeting is simply a clerical error and is immaterial. The fact that corrections are made after the minutes are prepared is comparatively unimportant, from a legal standpoint, if the entry faithfully shows what was done.

Indexing of minutes. Large corporations usually have their minutes carefully indexed so that any business which has been passed upon at a formal meeting, however remote in time, may be referred

to and reviewed easily and quickly. Card indexes, loose-leaf binder indexes, or bound books may be used for the purpose.

Rexall, A. G.
Secretary: 411, 463, 536, 667, 735, 767, 805, 843, 884, 922.
Ex Comm.: 412.
Asst. Treas.: 679, 736, 806, 844, 885, 922.

Figure 91. Index Card Used for Indexing Minutes.

Secretary.
Elections: 42, 58, 228, 296, 411, 463, 536, 576, 615, 667, 735, 767, 805, 843, 884, 922.
Resignations: 58.

Figure 92. Index Card Showing Cross-Index of Certain Items in Figure 91.

The making of the index is facilitated by the use of captions in the minutes, as illustrated in Figure 90a-b. The index card contains the subject matter taken from the captions and a reference to

the page on which the caption appears. The samples of index cards shown in Figures 91 and 92 illustrate how subjects of resolutions are cross-indexed. If a more detailed index is desired, the captions appearing on the page may bear a number, and the reference on the card may be made to the number rather than to the page. The numbers, of course, should run consecutively through the minute book.

Arrangement of minute books. As a rule, the minutes of the stockholders' meetings and those of the directors' meetings are kept in separate books. Small companies, however, sometimes use one book for both stockholders' and directors' meetings, dividing the book into two distinct parts. Naturally, there are many more pages devoted to directors' meetings than to stockholders' meetings, since the latter usually occur only once a year. Some small companies put the minutes of directors' and stockholders' meetings in consecutive order, without separation of one class of meeting from the other. This practice is particularly helpful in small corporations, where, the stockholders and directors being identical, joint meetings are held. A standardized type of minute book is shown in Figure 93.

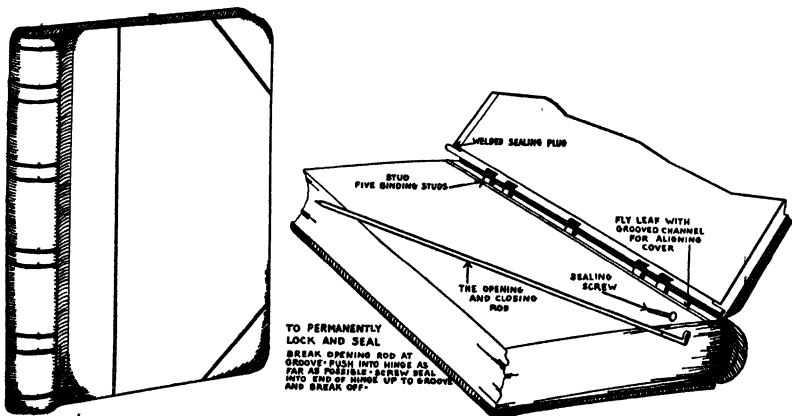


Figure 93. Typical Minute Book

The minute book of stockholders' meetings (or combined minute book, if only one is used) may be arranged as follows: Bind or paste a certified copy of the corporation's charter in the first pages of the

book, or merely copy the charter into the book. Leave several blank pages to provide for insertion of amendments. Then, beginning at the top of a right-hand page, copy the by-laws of the corporation, leaving a few blank pages for new by-laws or amendments. After the by-laws, insert the minutes of the first meeting of the stockholders. Continue the minutes of stockholders' meetings after the minutes of the first meeting of stockholders, beginning each set of minutes at the top of a new page.

Resolutions book. Some companies follow the practice of keeping a copy of all resolutions in a separate book, properly indexed. This system avoids the inconvenience of having to leaf through pages of minutes of unrelated matter when reference is made to a particular action authorized by resolution. Furthermore, by keeping the resolutions in a separate place, the minute book is preserved, and perusal of confidential matters contained in the minute book by someone interested only in a particular resolution is prevented.

10. DOING BUSINESS IN MORE THAN ONE STATE

May a corporation do business in any state? A corporation is an artificial entity created by the state in which it is organized, and as such has no inherent right to compel any other state to recognize its existence. In a state other than that in which it was organized, it is known as a foreign corporation. As a matter of comity, the states permit corporations to do business within their borders provided the corporations comply with special terms and conditions imposed. These conditions generally include:

1. Registration of the presence of the foreign corporation in the state by the filing of certain documents with State officials.
2. Designation of a person in the state to act as agent for the service of process upon the foreign corporation.
3. Payment of certain fees and taxes.

The right of states to regulate the activities of foreign corporations within their borders is subject to various limitations contained in the Federal Constitution. One of these limitations, and by far the most important, is that a state cannot unwarrantably interfere with business carried on by a foreign corporation which is interstate com-

merce as distinguished from intrastate business. Interstate commerce means shipment from state to state; intrastate business means business done within the state.

What constitutes "doing business" in another state. It is not always easy to determine whether a corporation is engaged in interstate commerce, and is thus free from State regulation, or whether it is doing business within a state. What constitutes "doing business" within a state is determined by the wording of the various state statutes, the interpretation of these statutes by the courts, and the facts and circumstances surrounding each particular case. The following rules are generally accepted in deciding whether or not a foreign corporation is doing business within a state:

1. *Isolated transactions.* Occasional and isolated transactions that do not indicate an intention on the part of the corporation regularly to conduct a substantial part of its business in a state do not constitute doing business in that state. Doing business means a continued activity in carrying out the purposes for which the corporation was organized. For example, a corporation is organized in New York, where it carries on all of its business. A friend of the corporation's president, who lives in Michigan, orders a bill of goods while on a visit to New York. The goods are delivered to the friend in Michigan. The corporation is not doing business in Michigan and need not qualify as a foreign corporation in Michigan. Even where several transactions are effected in the state, the corporation is not necessarily doing business in the state if the transactions are incidental and not in the exercise of the purposes for which the corporation was organized.

2. *Solicitation of business.* A foreign corporation is generally held to be engaged in interstate commerce and not to be doing business in the state when it merely employs salesmen to solicit orders in the state without closing the sale in the state or making shipments from the state. Nor is a corporation engaged in doing business in the state if it merely receives or solicits orders by mail by means of circulars, catalogues, and so forth, but accepts the orders and fills them outside the state. Where, however, the foreign corporation's agent solicits orders from local retailers and turns the orders over to local wholesalers who fill them and receive payment from the retailers, the corporation is doing business in the state. Some courts

hold that while a foreign corporation that merely solicits business in the state may not be required to qualify as a foreign corporation, it may, however, be subject to service of process.

3. *Appointment of agents.* The appointment of an agent in a state does not, in itself, constitute doing business in that state. Whether or not a foreign corporation which has an agent in another state is doing business in that state depends upon the nature of the agent's acts. For example, if all the agent does is solicit orders for goods that are to be shipped into the state, the corporation is not required to qualify as a foreign corporation in the state or to pay taxes on the business solicited. If, however, the agent has the power to bind the corporation by contract, or if he sells goods in the state and makes deliveries from stock on hand, the corporation is deemed to be doing business in the state.

4. *Purchases of goods.* Where a foreign corporation purchases goods in the state through its agents or through the mails, which goods are to be sent to the corporation outside the state in the same condition in which the goods were purchased, the corporation is not doing business in the state. This is the general rule applicable where the question involved is whether or not the corporation is required to qualify as a foreign corporation in the state. Some courts have held, however, that where the question involved is whether or not service of process may be effected upon the foreign corporation, the corporation is doing business in the state if it makes its purchases with regularity and employs agents for the purchase of goods in the state as part of its regular business.

5. *Sales of goods.* A foreign corporation that sells to a resident of another state goods which at the time of sale are outside the state in which the purchaser lives, and which are to be shipped to the purchaser, is not doing business in the state in which the purchaser resides. Even if the goods sold are already in the state in which the purchaser resides, the corporation is not doing business in that state if the transaction is an isolated one.

6. *Ownership of property.* The mere passive ownership of either personal or real property by a foreign corporation in the state does not constitute doing business in that state, and the corporation is not required to qualify as a foreign corporation.

7. *Maintenance of an office.* A foreign corporation is not deemed to be doing business in a state merely because it maintains an office

in the state. The maintenance of any office, however, may be a strong factor in determining the question, and the conclusion drawn depends upon the purpose for which the office is used. For example, where the foreign corporation directs its internal affairs from the office in the state, holds directors' and stockholders' meetings there, keeps its books and records there, it is generally deemed to be doing business in the state. On the other hand, where the corporation maintains an office in the state for the convenience of its salesmen, and the business conducted through the office is entirely in the nature of interstate commerce, the corporation is generally held not to be doing business in the state.

How a foreign corporation qualifies to do business in a state. Each state has its own requirements as to the method of qualification. In most states qualification is effected by the payment of an entrance fee and the filing of the following documents:

1. Application for permission to do business in the state.
2. Copy of the articles of incorporation and all amendments thereto, properly certified.
3. Copy of the by-laws of the corporation, and all amendments thereto, properly attested.
4. Certificate designating a place of business in the state and appointment of an agent for the service of process in the state.
5. Statement of financial condition of the corporation, its capitalization, and the amount of capital and assets to be employed in the state

Some states also require the filing of a tax report, a certificate of the names and addresses of officers and directors, and an acceptance of the provisions of the state constitution.

In some states, permission to do business is granted for a limited period only and must be renewed upon expiration.

After qualification, is a foreign corporation required to pay any additional taxes or to file any additional reports? Some states require foreign corporations to pay annual taxes based upon the amount of capital employed in the state, and to file the following documents after qualification:

1. Annual tax or information reports.
2. Statement of change in place of business in the state or change

in resident agent appointed for service of process on the corporation in the state.

3. A copy of any amendment to the corporation's articles of incorporation.

Penalties that may be incurred by a foreign corporation which does business in a state without qualifying. The statutes of the various states generally impose one or more of the following penalties for failure of a foreign corporation doing business in a state to comply with the requirements imposed by the state as a condition of doing business:

1. A fine on the corporation.
2. A fine on officers, agents, or employees of the corporation.
3. Imprisonment of officers, agents, or employees of the corporation.
4. Liability of officers, directors, or stockholders for corporate debts or liabilities arising out of transactions within the state.
5. Voiding of contracts entered into by the corporation, or making such contracts unenforceable until compliance with statutory requirements for qualification.
6. Prohibition of the corporation's instituting, maintaining, or defending suits in any State court until compliance with the state's requirements for qualification.
7. Restriction against holding by the corporation of real property in the state, and voiding of conveyances to the corporation.

SECTION 12

Business Mathematics and Short Cuts

1. HOW TO CALCULATE SIMPLE INTEREST

What interest is	1271
Legal and contract rates of interest in the states of the United States . . .	1271
How to calculate the due date of an obligation . . .	1272
How to calculate the time between dates	1272
Ordinary method	1273
Exact method	1273
Short method of finding the exact number of days between dates	1274
Ordinary and exact simple interest	1275
How to use short methods of calculating ordinary interest at 6%	1276
Sixty-day method	1276
One-day or product method	1278
Interchange of principal and number of days	1278
How to use a short method of calculating ordinary interest at rate other than 6%	1279
The cancellation method	1279
Divisors for rates of interest	1280
How to use a short method of calculating exact interest	1281
Exact interest table	1281
Use of interest tables	1282
Periodic interest	1283

2. PARTIAL PAYMENTS ON DEBTS —RULES FOR COMPUTING INTEREST

United States Rule	1284
Merchants' Rule	1286
United States Rule and Merchants' Rule compared	1287

3. HOW TO CALCULATE BANK DISCOUNT

What bank discount is	1287
How the number of days is counted in bank discount	1287
How to calculate the bank discount and proceeds on non-interest-bearing paper	1287
How to calculate the bank discount and proceeds on interest-bearing paper	1288

4. SAVINGS THROUGH CASH DISCOUNT

Cash discount explained	1289
-----------------------------------	------

5. HOW TO COMPUTE TRADE DISCOUNTS

Uses of trade discounts	1290
Chain discounts	1290
How chain discounts are computed	1290
How to find the single trade discount equivalent to a series	1291
How to calculate the net price	1293
Table of decimal equivalents of chain discounts	1293

6. HOW TO COMPUTE AVERAGES

Simple average	1296
Moving average	1296
Progressive average	1298
Periodic average	1299
Weighted average	1299

7. HOW TO FIND THE AVERAGE DATE OF AN ACCOUNT

Average or equated date	1301
How to find the average date of a one-sided account	1302

Dates used in averaging	1303
How to find the average date of a compound account .	1303

8. HOW TO COMPUTE MARKUP AND SELLING PRICE

Difference between figuring per- centage of profit on cost price and on selling price	1305
How to calculate the markup and the selling price when cost of doing business and percentage of profit are based on selling price .	1307

9. HOW TO CALCULATE COMPOUND INTEREST

How to calculate the com- pound amount	1309
How to calculate the num- ber of periods and the rate of interest per period	1309
Formula for compound amount	1311
How to calculate the com- pound present value	1311
Formula for compound pres- ent value	1312
How to calculate the com- pound present value of an interest-bearing debt	1312
Table of compound amount of 1	1313
Table of compound present value of 1	1317
How to calculate the com- pound discount	1321

10. HOW TO COMPUTE ANNUITIES

What an annuity is	1321
Ordinary annuities and annu- ities due	1321
How to calculate the amount of an ordinary annuity ..	1322
Formula for amount of an ordinary annuity	1323
How to calculate the amount of an annuity due ...	1323

Formula for amount of an annuity due	1324
How to calculate the present value of an ordinary an- nuity	1325
Formula for present value of an ordinary annuity ..	1326
How to calculate the present value of an annuity due	1326
Formula for present value of an annuity due ...	1327
Deferred annuities	1327
How to calculate the amount of a deferred annuity ..	1328
How to calculate the present value of a deferred ordi- nary annuity	1328
How to calculate the present value of a deferred annuity due	1329
Table of amount of annuity of 1	1330
Table of present value of an- nuity of 1	1334
Table of annuity which amounts to 1	1338
Table of annuity which 1 will buy	1342

11. DEPRECIATION METHODS

Factors to be taken into ac- count in calculating depre- ciation	1346
Straight-line method of depre- ciation	1346
Working-hours method of de- preciation	1347
Unit-production method of de- preciation	1348
Reducing-charge methods of de- preciation	1349
Fixed-percentage-of-diminish- ing-value method	1350
Sum-of-digits method	1352
Diminishing-rates-on-cost method	1352
Annuity method of deprecia- tion	1353
Sinking-fund method of depre- ciation	1355
Appraisal method of deprecia- tion	1358

Composite-life method of de- preciation	1358
Federal income tax; deduction for depreciation	1358

12. SHORT CUTS IN BUSINESS MATHEMATICS

Addition

Addition by columns	1362
-------------------------------	------

Subtraction

Subtraction by addition	1363
Balancing an account	1364

Multiplication

Table of short cuts in multipli- cation	1364
Using factors as a short cut in multiplication	1365
Multiplication by 11	1365
Multiplication by 15	1365
Multiplication by 75	1366
Multiplication of numbers end- ing with ciphers	1366
Multiplication by 9,99,999, etc.	1366
Multiplication by numbers near 100, as 98, 97, 96, etc. and by numbers near 1,000, as 997,996, etc.	1366
Multiplication of two numbers, each near 100, 1000, etc.	1367
Multiplying by numbers a little larger than 100, as 101, 102, etc.	1367
Multiplication of two numbers each a little more than 100	1368
Mental multiplication by a single method	1368
Mental multiplication with two-digit multipliers	1368
Mental multiplication with three-digit multipliers	1369
How to abbreviate decimal mul- tiplication when a given number of decimal places is required	1370

Multiplication by use of a table of multiples	1371
Handy multiplication and divi- sion table	1372

Division

Table of short cuts in division	1373
Division by use of a table of multiples	1373
Reciprocals in division	1374
Division of decimals	1375

Fractions

Kinds of fractions	1376
Multiplication of any two mixed numbers ending in $\frac{1}{2}$	1376
When the sum of the whole numbers is an even number	1376
When the sum of the whole numbers is an odd number	1377
Multiplication of a mixed num- ber by a mixed number	1377
How to use aliquot parts	1377
Table of aliquot parts of 1 (decimal equivalents of common fractions)	1378
Multiplication by aliquot parts	1381
Division by aliquot parts	1381

13. EXPEDITING CALCULATIONS WITH PREPARED TABLES

Specially prepared tables	1382
Prorating of insurance premi- ums expedited by charts	1382
Freight-rate calculator with pre- figured totals improves cal- culation efficiency	1384

14. VERIFICATION OF COMPUTA- TIONS BY CHECK NUMBERS

Check numbers obtained by casting out 9's	1386
Verification of addition by cast- ing out 9's	1386
Verification of subtraction by casting out 9's	1386
Verification of multiplication by casting out 9's	1386

1270 BUSINESS MATHEMATICS AND SHORT CUTS

Verification of division by casting out 9's	1387
Verification of division where there is a remainder by casting out 9's	1387
Check figure "11" verifies posting as made	1388
Another method of using check figures in posting	1388

15. TABLES OF WEIGHTS, MEASURES, AND VALUES

Long measure	1389
Square measure	1390
Solid or cubic measure (volume)	1390
Liquid measure (capacity) ...	1391
Dry measure ..	1392
Avoirdupois measure (weight)	1392
Troy measure (weight) ..	1393
Apothecaries' measure (weight)	1394
Apothecaries' fluid measure (capacity)	1394
Surveyors' long measure	1394
Surveyors' square measure	1395
Mariners' measure	1395
Circular or angular measure ..	1395
Counting	1395
Paper measure	1396
United States and British weights and measures compared	1396
Metric system explained	1396
United States money ..	1397

Roman numerals	1397
Arabic numerals	1397
Foreign weights and measures	1398
Foreign money	1400

16. MISCELLANEOUS HANDY TABLES

Proration of taxes	1402
Rental ready reckoner	1403
Monthly, semiannual, and annual payments to principal and interest per \$1,000 at varying rates of interest	1404
Annual, monthly, weekly, and daily salaries	1405
Time in which money doubles itself at interest	1406
Cost of fractional part of a dozen ..	1406
Mathematical signs and symbols	1409
Comparison of Centigrade and Fahrenheit temperatures .	1410
Squares, square roots, cubes, and cube roots of numbers 1-100	1411
Perpetual calendar	1412
American experience table of mortality	1414

17. GLOSSARY OF ABBREVIATIONS

General abbreviations	1415
Abbreviations of months and days	1430

SECTION 12

Business Mathematics and Short Cuts

1. HOW TO CALCULATE SIMPLE INTEREST

What interest is. Interest is money paid for the use of money. In interest calculations three factors are involved: (1) principal; (2) time; (3) rate.

The principal is the sum of money upon which the interest is paid—the sum loaned, borrowed, or invested.

The time is the number of periods for which the interest is paid. One year is generally considered as the unit period of time.

The rate is the percentage per period of the principal that is paid as interest. The rate is usually expressed as a certain percentage per year.

There are two kinds of interest:

1. Simple interest.

2. Compound interest.

If the interest is calculated on the original principal only, it is called simple interest. If, however, at the end of the first period of time, the interest for that period is added to the principal and the interest for the second period calculated on this sum, and this process is continued for the given number of periods, the interest is said to be compounded, and the total interest thus realized is called compound interest.

Legal and contract rates of interest in the states of the United States. The rate of interest that may be charged is governed by state statute. The table (page 1272) shows the legal and contract rates in the various states of the United States. The legal rate is the rate of interest charged in the absence of express contract between the parties. The contract rate is the highest rate upon which parties may agree.

LEGAL AND CONTRACT RATES OF INTEREST
IN THE STATES OF THE UNITED STATES

State	Legal Rate, Per Cent	Contract Rate, Per Cent	State	Legal Rate, Per Cent	Contract Rate, Per Cent
Alabama	6	8	Nebraska	6	9
Arizona	6	8	Nevada	7	12
Arkansas	6	10	New Hampshire ..	6	No limit
California	7	10	New Jersey ..	6	6
Colorado	6	No limit	New Mexico ..	6	10; 12
Connecticut ...	6	12			without
Delaware	6	6 *			collateral
District of Colum- bia			New York	6	6 *
Florida	6	10	North Carolina ..	6	6
Georgia	7	8	North Dakota ..	4	7
Idaho	6	8	Ohio	6	8
Illinois	5	7	Oklahoma	6	10
Indiana	6	8	Oregon	6	10
Iowa	5	7	Pennsylvania ..	6	6
Kansas	6	10	Rhode Island ..	6	30
Kentucky	6	6	South Carolina ..	6	7
Louisiana	5	8	South Dakota ..	6	8
Maine	6	No limit	Tennessee	6	6
Maryland	6	6	Texas	6	10
Massachusetts ...	6	No limit	Utah	6	10
Michigan	5	7	Vermont	6	6
Minnesota	6	8	Virginia	6	6
Mississippi	6	8	Washington	6	12
Missouri	6	8	West Virginia ..	6	6
Montana	6	10	Wisconsin	5	10
			Wyoming	7	10

Note.—Rates are subject to change by state statute.

* No limit on certain secured loans repayable on demand.

How to calculate the due date of an obligation. The date of maturity of a loan or other obligation is determined by the wording of the obligation. For example, if, in a transaction on September 5, a debtor agrees to repay a loan in *fourth months*, the money is due on January 5. If, on the other hand, another obligation contracted on September 5 is by agreement to run 120 days, the repayment is due on January 3. In this case the exact number of days is counted in determining the due date because the time was stated in days.

How to calculate the time between dates. There are two methods of calculating the time between dates:

1. Ordinary method.

2. Exact method.

Ordinary method. In the ordinary method (sometimes called the "bond method") the year is considered as having 12 months of 30 days each, or 360 days. The time between dates is then calculated by subtraction, as illustrated in the following example.

EXAMPLE

Find the time between June 15, 1951, and August 3, 1952.

Solution

<i>Years</i>	<i>Months</i>	<i>Days</i>
1952	8	3
1951	6	15
1	1	18

The time between June 15, 1952, and August 3, 1952, is therefore 1 year, 1 month, 18 days, or 408 days ($360 + 30 + 18 = 408$).

The ordinary or bond method of calculating the time between dates is not commonly used except in interest computations involving long periods of time (usually a period greater than 1 year), and in the calculation of interest on bonds (other than United States Government and some municipal bonds). Where the period of time is short, businessmen and bankers generally use the exact method.

Exact method. In the exact method of calculating the time between dates, the actual number of days in each month is counted. The first day (the day on which the obligation is incurred) is excluded, and the last day (the day on which the obligation terminates) is included.

EXAMPLE

A loan made April 17 is repaid June 26. For how many days should the interest be calculated?

Solution

Exclude the first day, April 17; include the last day, June 26. Then:

Number of days remaining in April	13
Number of days in May	31
Number of days in June to be counted	26
Total number of days	<u>70</u>

The interest should therefore be calculated for 70 days.

Where the exact number of days between dates is counted, it is the general practice of businessmen and bankers to exclude the first day and include the last day, as in the above example. However, in certain sections of the United States (and also in France, Holland, and some other foreign countries), it is customary to include both the first and the last days. If this procedure were followed in the above example, interest would be due for 71 days instead of for 70.

Short method of finding the exact number of days between dates. The table below may be used as a short cut in finding the exact number of days between dates. The exact number of days between the corresponding dates of any two months is indicated on the line of the month of the beginning date, under the month of the later date. Thus, from any day in January to the same day in August, there are 212 days. In the table this figure is found opposite January, in the column marked *Aug.*

EXACT NUMBER OF DAYS BETWEEN DATES

FROM ANY DAY OF	TO THE SAME DAY OF THE NEXT											
	Jan.	Feb.	Mar	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
January ...	365	31	59	90	120	151	181	212	243	273	304	334
February ..	334	365	28	59	89	120	150	181	212	242	273	303
March	306	337	365	31	61	92	122	153	184	214	245	275
April	275	306	334	365	30	61	91	122	153	183	214	244
May	245	276	304	335	365	31	61	92	123	153	184	214
June	214	245	273	304	334	365	30	61	92	122	153	183
July	184	215	243	274	304	335	365	31	62	92	123	153
August ...	153	184	212	243	273	304	334	365	31	61	92	122
September .	122	153	181	212	242	273	303	334	365	30	61	91
October ...	92	123	151	182	212	243	273	304	335	365	31	61
November .	61	92	120	151	181	212	242	273	304	334	365	30
December .	31	62	90	121	151	182	212	243	274	304	335	365

The following examples show how the table is used to measure the exact number of days between any two different dates.

EXAMPLE 1

A loan made June 10 is repaid August 17. For how many days should the interest be calculated?

Solution

From the table, June 10 to August 10	61 days
Add, August 10 to August 17	7 days
Number of days	<u>68 days</u>

EXAMPLE 2

A loan made October 16 is repaid March 13. For how many days should the interest be calculated?

Solution

From the table, October 16 to March 16	151 days
Deduct, March 13 to March 16	3 days
Number of days	<u>148 days</u>

Whenever February 29 of a leap year is included in the period for which the exact number of days is being calculated from the table, add 1 to the result obtained.

Ordinary and exact simple interest. Ordinary interest is simple interest computed on the basis of 360 days to the year. Exact or accurate interest is simple interest computed on the basis of 365 days to the year.

Although ordinary interest is greater than exact interest, owing to the discrepancy of 5 days, the difference is not material except where a large principal and an extended period of time are involved. For example, ordinary simple interest on \$500.00 for 90 days at 6% is only 10 cents more than exact simple interest. Since calculations are much easier on the basis of 360 days to the year than of 365, business houses and commercial banks generally compute simple interest on the basis of 360 days to the year, even where the exact number of days for which interest is due is counted.

EXAMPLE 1

Find the simple interest on \$2,000.00 from November 16, 1952, to April 8, 1953, at 6%.

Solution

In this case the interest period is short. The usual procedure would therefore be:

- (1) Find the exact number of days between the dates.
- (2) Compute the interest for this exact number of days on the basis of 360 days to the year.

From the table, the exact number of days between November 16, 1952, and April 8, 1953, is found to be 143. Then:

$$\begin{aligned}\text{Interest} &= \frac{2000}{1} \times \frac{143}{360} \times \frac{6}{100} \\ &= \$47.67\end{aligned}$$

EXAMPLE 2

Find the simple interest on \$2,000.00 from December 16, 1951, to February 10, 1953, at 6%.

Solution

In this case the interest period is long. The usual procedure would therefore be:

- (1) Find the number of days between the dates by assuming 30 days in each month.
- (2) Using this number of days, compute the interest on the basis of 360 days to the year.

<i>Years</i>	<i>Months</i>	<i>Days</i>
1953	2	10
1951	12	16
1	1	24

At 30 days to each month, 1 year, 1 month, 24 days is 414 days. Then:

$$\begin{aligned}\text{Interest} &= \frac{2000}{1} \times \frac{414}{360} \times \frac{6}{100} \\ &= \$138.00\end{aligned}$$

How to use short methods of calculating ordinary interest at 6%: *Sixty-day method.* At 6% per year:

Interest on \$1.00 for 360 days is \$0.06
“ “ “ 60 “ .01 ($\frac{1}{6}$ of \$.06)
“ “ “ 6 “ .001 ($\frac{1}{10}$ of \$.01)

It is evident that interest on \$1.00 for 6 days at 6% may be computed by moving the decimal point in the principal three places to the left. If this is true of \$1.00, it is true of any principal, and a general rule

may be stated as follows: Given any principal, to find the interest at 6%:

6	days,	point	off	three	places	to	the	left
60	"	"	"	two	"	"	"	"
600	"	"	"	one	place	"	"	"
6,000	"	"	"	the interest is the same as the principal				

Thus:

Interest on \$1,280.00 for	6 days at 6% is \$	1.28
" " " 60 " "		12.80
" " " 600 " "		128.00
" " " 6,000 " "		1,280.00

In calculating the interest at 6% on any principal for any number of days, the time, stated in days, may be separated into parts that are multiples or fractions of 6, 60, 600, or 6,000, and the computations are greatly simplified.

EXAMPLE 1

Find the ordinary interest on \$760.00 for 15 days at 6%.

Solution

Interest for 60 days =	\$7.60
" " 15 " =	$\$7.60 \div 4$
	= \$1.90

Explanation. Pointing off two places in the principal gives the interest for 60 days. Fifteen days is $\frac{1}{4}$ of 60 days. Hence divide the interest for 60 days by 4.

EXAMPLE 2

Find the ordinary interest on \$842.60 for 124 days at 6%.

Solution

Interest for 60 days =	\$8.4260
" " 60 " =	8.4260
" " 4 " =	.5617
" " 124 " =	<u><u>\$17.4137</u></u> , or \$17.41

Explanation. Sixty days plus 60 days plus 4 days equals 124 days. The interest for the 4 days is found by pointing off three places in the principal (which gives the interest for 6 days) and then multiplying this figure by $\frac{2}{3}$, since 4 days is $\frac{2}{3}$ of 6 days.

EXAMPLE 3

Find the ordinary interest on \$754.90 for 137 days at 6%.

Solution

Interest for	60 days	= \$ 7.5490
" "	60 "	= 7.5490
" "	12 "	= 1.5098
" "	5 "	= .6290
" "	137 "	= <u>\$17.2368</u> , or \$17.24

Explanation. Pointing off two decimal places gives the interest for 60 days. Double this to find the interest for 120 days. Twelve days is $\frac{1}{5}$ of 60 days; therefore, the interest for 12 days is $\frac{1}{5}$ of 60-days' interest, or \$1.5098. Five days is $\frac{1}{12}$ of 60 days, and the interest is $\frac{1}{12}$ of \$7.5490, or \$0.629. The sum, \$17.24, is the interest for 137 days.

One-day or product method. The one-day or product method is convenient where the number of days for which ordinary interest is being calculated cannot be readily divided into fractions or multiples of 6, 60, 600, or 6,000. To find the ordinary interest on any principal at 6% by this method:

1. Point off three decimal places in the principal; this gives the interest for 6 days.
2. Multiply the figure found in (1) by the number of days for which the interest is being calculated; this gives the interest for 6 times the number of days required.
3. Divide the result by 6.

EXAMPLE

Find the ordinary interest on \$137.65 for 77 days at 6%.

Solution

$$\begin{array}{r}
 \$13765, \text{ interest for 6 days} \\
 \quad 77 \\
 \hline
 .96355 \\
 9.6355 \\
 \$10.59905, \text{ interest for } 6 \times 77 \text{ days} \\
 \$10.59905 \div 6 = \$1.7665, \text{ or } \$1.77, \text{ interest for 77 days}
 \end{array}$$

Interchange of principal and number of days. Where the principal is a factor or multiple of 6, the calculation of ordinary interest at 6% can be shortened by interchanging the principal and the number of

days. Thus, finding 6% interest on \$120.00 for 187 days is the same as finding 6% interest on \$187.00 for 120 days. Six per cent interest on \$187.00 for 60 days is \$1.87, obtained by moving the decimal point two places to the left. Six per cent interest on \$187.00 for 120 days is twice \$1.87, or \$3.74. The interest on \$120.00 for 187 days at 6% is, therefore, \$3.74.

How to use a short method of calculating ordinary interest at a rate other than 6%. To find the ordinary interest at a rate other than 6%:

1. First find the interest at 6% by one of the methods described in the preceding pages.

2. Adjust the result by adding to or subtracting from the interest computed at 6%, the fractional part thereof that the specified rate is greater or less than 6% rate.

For 3%,	decrease the interest by	$\frac{1}{2}$	of the amount computed at 6%				
4%,	"	"	"	$\frac{1}{3}$	"	"	"
$4\frac{1}{2}\%$,	"	"	"	$\frac{1}{4}$	"	"	"
5%,	"	"	"	$\frac{1}{6}$	"	"	"
$5\frac{1}{2}\%$,	"	"	"	$\frac{1}{12}$	"	"	"
7%,	increase the interest by	$\frac{1}{6}$	"	"	"	"	"
$7\frac{1}{2}\%$,	"	"	"	$\frac{1}{4}$	"	"	"
8%,	"	"	"	$\frac{1}{3}$	"	"	"
$8\frac{1}{2}\%$,	"	"	"	$\frac{5}{12}$	"	"	"
9%,	"	"	"	$\frac{1}{2}$	"	"	"

EXAMPLE

Find the ordinary interest on \$380.00 for 90 days at $4\frac{1}{2}\%$.

Solution

(1) First calculate the interest at 6%.

$$\begin{array}{rcl}
 \text{Interest for 60 days} & = & \$3.80 \\
 \text{" " 30 " } & = & \underline{1.90} \\
 \text{" " 90 " } & = & \$5.70
 \end{array}$$

(2) The interest at 6% is \$5.70. To find the interest at $4\frac{1}{2}\%$, deduct $\frac{1}{4}$ of \$5.70. $\$5.70 \div 4 = \1.43 . $\$5.70 - \$1.43 = \$4.27$, the interest on \$380.00 for 90 days at $4\frac{1}{2}\%$.

The cancellation method. The cancellation method may be used to advantage in many interest calculations, especially in those having odd or fractional rates.

EXAMPLE

Find the ordinary interest on \$345.75 for 90 days at $4\frac{1}{2}\%$.

Solution

$$\frac{345.75 \times \overset{\cancel{360}}{90} \times .09}{\underset{4}{12} \times \underset{2}{\cancel{360}} \times 2} = \frac{31.1175}{8} = \$3.889, \text{ or } \$3.89$$

Divisors for rates of interest. Find the interest by multiplying the principal by the number of days and dividing by the divisor shown in the table for the rate of interest to be applied. When the principal contains cents, point off four places from the right of the result. When the principal contains only dollars point off two places. The use of the divisor saves one operation. Thus, instead of multiplying the product of the principal times the number of days by .06, and dividing by 360, to determine interest at 6%, the product mentioned is divided immediately by 60, the divisor for 6%.

EXAMPLE

Find the interest on \$625.24 for 39 days at 4%.

Solution

Multiply the principal by the days: $625.24 \times 39 = \$2438436$. Then divide the product by the general divisor for 4%, and point off four places. $2438436 \div 90 = \$2.71$.

DIVISORS FOR RATES OF INTEREST

For 2%, divide by	180
$2\frac{1}{2}\%$, " "	144
3%, " "	120
$3\frac{1}{2}\%$, " "	102.86
4%, " "	90
5%, " "	72
6%, " "	60
7%, " "	51.43
8%, " "	45
9%, " "	40
10%, " "	36
12%, " "	30
15%, " "	24

How to use a short method of calculating exact interest. The simplest method of calculating exact interest (that is, interest on the basis of 365 days to the year) is the following:

1. Calculate the ordinary (360-day) interest by one of the short methods described in the preceding pages.
2. Adjust the result to exact interest by deducting from the ordinary interest $\frac{1}{78}$ of itself (because the difference of 5 days is $\frac{1}{78}$ of 365).

EXAMPLE

Find the exact interest on \$60,000.00 for 56 days at 6%.

Solution

- (1) The ordinary interest is found to be \$560.00.
- (2) To find the exact interest, deduct from \$560.00 $\frac{1}{78}$ of \$560.00, or \$7.67. The exact interest on \$60,000.00 for 56 days at 6% is, then, \$560.00 — \$7.67, or \$552.33.

Exact interest table. The table (page 1282) gives the interest on \$100 (computed on the basis of 365 days to the year) for 1 day to 100 days at various rates of interest. From the table the interest accruing for other sums and for any other number of days can be easily calculated.

EXAMPLE

Compute the interest on \$920 for 22 days at 4%.

Solution

Interest on \$100 for 20 days at 4% (from table)	.219179
“ “ “ “ 2 “ at 4% (from table)	.021918
“ “ “ “ 22 “	.241
Multiply by 9.2 (\$920 is 9.2 times \$100)	9.2
	<u>482</u>
	2169
Interest on \$920 for 22 days at 4%	<u>\$2.2172</u> , or \$2.22

(Note: On sums of less than \$1,000, the last three digits can be dropped [being careful to increase the last remaining digit by 1 where the digits dropped are more than one-half—thus: .021918 became .022]).

EXACT INTEREST TABLE

Interest on \$100 at Various Rates for Various Periods of Time

Days	2%	3%	4%	5%	6%
1.....	.005479	.008220	.010959	.013699	.016438
2.....	.010959	.016439	.021918	.027397	.032877
3.....	.016438	.024658	.032877	.041096	.049315
4.....	.021918	.032877	.043836	.054795	.065753
5.....	.027397	.041096	.054795	.068493	.082192
6.....	.032877	.049315	.065754	.082192	.098630
7.....	.038356	.057534	.076712	.095890	.115068
8.....	.043836	.065753	.087671	.109589	.131507
9.....	.049315	.073973	.098630	.123288	.147945
10.....	.054795	.082192	.109589	.136986	.164384
20.....	.109589	.164384	.219179	.273973	.328767
30.....	.164384	.246576	.328768	.410959	.493151
40.....	.219178	.328768	.438357	.547945	.657534
50.....	.273973	.410959	.547946	.684932	.821918
60.....	.328767	.493151	.657536	.821918	.986301
70.....	.383562	.575342	.767125	.958904	1.150685
80.....	.438356	.657534	.876714	1.095890	1.315068
90.....	.493151	.739726	.986304	1.232877	1.479452
100.....	.547945	.821918	1.095893	1.369863	1.643836

Use of interest tables. Where calculations in simple interest have to be made very frequently, much time can be saved by the use of a book of interest tables, from which the desired information is obtainable at a glance. In Figure 94 is reproduced a section of one page from the "Delbridge 6% Interest Computer," published by the Delbridge Company, 206 Walnut Street, St. Louis, Missouri. In this volume one page is devoted to each day in the year, and the principal on which interest is computed—on the basis of 360 days to the year—ranges from \$0.01 to \$200,000.00. Similar tables are available showing simple interest on the basis of 365 days to the year. The same company also publishes volumes of interest tables for rates other than 6% and various small-size books of interest tables.

In the excerpt from one page of the "Delbridge 6% Interest Computer," the numbers in boldface type represent principal, while the numbers in lightface represent the corresponding interest for 287 days at 6%. The following example illustrates the use of these tables.

9 MONTHS AND 17 DAYS.				6 % Interest; on basis of 360 days to a year. 287.				
1¢ 00	1	106	101	4 88	201	9 81	201	14 40
2¢ 00	2	110	102	4 88	202	9 76	202	14 45
3¢ 00	3	114	103	4 98	203	9 71	203	14 49
4¢ 00	4	119	104	4 97	204	9 76	204	14 44
5¢ 00	5	124	108	5 02	205	9 81	205	14 49
6¢ 00	6	129	106	5 07	206	9 86	206	14 48
7¢ 00	7	133	107	5 07	207	9 86	207	14 58
8¢ 00	8	138	108	5 17	208	9 98	208	14 78
9¢ 00	9	143	109	5 21	209	10 00	209	14 78
10¢ 00	10	148	110	5 28	210	10 04	210	14 88
11¢ 01	11	153	111	5 31	211	10 09	211	14 88
12¢ 01	12	158	112	5 36	212	10 14	212	14 92
13¢ 01	13	163	113	5 41	213	10 19	213	14 97
14¢ 01	14	167	114	5 46	214	10 24	214	15 02
15¢ 01	15	172	115	5 50	215	10 28	215	15 07
16¢ 01	16	177	116	5 48	216	10 33	216	15 12
17¢ 01	17	181	117	5 51	217	10 38	217	15 18
18¢ 01	18	186	118	5 54	218	10 43	218	15 21
19¢ 01	19	191	119	5 59	219	10 48	219	15 26
20¢ 01	20	196	120	6 04	220	10 53	220	15 31
21¢ 01	21	200	121	6 09	221	10 57	221	15 36
22¢ 01	22	205	122	6 14	222	10 58	222	15 40
23¢ 01	23	210	123	6 19	223	10 67	223	15 45
24¢ 01	24	215	124	6 28	224	10 71	224	15 50
25¢ 01	25	220	125	6 38	225	10 76	225	15 55
26¢ 01	26	224	126	6 38	226	10 81	226	15 59
27¢ 01	27	229	127	6 07	227	10 86	227	15 64
28¢ 01	28	234	128	6 16	228	10 91	228	15 69
29¢ 01	29	239	129	6 17	229	10 96	229	15 74
30¢ 01	30	243	130	6 22	230	11 00	230	15 78
31¢ 01	31	248	131	6 27	231	11 06	231	15 83
32¢ 02	32	253	132	6 31	232	11 10	232	15 88
33¢ 02	33	258	133	6 36	233	11 15	233	15 93
34¢ 02	34	263	134	6 41	234	11 19	234	15 98
35¢ 03	35	267	135	6 46	235	11 24	235	16 02
36¢ 03	36	272	136	6 51	236	11 29	236	16 07
37¢ 03	37	277	137	6 56	237	11 34	237	16 12
38¢ 03	38	282	138	6 59	238	11 39	238	16 17
39¢ 03	39	287	139	6 05	239	11 43	239	16 22
40¢ 04	40	291	140	6 10	240	11 48	240	16 26
41¢ 04	41	296	141	6 14	241	11 53	241	16 31
42¢ 04	42	301	142	6 19	242	11 58	242	16 36
43¢ 04	43	306	143	6 24	243	11 59	243	16 41
44¢ 04	44	310	144	6 29	244	12 04	244	16 46
45¢ 04	45	315	145	6 34	245	12 07	245	16 50
46¢ 04	46	320	146	6 39	246	12 12	246	16 55
47¢ 04	47	325	147	6 44	247	12 17	247	17 00
48¢ 04	48	330	148	6 49	248	12 22	248	17 05

Figure 94. Page from the Delbridge 6% Interest Computer.

EXAMPLE

Find the ordinary interest on \$328.36 for 287 days at 6%.

Solution

The amount in the table, opposite the boldface number 328, is \$15.69. The amount opposite 36¢ is \$0.02. The sum of the two amounts, \$15.69 and \$0.02, or \$15.71, is the ordinary interest on \$328.36 for 287 days at 6%.

Periodic interest. Periodic interest is simple interest on the principal, plus simple interest on each installment of interest that is not paid when due.

EXAMPLE

Find the periodic interest on a loan of \$5,000.00 for 1 year and 6 months at 6%, interest due quarterly; no interest paid until the maturity of the loan.

Solution

Simple interest on \$5,000.00 for 3 months	\$ 75.00
Multiply by (number of quarterly periods)	6
Total simple interest	<u>\$450.00</u>
First quarterly interest is unpaid 15 months	
Last " " " " 0 "	
Average	<u>7½</u> "
Multiply by (number of periods) 6	
Total	<u>45</u> "
Interest on \$75 for 45 months	16.88
Total periodic interest	<u><u>\$466.88</u></u>

2. PARTIAL PAYMENTS ON DEBTS—RULES FOR COMPUTING INTEREST

*Adapted from Curtis and Cooper, "Mathematics of Accounting"
New York: Prentice-Hall, Inc.*

A debtor who owes a large amount may by agreement make equal or unequal payments on the principal at regular or irregular intervals. The creditor should have interest on the loan, and it is only fair that each payment made should draw interest in favor of the debtor.

There are two methods of applying these payments of principal and interest to the reduction of the debt. The method adopted by the Supreme Court of the United States is termed the "United States Rule"; the other method, which is widely used by businessmen, is termed the "Merchants' Rule."

United States Rule. The United States Rule is now a law in most states, having been made so either by statute or by court decision. The procedure under the United States Rule is as follows:

1. Payments must be applied against accrued interest before any deductions can be made from the principal.
2. Payments that do not equal the accrued interest leave the principal undiminished until other payments are made which are sufficient to cover all accrued interest.
3. Any excess remaining after the payments exceed the accrued interest is applied on the principal.

EXAMPLE

An interest-bearing note for \$1,800.00 dated March 1, 1951, had the following indorsements:

September 27, 1951	\$500.00
March 15, 1952	25.00
June 1, 1952	700.00

How much was due September 1, 1952?

Solution

	Yr.	Mo.	Da.	Yrs.	Mos.	Days
Date of note	1951	3	1			
First payment, \$500.00 ..	1951	9	27		6	26
Second payment, \$25.00 ..	1952	3	15		5	18
Third payment, \$700.00 ..	1952	6	1		2	16
Settlement	1952	9	1		3	0
				1	6	0

Explanation. The time is found by successive subtractions of the first date from the second, the second from the third, and so on. The sum of the different times is equal to the time between the date of the note and the date of settlement.

Face of note, March 1, 1951	\$1,800.00
Interest on \$1,800 at 6% from March 1 to September 27, 6 months and 26 days	61.80
Amount due September 27, 1951	<u>\$1,861.80</u>
Deduct payment	500.00
Balance due September 27, 1951	<u>\$1,361.80</u>
Interest on \$1,361.80 at 6% from September 27 to March 15, 5 months and 18 days, \$38.13. As this interest is larger in amount than the payment made at March 15, the interest is not added, and the payment is not deducted.	
Interest on \$1,361.80 at 6% from September 27 to June 1, 1952, 8 months and 4 days	55.38
Amount due June 1, 1952	<u>\$1,417.18</u>
Deduct sum of payments: March 15	\$ 25.00
June 1	<u>700.00</u>
Balance due June 1, 1952	<u>\$ 692.18</u>
Interest on \$692.18 at 6% from June 1 to September 1, 1952, 3 months	10.38
Balance due September 1, 1952	<u><u>\$ 702.56</u></u>

Merchants' Rule. The procedure under the Merchants' Rule is as follows:

1. The principal draws interest from the date of the loan until the date of final settlement, and such interest is added to the principal.
2. Each payment draws interest from the date of the payment until the date of final settlement.
3. The balance due is the principal plus interest, minus the payments plus interest.

Where the debt runs for more than one year, the principal draws interest from the date of the loan until the end of the first year (one year from the date on which the loan was made). Each payment draws interest from the date of payment until the end of the first year. The balance due at the end of the first year is the principal plus interest for one year, minus the payments plus the interest from the dates on which the payments were made until the end of the first year. The balance due at the end of the second, third, and subsequent years is calculated in a similar manner.

EXAMPLE

For purposes of comparison, the same problem will be used here as was used to illustrate the United States Rule.

Solution

Face of note, March 1, 1951		\$1,800.00
Interest, 1 year at 6% to March 1, 1952		108.00
		<u>\$1,908.00</u>
Deduct		
First payment, September 27, 1951	\$500.00	
Interest at 6% to March 1, 1952, 5 months and 4 days	12.83	512.83
		<u>\$1,395.17</u>
Balance due at beginning of second year ..		
Interest on \$1,395.17 at 6%, March 1 to September 1, 1952, 6 months		41.86
		<u>\$1,437.03</u>
Deduct:		
Second payment, March 15, 1952	\$ 25.00	
Interest at 6% from March 15 to September 1, 1952, 5 months and 16 days ..	.69	
Third payment, June 1, 1952	700.00	
Interest at 6% from June 1 to September 1, 1952, 3 months	10.50	736.19
		<u>\$ 700.84</u>
Balance due		

United States Rule and Merchants' Rule compared. In the examples given in the preceding pages, the difference between the balance as computed by the United States Rule and the balance as computed by the Merchants' Rule is only \$1.72, but a much greater difference will occur when the time is long and the amount large.

It is usual to compute the balance due on obligations of one year or less by the Merchants' Rule; the balance due on obligations of more than one year is generally computed by the United States Rule.

3. HOW TO CALCULATE BANK DISCOUNT

What bank discount is. Bank discount is the interest charge made by a bank for converting commercial paper into cash before maturity. Bank discount is computed as simple interest on the amount due at maturity on a note or draft and is deducted in advance. The amount received from the bank—amount due at maturity less the discount and the collection charge—is called the proceeds. The number of days from the date the note is discounted to the date of maturity is called the "term of discount."

How the number of days is counted in bank discount. In bank discount the time is the period from the date of discount to the date of maturity of the instrument. It is the common practice of commercial banks in the United States to charge discount for the actual or exact number of days in the discount period, and to compute the discount on the basis of 360 days to the year. Thus, if a note due May 6 is discounted March 6, the bank counts the actual number of days between these dates, 61, and computes the discount on the basis of 360 days to the year. For the method of calculating the exact number of days between dates, and a useful table, see page 1274; for the method of calculating the date of maturity of an obligation, see page 1272.

How to calculate the bank discount and proceeds on non-interest-bearing paper. The procedure is as follows:

1. The amount due at maturity on non-interest-bearing paper is the amount stated on the face of the instrument.
2. Using the discount rate, compute the bank discount on the face.
3. Compute the collection charge on the face.

4. Deduct from the face the sum of the bank discount and the collection charge; the result is the proceeds.

EXAMPLE

Compute the bank discount and proceeds on a \$500.00 non-interest-bearing note, dated June 5, due in 60 days, and discounted June 18 at 6%; collection charge, $\frac{1}{10}\%$.

Solution

Sixty days from June 5 is August 4, the due date of the note. The exact number of days from June 18, the date of discount, to August 4, the due date, is 47.

Value of note at maturity	\$500.00
Bank discount: 6% on \$500.00 for 47 days	\$3.92
Collection charge: $\frac{1}{10}\%$ on \$500.00	.50
Total charges	<u>4.42</u>
Proceeds	<u><u>\$495.58</u></u>

How to calculate the bank discount and proceeds on interest-bearing paper. The procedure is as follows:

1. Compute the value of the instrument at maturity; the value of an interest-bearing instrument is its face plus the interest for the full time of the note.
2. Compute the interest on the value at maturity for the discount period, using the discount rate; the result is the bank discount.
3. Compute the collection charge on the value at maturity.
4. Deduct from the value at maturity the sum of the bank discount and the collection charge; the result is the proceeds.

EXAMPLE

Compute the bank discount and proceeds on a note for \$500.00 dated June 5, due in 60 days, and bearing 5% interest; the note is discounted June 18 at 6%, and the collection charge is $\frac{1}{10}\%$.

Solution

Sixty days from June 5 is August 4, the due date of the note. The exact number of days from June 18, the date of discount, to August 4, the due date, is 47.

Face value of note	\$500.00
Interest at 5% for 60 days	4.17
Value of note at maturity	<u>\$504.17</u>
Bank discount: 6% on \$504.17 for 47 days	\$3.95
Collection charge: $\frac{1}{10}\%$ on \$504.17	.50
Total charges	4.45
Proceeds	<u><u>\$499.72</u></u>

4. SAVINGS THROUGH CASH DISCOUNT

Cash discount explained. Cash discount is the allowance made by the seller of goods to the buyer on condition that the invoice is paid within a specified time. Assume that goods are sold on terms of "2/10, net 30." This means that if the goods purchased are paid for in cash within ten days from the date of the invoice, the purchaser may subtract 2% from the amount of the invoice. This deduction is called the "cash discount." The goods are supposed, at any rate, to be paid for within 30 days of the date of the invoice. In practice, the debt is usually not paid until 30 days after the first of the month succeeding the month in which the goods are bought. Thus the purchaser gets 2% discount for paying 20 days earlier than the date on which he could be compelled to pay. The discount, therefore, is practically at the rate of 2% for 20 days, or 36% per year.

The following table shows the ordinary discount rates and their equivalent interest rates figured on an annual basis:

CASH DISCOUNT TABLE

$\frac{1}{2}\%$	10 days	net 30	days =	9%	per annum	
1%	"	"	" " =	18%	"	"
$1\frac{1}{2}\%$	"	"	" " =	27%	"	"
2%	"	"	" " =	36%	"	"
2%	"	"	60 " =	14%	"	"
2%	30	"	" " =	24%	"	"
2%	"	"	4 mos. =	8%	"	"
2%	40	"	60 days =	36%	"	"
2%	70	"	90 " =	36%	"	"
3%	10	"	30 " =	54%	"	"
3%	"	"	4 mos. =	10%	"	"
3%	30	"	60 days =	36%	"	"

4%	10 days	net 60 days	= 29%	per annum		
4%	"	"	4 mos.	= 13%	"	"
5%	"	"	30 days	= 90%	"	"
5%	"	"	60 "	= 36%	"	"
5%	"	"	4 mos.	= 16%	"	"
6%	"	"	60 days	= 43%	"	"
6%	"	"	4 mos.	= 20%	"	"
7%	"	"	"	= 23%	"	"
8%	"	"	"	= 26%	"	"

5. HOW TO COMPUTE TRADE DISCOUNTS

Uses of trade discounts. Trade discounts are commonly used as a means of adjusting list or catalogue prices to changed market conditions. Manufacturers and jobbers who deal in merchandise that is more or less standardized issue catalogues describing the goods; the prices quoted in the catalogues are the list prices. As the market prices fluctuate, discounts from the list prices are given, these discounts being issued to customers on separate discount sheets to obviate the necessity of frequent reprinting of the catalogues. Successive discounts from the list prices enable the seller to keep in touch with a declining market. If the market turns upward, the seller can raise his prices step by step as desired by canceling successively the discounts previously offered. The seller can allow different discounts to different classes of customers, without naming separate prices, by giving his customers different discount sheets. Trade discounts are also a means of partly concealing the real prices; the catalogue alone, without the appropriate discount sheet, tells nothing as to the real prices of the merchandise.

Chain discounts. Several discounts from the one list price are often given; for example, goods may be priced at \$500.00 less discounts of 20%, 10%, and 5%. These are known as "chain discounts," and the several discounts are referred to as a "series of discounts."

How chain discounts are computed. Each discount is deducted from the balance remaining after the deduction of the preceding discount.

EXAMPLE

Goods are priced at \$500.00 less discounts of 20%, 10%, and 5%. Find the net price.

Solution

List price	\$500.00
20% of \$500.00	100.00
	<u>\$400.00</u>
10% of \$400.00	40.00
	<u>\$360.00</u>
5% of \$360.00	18.00
Net price	<u><u>\$342.00</u></u>

Hence the net price is \$342.00, and the amount of the discount is \$158.00.

Several discounts are *not* equal to the sum of the discounts. Thus, in the above example, the sum of the discounts 20%, 10%, and 5% is 35%; 35% of \$500.00 is \$175.00. The correct discount is \$158.00.

How to find the single trade discount equivalent to a series.
Where only two discounts are involved:

1. Add the discounts.
2. Multiply the discounts.
3. Subtract (2) from (1); the result is the single discount equivalent to the two discounts.

EXAMPLE

Find the single trade discount equivalent to discounts of 20% and 10%.

Solution

20% + 10%	30%
20% × 10%	2%
30% - 2%	<u><u>28%</u></u>

Hence the single trade discount equivalent to discounts of 20% and 10% is 28%.

An extension of the above method can be used where it is desired to find the single trade discount equivalent to three or more discounts.

EXAMPLE

Find the single trade discount equivalent to discounts of 30%, 10%, and 5%.

Solution

First find the single discount equivalent to the first two discounts—30% and 10%.

$$\begin{array}{rcl}
 30\% + 10\% & \dots\dots\dots & 40\% \\
 30\% \times 10\% & \dots\dots\dots & \underline{3\%} \\
 40\% - 3\% & \dots\dots\dots & \underline{\underline{37\%}}
 \end{array}$$

Thus the single discount equivalent to discounts of 30% and 10% is 37%. Now find the single discount equivalent to discounts of 37% and 5%.

$$\begin{array}{rcl}
 37\% + 5\% & \dots\dots\dots & 42\% \\
 37\% \times 5\% & \dots\dots\dots & \underline{1.85\%} \\
 42\% - 1.85\% & \dots\dots\dots & \underline{\underline{40.15\%}}
 \end{array}$$

The single discount equivalent to discounts of 30%, 10%, and 5% is, then, 40.15%.

A second method is:

1. Subtract each single discount from 100%.
2. Find the product of the remainders.
3. Subtract the product from 100%; the remainder is the single discount equivalent to the series.

EXAMPLE

Find the single discount equivalent to the series 30%, 10%, and 5%.

Solution

$$\begin{array}{ccc}
 \begin{array}{r} 100\% \\ 30\% \\ \hline 70\% \end{array} &
 \begin{array}{r} 100\% \\ 10\% \\ \hline 90\% \end{array} &
 \begin{array}{r} 100\% \\ 5\% \\ \hline 95\% \end{array} \\
 .70 \times .90 \times .95 = .5985, \text{ or } 59.85\% & & \\
 100\% - 59.85\% = 40.15\%, \text{ the single discount} & &
 \end{array}$$

A third method is:

1. Subtract the first discount from 100%.
2. Multiply the remainder by the second discount, and deduct the product.

3. Multiply this remainder by the third discount, and deduct the product.

4. Subtract this remainder from 100%; the result is the single discount.

EXAMPLE

Find the single discount equivalent to the series 20%, 10%, and $8\frac{1}{8}\%$.

Solution

100% - 20%	80%
80% $\times$ 10%	8%
80% - 8%	72%
72% $\times$ $8\frac{1}{8}\%$	6%
72% - 6%	66%
100% - 66%	34%

The single discount equivalent to the series 20%, 10%, and $8\frac{1}{8}\%$ is, therefore, 34%.

How to calculate the net price. The procedure is as follows:

1. Reduce the trade discount series to a single discount, by one of the methods described in the preceding pages.

2. Multiply the list price by this single discount; this gives the amount of the discount.

3. Deduct the amount of the discount from the list price; the result is the net price.

EXAMPLE

Find the net price of a gas pump listed at \$3,500.00, with discounts of 20%, $12\frac{1}{2}\%$, 5%, and 2%.

Solution

100%	100%	100%	100%
20%	$12\frac{1}{2}\%$	5%	2%
<u>80%</u>	<u>$87\frac{1}{2}\%$</u>	<u>95%</u>	<u>98%</u>

$$.80 \times .875 \times .95 \times .98 = .6517, \text{ or } 65.17\%$$

$$100\% - 65.17\% = 34.83\%, \text{ the single discount}$$

$$\$3,500.00 \times 34.83\% = \$1,219.05, \text{ amount of discount}$$

$$\$3,500.00 - \$1,219.05 = \$2,280.95, \text{ the net price}$$

Table of decimal equivalents of chain discounts. The table on pages 1294-95 will be found useful in chain discount computations. Its use is illustrated on page 1296.

DECIMAL EQUIVALENTS OF CHAIN DISCOUNTS

Secondary Discount	Primary Discount															
	5	7½	10	12½	15	16 ⅔	20	22½	25	27½	30	32½	33 ⅓	35	37½	
2	93100	90650	88200	85750	83300	81667	78400	75950	73500	71050	68600	66150	65333	63100	61250	
2½	92625	90188	8775	85313	82875	8125	78	75562	73125	70688	6825	65813	65	63375	60938	
5	9025	87875	855	83125	8075	79166	76	73625	7125	68875	665	64125	63333	6175	59375	
5 2½	87994	85678	83363	81047	78731	77187	741	71784	69469	67153	64838	62522	6175	60206	57891	
5 5	85738	83481	81225	78969	76713	75208	722	69943	67688	65431	63175	60919	60167	58663	56406	
5 5 2½	83594	81394	79194	76994	74795	73328	70395	68195	65995	63795	61596	59396	58663	57196	54996	
7½	87875	85563	8325	80938	78625	77083	74	71688	69375	67063	6475	62438	61667	60125	57813	
7½ 2½	85678	83423	81169	78914	76659	75156	7215	69895	67641	65386	63131	60877	60125	58622	56367	
7½ 5	83481	81284	79088	76891	74694	73229	703	68103	65906	6371	61513	59316	58583	57119	54922	
10	855	8325	81	7875	765	75	72	6975	675	6525	63	6075	60	585	5625	
10 2½	83363	81169	78975	76781	74588	73125	702	68006	65813	63619	61425	59231	585	57038	54844	
10 5	81225	79088	7695	74811	72675	7125	684	66263	64125	61988	5985	57713	57	55575	53438	
10 5 2½	79194	77111	75026	72941	70858	69469	6669	64606	62522	60438	58354	5627	55575	54186	52102	
10 7½	79088	77006	74925	72844	70763	69375	666	64519	62438	60356	58275	56194	555	54113	52031	
10 7½ 5	75134	73156	71179	69202	67225	65906	6327	61293	59316	57338	55361	53384	52725	51407	49429	
10 10	7695	74925	729	70875	6885	675	648	62775	6075	58725	567	54675	54	5265	50625	
10 10 2½	75026	73052	71078	69103	67129	65812	6318	61206	59231	57257	55283	53308	5265	51334	49359	
10 10 5	73103	71179	69255	67331	65408	64124	6156	59636	57713	55789	53865	51941	513	50018	48094	
10 10 5 2½	71276	694	67524	65648	63772	62519	60021	58145	5627	54394	52518	50643	50018	48767	46891	
10 10 10	69255	67433	6561	63788	61965	6075	5832	56498	54675	52853	5103	49208	486	47385	45563	
12½	83125	80938	7875	76563	74375	72923	70	67813	65625	63438	6125	59063	58334	56875	54688	
12½ 2½	81047	78915	76781	74649	72516	711	6825	66118	63984	61852	59719	57587	56875	55453	53321	
12½ 5	78969	76891	74813	72735	70656	69277	665	64422	62344	60266	58188	5611	55476	54031	51954	
12½ 7½	76891	74868	72844	70821	68797	67454	6475	62727	60703	5868	5666	54633	53904	52609	50586	
12½ 10	74813	72844	70875	68907	66938	65631	63	61032	59063	57094	55125	53157	52448	51188	49219	
12½ 10 5	71072	69202	67331	65462	63591	62395	5985	5798	5611	54239	52369	50499	49826	48629	46758	
12½ 10 5 2½	69295	67472	65648	63826	62001	60791	58354	56531	54707	52883	51060	49237	48580	47413	45589	
12½ 10 7½	69202	67381	65559	63739	61918	60709	58275	56455	54633	52812	50991	49170	48514	47349	45528	
12½ 10 10	67332	6556	63788	62016	60244	59068	567	54929	53157	51385	49613	47841	47203	46069	44297	
15	8075	78625	765	74375	7225	70833	68	65875	6375	61625	595	57375	56667	5525	53125	
15 2½	78732	76660	74588	72516	70444	69062	663	64229	62157	60084	58013	55941	55251	53869	51797	
20	76	74	72	70	68	66667	64	62	60	58	56	54	53333	52	50	

Secondary Discount		Primary Discount														
		40	42½	45	47½	50	52½	55	57½	60	62½	65	66 ⅔	70	72½	75
2		58800	56350	53900	51450	4900	46550	44100	41650	39200	36750	34300	32667	29400	26950	24500
2½		585	56063	53625	51188	4875	46313	43875	41438	39	36563	34125	325	2925	26813	24375
5		57	54625	5225	49875	475	45125	4275	40375	38	35625	3325	31667	285	26125	2375
5 2½		55575	53259	50944	48628	46313	43997	41681	39366	3705	34374	32419	30875	27788	25472	23156
5 5		5415	51894	49638	47381	45125	42869	40613	38356	361	33844	31588	30083	27075	24819	22563
5 5 2½		52796	50596	48397	46194	43997	41797	39597	37397	35198	32998	30798	29331	26398	24198	21998
7½		555	53188	50875	48563	4625	43938	41625	39313	37	34688	32375	30833	2775	25438	23125
7½ 2½		54113	51858	49603	47348	45094	42839	40584	3833	36075	3382	31566	30063	27056	24802	22547
7½ 5		52725	50529	48331	46135	43938	41741	39544	37347	3515	32954	30756	29292	26363	24166	21969
10		54	5175	495	4725	45	4275	405	3825	36	3375	315	30	27	2475	225
10 2½		5265	50456	48263	46069	43875	41681	39488	37294	351	32906	30713	2925	26325	24131	21938
10 5		513	49163	47025	44888	4275	40613	38475	36338	342	32063	29925	285	2565	23513	21375
10 5 2½		50018	47933	45849	43765	41681	39597	37513	35429	33345	31261	29177	27788	25009	22925	20841
10 7½		4995	47869	45788	43706	41625	39544	37463	35381	333	31219	29138	2775	24975	22894	20813
10 7½ 5		47453	45476	43499	41521	39544	37567	3559	33612	31635	29658	27681	26363	23726	21749	19772
10 10		486	46575	4455	42525	405	38475	3645	34425	324	30375	2835	27	243	22275	2025
10 10 2½		47385	45411	43436	41462	39488	37514	35539	33564	3159	29616	27641	26325	23693	21718	19744
10 10 5		4617	44246	42323	40399	38475	36551	34628	32704	3078	28856	26933	2565	23085	21161	19238
10 10 5 2½		45016	4314	41264	39389	37513	35637	33762	31886	3001	28135	26259	25009	22508	20632	18757
10 10 10		4374	41918	40095	38273	3645	34628	32805	30983	2916	27338	25515	243	2187	20048	18225
12½		525	50313	48125	45938	4375	41663	39375	37188	35	32813	30625	29138	2625	24063	21875
12½ 2½		51188	49055	46922	4479	42656	40622	38391	36258	34125	31993	29859	2841	25594	23462	21328
12½ 5		49875	47797	45719	43641	41563	3958	37406	35329	3325	31172	29094	27681	24938	2286	20781
12½ 7½		48563	4654	44516	42493	40469	38538	36422	34399	32375	30352	28328	26953	24281	22258	20234
12½ 10		4725	45282	43313	41344	39375	37497	35438	33469	315	29532	27563	26224	23625	21657	19688
12½ 10 5		44888	43018	41147	39277	37406	35622	33666	31796	29925	28055	26185	24913	22444	20574	18704
12½ 10 5 2½		43766	41943	40118	38295	36471	34732	32824	31001	29177	27354	2553	2429	21883	2006	18236
12½ 10 7½		43706	41886	40065	38243	36422	34685	32780	30959	29138	27317	25496	24257	21853	20033	18211
12½ 10 10		42525	40754	38982	37210	35438	33747	31894	30122	2835	26579	24807	23602	21263	19491	17719
15		51	48875	4675	44625	425	40375	3825	36125	34	31875	2975	28333	255	23375	215
15 2½		49725	47653	45582	43510	4144	39366	37330	35222	3315	31097	29007	27625	24863	22791	20719
20		48	46	44	42	40	38	36	34	32	30	28	26667	24	22	20

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EXAMPLE .

Find the net price of an article listed at \$300.00, with discounts of 15%, 10%, and 5%.

Solution

The primary discount is 15%. In the 15% column, on the line for secondary discounts of 10% and 5%, the decimal .72675 is given. Multiply this decimal by the list price. $\$300.00 \times .72675 = \218.03 , the net price.

6. HOW TO COMPUTE AVERAGES

*Adapted from Curtis and Cooper, "Mathematics of Accounting"
New York: Prentice-Hall, Inc.*

Simple average. The simple average of a group of items is obtained by adding the items to be averaged and dividing the sum by the number of items added.

EXAMPLE

From the following statistics, find the average rate per kilowatt hour for electrical energy:

New England States	2.88¢
South Atlantic States	2.77¢
Atlantic States ..	2.19¢
North Central States	1.88¢
Pacific Northwest	1.81¢

Solution

$$2.88 + 2.77 + 2.19 + 1.88 + 1.81 = 11.53$$

$$11.53 \div 5 = 2.306$$

Explanation. The number of items to be added is 5, and the sum is 11.53¢. 11.53 divided by $5 = 2.306$, or 2.306¢, the average rate per kilowatt hour.

A not uncommon error in business computations is the use of a simple average where a weighted average is required to give the correct result (for explanation of weighted average, see page 1299).

Moving average. A moving average is a series of simple averages of statistics applicable to groups of an equal number of time units,

each successive group excluding the first time unit of the preceding group and including the unit immediately following those of the preceding group. For example, a yearly moving average, by months, may begin with an initial group including the data applicable to the twelve months of 1952. The next group would omit the data applicable to January, 1952, and include the data applicable to the remaining eleven months of 1952 and those applicable to the month of January, 1953.

EXAMPLE

The labor costs in a certain manufacturing plant for the first six months of 1952 were as follows:

January	\$3,363.17
February	3,644.15
March	4,472.90
April	3,209.20
May	3,415.40
June	4,152.05

The labor costs for the next two months were:

July	\$3,824.06
August	4,015.25

What has been the average labor cost for each six months since January 1, 1952?

Solution

The labor cost for the period from January 1 to June 30 is the sum of the labor costs for each of the six months, or \$22,256.87. The average for the period is $\$22,256.87 \div 6$, or \$3,709.48.

The average for the period from February 1 to July 31 is computed as follows:

Total: January 1 to June 30	\$22,256.87
Deduct: January labor cost	3,363.17
	\$18,893.70
Add: July labor cost	3,824.06
	<u>\$22,717.76</u>

$$\$22,717.76 \div 6 = \$3,786.29$$

The average for the period from March 1 to August 31 is calculated in the same manner:

Total: February 1 to July 31	\$22,717.76
Deduct: February labor cost	3,644.15
	<u>\$19,073.61</u>
Add: August labor cost	4,015.25
	<u><u>\$23,088.86</u></u>
$\$23,088.86 \div 6 = \$3,848.14$	

Comparison of these averages, \$3,709.48, \$3,786.29, and \$3,848.14, shows an increase for each period.

In permanent records, these averages should be tabulated:

1952	Labor Cost	Moving Average	Increase or Decrease†
January-June	\$22,256.87	\$3,709.48	\$
February-July	22,717.76	3,786.29	76.81
March-August	23,088.86	3,848.14	61.85

† Indicate decreases by means of daggers.

Further comparisons, based on the figures of prior periods, may be made in succeeding years. A column may be annexed to show the increase or decrease of the average of each six-month period compared with the simple average for the preceding year. Another column may be used to show the increase or decrease in the moving average for the current six-month period compared with the moving average for the same period of the preceding year.

Progressive average. The method of progressive average is cumulative. The results of the latest period are added to the total previously-computed, and the amount is divided by the previous divisor plus 1.

EXAMPLE

Department A sales were: January, \$5,364.00; February, \$4,872.00; March, \$5,024.00. Department B sales were: January, \$2,561.00; February, \$2,325.00; March, \$2,753.00. Find the progressive monthly averages.

Solution

SALES RECORD

Dept.	Jan.	Feb.	Total	Aver.	March	Total	Aver.	April
A	5,364	4,872	10,236	5,118	5,024	15,260	5,087	
B	2,561	2,325	4,886	2,443	2,753	7,639	2,546	etc.

Explanation. Department A sales for January and February total \$10,236.00. $\$10,236.00 \div 2 = \$5,118.00$, the average for the two months. $\$10,236.00 + \$5,024.00 = \$15,260.00$, the total sales for the three months. $\$15,260.00 \div 3 = \$5,087.00$, the average for the three months. The record for the year would be completed in this manner.

The totals and averages of Department B are computed in the same manner.

Periodic average. Periodic average is simple average applied for several periods to statistics applicable to the same unit of time. It may be used to show a variation in expenses, earnings, sales, and so forth.

EXAMPLE

EXPENSES

Month	1952	1951	1950	1949	Total	Average
January	\$478.60	\$392.85	\$429.65	\$356.00	\$1,657.10	\$414.28
February	462.37	529.83	531.33	535.35	2,058.88	514.72
March	347.92	629.89	432.45	567.89	1,978.15	494.54

Explanation. The expenses for January for the four years are totaled; the total, \$1,657.10, divided by 4, the number of years shown, equals \$414.28, the average monthly expense for January. The other averages are calculated in the same manner.

Weighted average. A weighted average should be used where the items entering into the group to be averaged differ from each other in value. The following example illustrates the average-price method of pricing requisitions in cost accounting.

EXAMPLE

A stock record shows the following receipts:

4,800 lbs. @ 20¢
 3,000 lbs. @ 18¢
 4,000 lbs. @ 21¢

What is the average price per pound for the month?

Solution

4,800 lbs @ 20¢	= \$ 960.00
3,000 lbs. @ 18¢	= 540.00
4,000 lbs. @ 21¢	= 840.00
<u>11,800 lbs.</u>	<u>= \$2,340.00</u>

$2,340 \div 11,800 = 19.83$, or 19.83¢ per pound, average price

A simple average of the three prices paid during the month could be found by adding, $20¢ + 18¢ + 21¢ = 59¢$, and dividing by 3, $59¢ \div 3 = 19.67¢$. This, however, is not the correct average price per pound for the month. If the three prices are to be averaged, each price must be weighted according to the number of pounds bought at that price.

In the averaging of percentages, a simple average is sometimes used where a weighted average is required to give the correct result.

EXAMPLE

A manufactured product is composed of four ingredients, the ratios and costs per pound being as follows:

<i>Material</i>	<i>Pounds</i>	<i>Price per Pound</i>
A	1	\$1.50
B	3	.75
C	4	1.25
D	2	2.00

It was found in the second year that, owing to price fluctuations, the raw material costs had increased as follows:

<i>Material</i>	<i>Per Cent</i>
A	50
B	100
C	10
D	25

What was the average percentage of increase in the cost of raw material composing the finished product?

Solution

<i>Material</i>	<i>Pounds</i>	<i>Cost per lb.</i>	<i>Total Cost</i>	<i>Percentage Price Increase</i>	<i>Increased Cost</i>
A	1	\$1.50	\$ 1.50	50	\$.75
B	3	.75	2.25	100	2.25
C	4	1.25	5.00	10	.50
D	2	2.00	4.00	25	1.00
			<u>\$12.75</u>		<u>\$4.50</u>

$4.50 \div 12.75 = 35.29\%$, the weighted average percentage

A simple average of the four percentages could be found by adding, $50\% + 100\% + 10\% + 25\% = 185\%$, and dividing by 4, $185\% \div 4 = 46.25\%$. This, however, is not the correct average percentage of

HOW TO FIND THE AVERAGE DATE OF AN ACCOUNT 1301

increase in the cost of raw materials composing the finished product. Each of the percentages must be weighted according to the number of pounds of that material in the product. When this is done, as illustrated above, the correct average percentage of increase in cost is found to be 35.29%.

7. HOW TO FIND THE AVERAGE DATE OF AN ACCOUNT

*Adapted from Finney, "Principles of Accounting"
New York: Prentice-Hall, Inc.*

Average or equated date. The average or equated date of an account is the date on which the balance of the account can be paid without loss of interest to either party. The average date may be desired for several purposes, among which are:

1. To determine the date on which settlement is to be made.
2. To determine the date that should be given to an interest-bearing note issued in settlement of the account.
3. To determine the amount of interest to be added to the balance of the account in making settlement. For instance, if the balance of the account is \$500.00, the average date June 5, and the settlement date July 16, interest should be paid on \$500.00 for 41 days.

George Smith has the following account with William Dawson:

WILLIAM DAWSON

June 1	Terms 30 days	100.00	
" 11	Terms 30 days.	100.00	

One bill is due on July 1, the other on July 11. The average date is July 6, because the payment of the first \$100.00 five days after it is due is exactly offset by the payment of the second \$100.00 five days before it is due.

This account might be settled by the payment of \$200.00 on July 6. If it is paid on July 16, interest on \$200.00 for 10 days should be included in the payment. If an interest-bearing note is given on July 16, it should be dated July 6, or interest from July 6 to July 16 should be included in its face.

How to find the average date of a one-sided account. When an account contains debits only or credits only, the procedure in determining the average date is as follows:

1. Assume that all items in the account are paid at a date prior to the maturity of any item in the account. This assumed date is called the focal date. (Any date can be used as the focal date, but the most convenient focal date is the last day of the month preceding the first date on which any item is due.)

2. Determine the number of months and the number of days between the focal date and the maturity of each item.

3. Multiply each item in the account by the number of months and by the number of days between the focal date and the maturity date of the item.

4. Add the products of months, and reduce to a basis of days by multiplying by 30.

5. Add the products of days, including those obtained by reducing months to days.

6. Divide this total number of days by the balance of the account.

7. Reduce the days, determined in step (6), to months and days on the basis of 30 days to the month. Count forward from the focal date this number of months and days; the result is the average date of the account.

EXAMPLE

Find the average date of the following account.

JAMES WHITE			
Aug.	3	Terms cash . . .	600.00
"	12	Terms 2/10;	
		n/30	500.00
Sept.	7	Terms 2/10;	
		n/30	400.00

Solution

The focal date is July 31, the last day of the month preceding the first date on which any item is due.

HOW TO FIND THE AVERAGE DATE OF AN ACCOUNT 1303

		TIME FROM FOCAL DATE			PRODUCTS	
<i>Date</i>	<i>Debits</i>	<i>Date Due</i>	<i>Months</i>	<i>Days</i>	<i>Months</i>	<i>Days</i>
Aug. 3	600.00	Aug. 3	0	3	0	1,800.00
Aug. 12	500.00	Sept. 11	1	11	500.00	5,500.00
Sept. 7	400.00	Oct. 7	2	7	800.00	2,800.00
					$30 \times 1,300 =$	39,000.00
	<u>1,500.00</u>					<u>49,100.00</u>

$49,100 \div 1,500 = 32\frac{1}{15}$, or 33 days, or 1 month and 3 days

The average date is 1 month and 3 days forward from July 31, or September 3.

Dates used in averaging. The dates to be used in the averaging should be the dates on which the items have a cash value equal to their face.

1. Sales on cash terms take the date of sale.
2. Sales on credit terms take the date on which the credit term expires.
3. Returns and allowances take the date that applies to the invoice on which the return or allowance is being made.
4. An interest-bearing note takes the date of the note, because the note is worth face value on that date.
5. A non-interest-bearing note takes the date of maturity, because it is not worth face value until maturity.

How to find the average date of a compound account. When an account contains both debits and credits, the process of determining the average date is called compound average. Compound averaging is performed as follows:

Steps (1), (2), (3), (4), and (5) are taken as in the averaging of a one-sided account, for both debits and credits.

6. Compute the balance of the account.
7. Determine the difference between the sum of the debit products and the sum of the credit products.
8. Divide this difference by the balance of the account, and reduce the quotient to months and days.
9. If the balance of the account and the balance of the products are both debits or both credits the average date is forward from the

1304 BUSINESS MATHEMATICS AND SHORT CUTS

focal date. If either is a debit and the other a credit, the average date is backward from the focal date.

Two examples of compound averaging are given below. In the first the average date is forward from the focal date; in the second, backward from the focal date.

EXAMPLE 1

Find the average date of the following compound account:

D. L. BURTON

May 7	Terms cash . . .	750.00	June 2	Int.-bearing note	
" 19	2/30; n/30 . . .	1,200.00		1 month	1,500.00
			" 10	Cash	100.00

Solution

The focal date is April 30, the last day of the month preceding the first date on which any item is due.

				TIME FROM FOCAL DATE		PRODUCTS	
Date	Amount	Date in Average	Months	Days	Months	Days	
Debits:							
May 7	750.00	May 7	0	7	0		5,250.00
May 19	1,200.00	June 18	1	18	1,200		21,600.00
					$30 \times 1,200 = 36,000.00$		
	<u>1,950.00</u>						<u>62,850.00</u>
Credits:							
June 2	1,500.00	June 2	1	2	1,500		3,500.00
June 10	100.00	June 10	1	10	100		1,000.00
					$30 \times 1,600 = 48,000.00$		
	<u>1,600.00</u>						<u>52,000.00</u>
Balances	<u>350.00</u>						<u>10,850.00</u>

$$10,850 \div 350 = 31, \text{ or } 1 \text{ month and } 1 \text{ day}$$

Since the balance of the account and the balance of the products are both debits, the average date is 1 month and 1 day forward from April 30, or June 1.

HOW TO COMPUTE MARKUP AND SELLING PRICE 1305

EXAMPLE

For purposes of this example, assume the same account, except that the note does not bear interest.

Solution

Date	Debits	Amount	Date in Average	TIME FROM FOCAL DATE		PRODUCTS	
				Months	Days	Months	Days
		(Totals as above):					
		1,950.00					62,850.00
	Credits:						
June 2		1,500.00	July 2	2	2	3,000	3,000.00
June 10		100.00	June 10	1	10	100	1,000.00
						$30 \times 3,100 =$	93,000.00
		<u>1,600.00</u>					<u>97,000.00</u>
	Balances Dr.	<u>350.00</u>					<u>Cr. 34,150.00</u>
$34,150 \div 350 = 97\frac{20}{35}$, or 98, or 3 months and 8 days							

In this case the balance of the account is a debit, while the balance of the products is a credit. The average date is therefore 3 months and 8 days backward from the focal date, or January 22 (still considering 30 days to the month).

How can the average date of an account be prior to any date in the account? In the first example the \$1,500.00 note bore interest, and the average date of the account was June 1; the \$350.00 balance in the account bore interest from that date. In the second example the \$1,500.00 note, due in one month, bore no interest; as an offset, the \$350.00 balance of the account should bear interest for approximately $4\frac{1}{3}$ additional months, or from January 22.

8. HOW TO COMPUTE MARKUP AND SELLING PRICE

Difference between figuring percentage of profit on cost price and on selling price. The difference between figuring the percentage of profit on the cost price and on the selling price is indicated in the following examples.

EXAMPLE 1

The cost price of an article is \$3.00. The selling price is to be computed as cost plus 25%. What is the selling price?

Solution

$$\frac{3}{1} \times \frac{25}{100} = \$0.75$$

$$\$3.00 + \$0.75 = \$3.75, \text{ the selling price}$$

EXAMPLE 2

The cost price of an article is \$3.00. The selling price is to be computed so that a profit of 25% will be made on the selling price. What is the selling price?

Solution

$$\begin{array}{l} \text{Let } 100\% = \text{selling price} \\ 25\% = \text{margin} \\ 75\% = \text{cost price, or } \$3.00 \\ 100\% = 300, \text{ or } \$4.00, \text{ the selling price} \\ \hline 75 \end{array}$$

From these two examples it is apparent that a merchant who sold this \$3.00 article for \$3.75, with the idea of making a profit of 25%, would be acting on an illusion. He would have to sell the \$3.00 article for \$4.00 in order to make a profit of 25%, because the cost is only a part of the selling price. Actually, a margin of 25% on the cost price is equivalent to a margin of only 20% on the selling price; this can be shown from the figures used in Example 1, above:

$$\begin{array}{l} \text{Cost price} = \$3.00 \\ \text{Addition to cost price} = .75 \\ \text{Selling price} = 3.75 \end{array}$$

$$\text{Percentage profit on selling price} = \frac{0.75}{3.75} \times \frac{100}{1} = 20\%$$

The table below shows the percentage that has to be added to the cost in order to make a given percentage on the selling price.

PROFIT PERCENTAGE TABLE

<i>Add to Cost (%)</i>	<i>To Make on Selling Price (%)</i>	<i>Add to Cost (%)</i>	<i>To Make on Selling Price (%)</i>
5	4 $\frac{3}{4}$	31.58	24
7 $\frac{1}{2}$	7	33 $\frac{1}{8}$	25
10.00	9	35.00	26
11.11	10	37 $\frac{1}{2}$	27 $\frac{1}{4}$
12.36	11	40.00	28 $\frac{1}{2}$
12 $\frac{1}{2}$	11 $\frac{1}{8}$	42.86	30
13.63	12	45.00	31
14.94	13	47.00	32
16.28	14	50.00	33 $\frac{1}{8}$
16.43	14 $\frac{1}{4}$	53.85	35
17.65	15	55.00	35 $\frac{1}{2}$
19.05	16	60.00	37 $\frac{1}{2}$
20.00	16 $\frac{2}{3}$	65.00	39 $\frac{1}{2}$
20.49	17	66 $\frac{2}{3}$	40
21.96	18	70.00	41
23.46	19	75.00	42 $\frac{3}{4}$
25.00	20	80.00	44 $\frac{1}{2}$
26.58	21	85.00	46
28.21	22	90.00	47 $\frac{1}{2}$
29.88	23	100.00	50

How to calculate the markup and the selling price when cost of doing business and percentage of profit are based on selling price. Markup is that component which is added to cost in order to arrive at a selling price. The table on page 1308 shows the markup percentage on cost necessary to meet the total percentage deductions from selling price.

EXAMPLE

What should be the markup and the selling price of an article if the cost price is \$15.00, the discount is 2% of the selling price, the commission allowed salesmen is 5% of the selling price, the overhead cost of doing business is 15% of the selling price, and the profit desired on the selling price is 7%?

Solution

The "total deductions from selling price" equal 29% (2% + 5% + 15% + 7%). In the table on page 1308, the figure opposite 29% is

MARKUP TABLE

<i>Total Deductions from Selling Price</i>	<i>Markup Percentage on Cost</i>	<i>Total Deductions from Selling Price</i>	<i>Markup Percentage on Cost</i>
1%	1.0101%	26%	35.1351%
2	2.0408	27	36.9863
3	3.0928	28	38.8889
4	4.1667	29	40.8451
5	5.2632	30	42.8571
6	6.383	31	44.9275
7	7.5269	32	47.0588
8	8.6957	33	49.2537
9	9.8901	34	51.5151
10	11.1111	35	53.8461
11	12.3595	36	56.25
12	13.6364	37	58.7301
13	14.9425	38	61.2903
14	16.2791	39	63.9344
15	17.647	40	66.6667
16	19.0476	41	69.4915
17	20.4819	42	72.4138
18	21.9512	43	75.4386
19	23.4568	44	78.5714
20	25.	45	81.8181
21	26.5823	46	85.1851
22	28.2051	47	88.6792
23	29.8701	48	92.3076
24	31.5789	49	96.0784
25	33.3333	50	100.

40.8451%. To find the markup, multiply the cost price, \$15.00 by 40.8451; the result is \$6.13. The selling price is \$15.00 plus \$6.13, or \$21.13.

To find the markup without the use of the table, the procedure would be as follows:

1. Let 100% represent the selling price.
2. Deduct from 100% the sum of the percentage deductions from selling price.
3. Divide the total deductions from the selling price by the figure found in (2).

$$\begin{aligned} 100\% &= \text{selling price} \\ 100\% - (2\% + 5\% + 15\% + 7\%) &= 71\% \\ 29\% \div 71\% &= 40.8451\% \end{aligned}$$

To find the selling price without the use of the table, the procedure would be as follows:

1. Let 100% represent the selling price.
2. Deduct from 100% the total deductions from the selling price and the percentage of net profit desired.
3. Divide the cost price by the figure found in (2).

Solution

$$\begin{aligned} 100\% &= \text{selling price} \\ 100\% - (2\% + 5\% + 15\% + 7\%) &= 71\% \\ \$15.00 \div 71\% &= \frac{15}{1} \times \frac{100}{71} = \$21.13, \text{ the selling price} \end{aligned}$$

9. HOW TO CALCULATE COMPOUND INTEREST

*Adapted from Moore, "Handbook of Financial Mathematics"
New York: Prentice-Hall, Inc.*

How to calculate the compound amount. The compound amount of any sum is the amount to which that sum accumulates in a specified time and at a specified rate of compound interest. Thus the compound amount is the original investment, or principal, plus the compound interest. The compound amount minus the original principal is the compound interest.

Table of compound amount of 1. The table (pages 1313-16) shows the compound amount of 1 (\$1, £1, 1 peso, or any other monetary unit) for different numbers of periods and at different rates of interest per period. In calculating, by the use of the table, the amount to which any sum accumulates at compound interest, the procedure is as follows:

1. Find in the table the compound amount of 1 for the given number of periods and at the given rate of interest per period.
2. Multiply this figure by the original principal.

How to calculate the number of periods and the rate of interest per period. The rate of interest is usually expressed as a certain percent per year. The interest at this stated percent per year may,

however, be compounded more often than once a year; as, semi-annually, quarterly, monthly.

1. The number of periods is the number of years.
2. The rate of interest per period is the stated rate.

If the interest is compounded more often than once a year:

1. The number of periods is the number of years multiplied by the times per year that the interest is compounded. Thus, if the number of years is 5 and the interest is compounded quarterly, the number of periods is $5 \times 4 = 20$. If the number of years is 3 years and 6 months and the interest is compounded semiannually, the number of periods is $3\frac{1}{2} \times 2 = 7$.

2. The rate of interest per period is the stated rate divided by the times per year that the interest is compounded. Thus, if the stated rate is 4% per year compounded quarterly, the rate of interest per period is $4\% \div 4 = 1\%$.

EXAMPLE 1

What will \$1,000.00 amount to in 10 years at 4% per year compounded annually?

Solution

Since the interest is compounded annually, the number of periods is the number of years, 10, and the rate of interest per period is the stated rate, 4%. Then:

(1) In the table (page 1315) the figure given in the 4% column opposite 10 is 1.48024428. This is the amount to which \$1.00 will accumulate in 10 years at 4% per year compounded annually.

(2) To find what \$1,000.00 will amount to, multiply 1.48024428 by 1,000. The result is \$1,480.24.

EXAMPLE 2

What will \$1,000.00 amount to in 10 years at 4% per year compounded quarterly?

Solution

Since the interest is compounded more often than once a year, the number of periods is the number of years multiplied by the times per year that the interest is compounded; $10 \times 4 = 40$. The rate of interest per period is the stated rate divided by the times per year that the interest is compounded; $4\% \div 4 = 1\%$. Then:

(1) In the table (page 1313) the figure given in the 1% column opposite 40 is 1.48886373. This is the amount to which \$1.00 will accumulate in 10 years at 4% per year compounded quarterly.

(2) To find what \$1,000.00 will amount to, multiply 1.48886373 by 1,000. The result is \$1,488.86.

Formula for compound amount.—The compound amount may also be calculated by the use of the formula

$$P(1 + i)^n$$

where

P = original principal

i = rate of interest per period

n = number of periods

How to calculate the compound present value. The compound present value (or present worth) of a sum of money due at a fixed future date is that sum which, at compound interest, will increase in the given time to the sum due. Thus, if \$10,000.00 is due 4 years hence, and money is worth 4% per year compounded semiannually, the compound present value is that principal which, placed at interest now at 4% per year compounded semiannually, will accumulate in 4 years to \$10,000.00.

Table of compound present value of 1. The table (pages 1317-20) shows the compound present value of 1 (\$1, £1, 1 peso, or any other monetary unit) for different numbers of periods and at different rates of interest per period. In calculating, by the use of the table, the compound present value of any sum, the procedure is as follows:

1. Find in the table the compound present value of 1 for the given number of periods and at the given rate of interest per period.
2. Multiply this figure by the sum whose present value is to be ascertained.

For method of determining number of periods and rate of interest per period, see page 1309, "How to calculate the number of periods and the rate of interest per period."

EXAMPLE

The Maryland Finance Company signs an agreement to sell a piece of real estate 2 years and 3 months hence for \$33,500.00. If money is worth 4% per year compounded quarterly, what is the present value of the contract?

Solution

Since the interest is compounded quarterly, the number of periods is $2\frac{3}{4} \times 4 = 9$. The rate of interest per period is $4\% \div 4 = 1\%$. Then:

(1) In the table (page 1317) the figure given in the 1% column opposite 9 is 0.91433982. This is the compound present value of \$1.00 for 2 years and 3 months at 4% per year compounded quarterly.

(2) To find the compound present value of \$33,500.00, multiply 0.91433982 by 33,500. The result, \$30,630.38, is the present value of the contract.

Formula for compound present value. The compound present value may also be calculated by the use of the formula

$$P \left(\frac{1}{(1+i)^n} \right)$$

where

P = sum whose present value is to be ascertained

i = rate of interest per period

n = number of periods

How to calculate the compound present value of an interest-bearing debt. To find the compound present value of a debt bearing compound interest, two steps are necessary.

1. Calculate the compound amount of the debt; that is, the face plus the compound interest to maturity.

2. Calculate the compound present value of the result found in 1.

EXAMPLE

The Brockton Machine Tool Company is put into a receiver's hands. Among the assets is a 5-year obligation of \$9,500.00 bearing interest at $5\frac{1}{2}\%$ per year compounded annually. What is the present value of the asset if money is worth 6% per year compounded annually?

Solution

(1) Calculation of compound amount: The number of periods is 5. The rate of interest per period is $5\frac{1}{2}\%$. The table (page 1316) shows the compound amount of 1 for 5 periods at $5\frac{1}{2}\%$ per period to be 1.30696001. Hence the compound amount of \$9,500.00 is $1.30696001 \times 9,500 = \$12,416.12$.

(2) Calculation of compound present value: The number of periods is 5. The rate of interest per period is 6%. The table (page 1320) shows the compound present value of 1 for 5 periods at 6% per period to be 0.74725817. Hence the compound present value of \$12,416.12 (the result found in the preceding step) is $0.74725817 \times 12,416.12 = \$9,278.05$. Thus the receiver of the Brockton Machine Tool Company holds an asset whose present value is \$9,278.05.

COMPOUND AMOUNT OF 1

	$\frac{1}{2}\%$	$\frac{3}{4}\%$	1%	$1\frac{1}{4}\%$	$1\frac{1}{2}\%$	$1\frac{3}{4}\%$
1	1.0050 0000	1.0062 5000	1.0075 0000	1.0087 5000	1.0100 0000	1.0112 5000
2	1.0100 2500	1.0125 3906	1.0150 5625	1.0175 7656	1.0201 0000	1.0226 2656
3	1.0150 7513	1.0188 6743	1.0226 6917	1.0264 8036	1.0303 0100	1.0341 3111
4	1.0201 5050	1.0252 3535	1.0303 3919	1.0354 6206	1.0406 0401	1.0457 6509
5	1.0252 5125	1.0316 4307	1.0380 6673	1.0445 2235	1.0510 1005	1.0575 2994
6	1.0303 7751	1.0380 9084	1.0458 5224	1.0536 6192	1.0615 2015	1.0694 2716
7	1.0355 2940	1.0445 7891	1.0536 9613	1.0628 8147	1.0721 3535	1.0814 5821
8	1.0407 0704	1.0511 0753	1.0615 9885	1.0721 8168	1.0828 5671	1.0936 2462
9	1.0459 1058	1.0576 7695	1.0695 6084	1.0815 6327	1.0936 8527	1.1059 2789
10	1.0511 4013	1.0642 8743	1.0775 8255	1.0910 2695	1.1046 2213	1.1183 6958
11	1.0563 9583	1.0709 3923	1.0856 6441	1.1005 7343	1.1156 6835	1.1309 5124
12	1.0616 7781	1.0776 3260	1.0938 0690	1.1102 0345	1.1268 2503	1.1436 7444
13	1.0669 8620	1.0843 6780	1.1020 1045	1.1199 1773	1.1380 9328	1.1565 4078
14	1.0723 2113	1.0911 4510	1.1102 7553	1.1297 1701	1.1494 7421	1.1695 5186
15	1.0776 8274	1.0979 6476	1.1186 0259	1.1396 0203	1.1609 6696	1.1827 0932
16	1.0830 7115	1.1048 2704	1.1269 9211	1.1495 7355	1.1725 7864	1.1960 1480
17	1.0884 8651	1.1117 3221	1.1354 4455	1.1596 3232	1.1843 0443	1.2094 6997
18	1.0939 2894	1.1186 8053	1.1439 6039	1.1697 7910	1.1961 4748	1.2230 7650
19	1.0993 9858	1.1256 7229	1.1525 4009	1.1800 1467	1.2081 0895	1.2368 3611
20	1.1048 9558	1.1327 0774	1.1611 8414	1.1903 3980	1.2201 9004	1.2507 5052
21	1.1104 2006	1.1397 8716	1.1698 9302	1.2007 5527	1.2323 9194	1.2648 2146
22	1.1159 7216	1.1469 1083	1.1786 6722	1.2112 6188	1.2447 1586	1.2790 5071
23	1.1215 5202	1.1540 7902	1.1875 0723	1.2218 6042	1.2571 6302	1.2934 4003
24	1.1271 5978	1.1612 9202	1.1964 1353	1.2325 5170	1.2697 3465	1.3079 9123
25	1.1327 9558	1.1685 5009	1.2053 8663	1.2433 3653	1.2824 3200	1.3227 0613
26	1.1384 5955	1.1758 5353	1.2144 2703	1.2542 1572	1.2952 5631	1.3375 8657
27	1.1441 5185	1.1832 0262	1.2235 3523	1.2651 9011	1.3082 0888	1.3526 3442
28	1.1498 7261	1.1905 9763	1.2327 1175	1.2762 6052	1.3212 9097	1.3678 5186
29	1.1556 2197	1.1980 3887	1.2419 5709	1.2874 2780	1.3345 0388	1.3832 3989
30	1.1614 0006	1.2055 2661	1.2512 7176	1.2986 9280	1.3478 4892	1.3988 0134
31	1.1672 0708	1.2130 6115	1.2606 5630	1.3100 5636	1.3613 2740	1.4145 3785
32	1.1730 4312	1.2206 4278	1.2701 1122	1.3215 1935	1.3749 4068	1.4304 5140
33	1.1789 0833	1.2282 7180	1.2796 3706	1.3330 8265	1.3886 9009	1.4465 4398
34	1.1848 0288	1.2359 4850	1.2892 3434	1.3447 4712	1.4025 7699	1.4628 1760
35	1.1907 2689	1.2436 7318	1.2989 0359	1.3565 1366	1.4166 0276	1.4792 7430
36	1.1966 8052	1.2514 4614	1.3086 4537	1.3683 8315	1.4307 6878	1.4959 1613
37	1.2026 6393	1.2592 6767	1.3184 6021	1.3803 5650	1.4450 7647	1.5127 4519
38	1.2086 7725	1.2671 3810	1.3283 4866	1.3924 3462	1.4595 2724	1.5297 6357
39	1.2147 2063	1.2750 5771	1.3383 1128	1.4046 1843	1.4741 2251	1.5469 7341
40	1.2207 9424	1.2830 2682	1.3483 4861	1.4169 0884	1.4888 6373	1.5643 7687
41	1.2268 9821	1.2910 4574	1.3584 6123	1.4293 0679	1.5037 5237	1.5819 7611
42	1.2330 3270	1.2991 1477	1.3686 4969	1.4418 1322	1.5187 8989	1.5997 7334
43	1.2391 9786	1.3072 3424	1.3789 1456	1.4544 2909	1.5339 7779	1.6177 7079
44	1.2453 9385	1.3154 0446	1.3892 5642	1.4671 5534	1.5493 1757	1.6359 7071
45	1.2516 2082	1.3236 2573	1.3996 7584	1.4799 9295	1.5648 1075	1.6543 7538
46	1.2578 7892	1.3318 9839	1.4101 7341	1.4929 4289	1.5804 5885	1.6729 8710
47	1.2641 6832	1.3402 2276	1.4207 4971	1.5060 0614	1.5962 6344	1.6918 0821
48	1.2704 8916	1.3485 9915	1.4314 0533	1.5191 8370	1.6122 2608	1.7108 4105
49	1.2768 4161	1.3570 2790	1.4421 4087	1.5324 7655	1.6283 4834	1.7300 8801
50	1.2832 2581	1.3655 0932	1.4529 5693	1.5458 8572	1.6446 3182	1.7495 8150
51	1.2896 4194	1.3740 4375	1.4638 5411	1.5594 1222	1.6610 7814	1.7692 3395
52	1.2960 9015	1.3826 3153	1.4748 3301	1.5730 5708	1.6776 8892	1.7891 3784
53	1.3025 7060	1.3912 7297	1.4858 9426	1.5868 2133	1.6944 6581	1.8092 6564
54	1.3090 9346	1.3999 6843	1.4970 3847	1.6007 0602	1.7114 1047	1.8296 1988
55	1.3156 2687	1.4087 1823	1.5082 6626	1.6147 1219	1.7285 2457	1.8502 0310
56	1.3222 0702	1.4175 2272	1.5195 7825	1.6288 4093	1.7458 0982	1.8710 1788
57	1.3288 1805	1.4263 8224	1.5309 7509	1.6430 9328	1.7632 6792	1.8920 6684
58	1.3354 6214	1.4352 9713	1.5424 5740	1.6574 7035	1.7809 0060	1.9133 5259
59	1.3421 3946	1.4442 6773	1.5540 2583	1.6719 7322	1.7987 0960	1.9348 7780
60	1.3488 5015	1.4532 9441	1.5656 8103	1.6866 0298	1.8166 9670	1.9566 4518

From J. W. Glover, "Tables of Applied Math. in Finance, Insurance, Statistics."
George Wahr, publisher, Ann Arbor, Michigan

COMPOUND AMOUNT OF 1 (Cont)

	1 1/4%	1 3/8%	1 1/2%	1 3/4%	2%	2 1/4%
1	1.0125 0000	1.0137 5000	1.0150 0000	1.0175 0000	1.0200 0000	1.0225 0000
2	1.0251 5625	1.0276 8906	1.0302 2500	1.0353 0625	1.0404 0000	1.0455 0625
3	1.0379 7070	1.0418 1979	1.0456 7838	1.0534 2411	1.0612 0800	1.0690 3014
4	1.0509 4534	1.0561 4481	1.0613 6355	1.0718 5903	1.0824 3216	1.0930 8332
5	1.0640 8215	1.0706 6680	1.0772 8400	1.0906 1656	1.1040 8080	1.1176 7769
6	1.0773 8318	1.0853 8847	1.0934 4326	1.1097 0235	1.1261 6242	1.1428 2544
7	1.0908 5047	1.1003 1256	1.1098 4491	1.1291 2215	1.1486 8567	1.1685 3901
8	1.1044 8610	1.1154 4186	1.1264 9259	1.1488 8178	1.1716 5938	1.1948 3114
9	1.1182 9218	1.1307 7918	1.1433 8998	1.1689 8721	1.1950 9257	1.2217 1484
10	1.1322 7083	1.1463 2740	1.1605 4083	1.1894 4449	1.2189 9442	1.2492 0343
11	1.1464 2422	1.1620 8940	1.1779 4894	1.2102 5977	1.2433 7431	1.2773 1050
12	1.1607 5452	1.1780 6813	1.1956 1317	1.2314 3931	1.2682 4179	1.3060 4999
13	1.1752 6395	1.1942 6656	1.2135 5244	1.2529 8950	1.2936 0663	1.3354 3611
14	1.1899 5475	1.2106 8773	1.2317 5573	1.2749 1682	1.3194 7876	1.3654 8343
15	1.2048 2918	1.2273 3469	1.2502 3207	1.2972 2786	1.3458 6834	1.3962 0680
16	1.2198 8955	1.2442 1054	1.2689 8555	1.3199 2935	1.3727 8571	1.4276 2146
17	1.2351 3817	1.2613 1843	1.2880 2033	1.3430 2811	1.4002 4142	1.4597 4294
18	1.2505 7739	1.2786 6156	1.3073 4064	1.3665 3111	1.4282 4625	1.4925 8716
19	1.2662 0961	1.2962 4316	1.3269 5075	1.3904 4540	1.4568 1117	1.5261 7037
20	1.2820 3723	1.3140 6650	1.3468 5501	1.4147 7820	1.4859 4740	1.5605 0920
21	1.2980 6270	1.3321 3492	1.3670 5783	1.4395 3681	1.5156 6634	1.5956 2066
22	1.3142 8848	1.3504 5177	1.3875 6370	1.4647 2871	1.5459 7967	1.6315 2212
23	1.3307 1709	1.3690 2048	1.4083 7715	1.4903 6146	1.5768 9926	1.6682 3137
24	1.3473 5105	1.3878 4451	1.4295 0281	1.5164 4279	1.6084 3725	1.7057 6658
25	1.3641 9294	1.4069 2738	1.4509 4535	1.5429 8054	1.6406 0599	1.7441 4632
26	1.3812 4535	1.4262 7263	1.4727 0953	1.5699 8269	1.6734 1811	1.7833 8962
27	1.3985 1092	1.4458 8388	1.4948 0018	1.5974 5739	1.7068 8648	1.8235 1588
28	1.4159 9230	1.4657 6478	1.5172 2218	1.6254 1290	1.7410 2421	1.8645 4499
29	1.4336 9221	1.4859 1905	1.5399 8051	1.6538 5762	1.7758 4469	1.9064 9725
30	1.4516 1336	1.5063 5043	1.5630 8022	1.6828 0013	1.8113 6158	1.9493 9344
31	1.4697 5853	1.5270 6275	1.5865 2642	1.7122 4913	1.8475 8882	1.9932 5479
32	1.4881 3051	1.5480 5986	1.6103 2432	1.7422 1349	1.8845 4059	2.0381 0303
33	1.5067 3214	1.5693 4569	1.6344 7918	1.7727 0223	1.9222 3140	2.0839 6034
34	1.5255 6629	1.5909 2419	1.6589 9637	1.8037 2452	1.9606 7603	2.1308 4945
35	1.5446 3587	1.6127 9940	1.6838 8132	1.8352 8970	1.9998 8955	2.1787 9356
36	1.5639 4382	1.6349 7539	1.7091 3954	1.8674 0727	2.0398 8734	2.2278 1642
37	1.5834 9312	1.6574 5630	1.7347 7663	1.9000 8689	2.0806 8509	2.2779 4229
38	1.6032 8678	1.6802 4633	1.7607 9828	1.9333 3841	2.1222 9879	2.3291 9599
39	1.6233 2787	1.7033 4971	1.7872 1025	1.9671 7184	2.1647 4477	2.3816 0290
40	1.6436 1946	1.7267 7077	1.8140 1841	2.0015 9734	2.2080 3966	2.4351 8897
41	1.6641 6471	1.7505 1387	1.8412 2868	2.0366 2530	2.2522 0046	2.4899 8072
42	1.6849 6677	1.7745 8343	1.8688 4712	2.0722 6624	2.2972 4447	2.5460 0528
43	1.7060 2865	1.7989 8396	1.8968 7982	2.1085 3090	2.3431 8936	2.6032 9040
44	1.7273 5421	1.8237 1999	1.9253 3302	2.1454 3019	2.3900 5314	2.6618 6444
45	1.7489 4614	1.8487 9614	1.9542 1301	2.1829 7522	2.4378 5421	2.7217 5639
46	1.7708 0797	1.8742 1708	1.9835 2621	2.2211 7728	2.4866 1129	2.7829 9590
47	1.7929 4306	1.8999 8757	2.0132 7910	2.2600 4789	2.5363 4351	2.8456 1331
48	1.8153 5485	1.9261 1240	2.0434 7829	2.2995 9872	2.5870 7039	2.9096 3961
49	1.8380 4679	1.9525 9644	2.0741 3046	2.3398 4170	2.6388 1179	2.9751 0650
50	1.8610 2237	1.9794 4464	2.1052 4242	2.3807 8893	2.6915 8803	3.0420 4640
51	1.8842 8515	2.0066 6201	2.1368 2106	2.4224 5274	2.7454 1979	3.1104 9244
52	1.9078 3872	2.0342 5361	2.1688 7337	2.4648 4566	2.8003 2819	3.1804 7852
53	1.9316 8670	2.0622 2460	2.2014 0647	2.5079 8046	2.8563 3475	3.2520 3929
54	1.9558 3279	2.0905 8019	2.2344 2757	2.5518 7012	2.9134 6144	3.3252 1017
55	1.9802 8070	2.1193 2566	2.2679 4398	2.5965 2785	2.9717 3067	3.4000 2740
56	2.0050 3420	2.1484 6639	2.3019 6314	2.6419 6708	3.0311 6529	3.4765 2802
57	2.0300 9713	2.1780 0780	2.3364 9259	2.6882 0151	3.0917 8859	3.5547 4990
58	2.0554 7335	2.2079 5541	2.3715 3998	2.7352 4503	3.1536 2436	3.6347 3177
59	2.0811 6676	2.2383 1480	2.4071 1308	2.7831 1182	3.2166 9685	3.7165 1324
60	2.1071 8135	2.2690 9163	2.4432 1978	2.8318 1628	3.2810 3079	3.8001 3479

COMPOUND AMOUNT OF 1 (Cont.)

	2½%	2¾%	3%	3½%	4%	4½%
1	1.0250 0000	1.0275 0000	1.0300 0000	1.0350 0000	1.0400 0000	1.0450 0000
2	1.0506 2500	1.0557 5625	1.0609 0000	1.0712 2500	1.0816 0000	1.0920 2500
3	1.0768 9063	1.0847 8955	1.0927 2700	1.1087 1788	1.1248 6400	1.1411 6613
4	1.1038 1289	1.1146 2126	1.1255 0881	1.1475 2300	1.1698 5856	1.1925 1860
5	1.1314 0821	1.1452 7334	1.1592 7407	1.1876 8631	1.2166 5290	1.2461 8194
6	1.1596 9342	1.1767 6836	1.1940 5230	1.2292 5533	1.2653 1902	1.3022 6012
7	1.1886 8575	1.2091 2949	1.2298 7387	1.2722 7926	1.3159 3178	1.3608 6183
8	1.2184 0290	1.2423 8055	1.2667 7008	1.3168 0904	1.3685 6905	1.4221 0061
9	1.2488 6297	1.2765 4602	1.3047 7318	1.3628 9735	1.4233 1181	1.4860 9514
10	1.2800 8454	1.3116 5103	1.3439 1638	1.4105 9876	1.4802 4428	1.5529 6942
11	1.3120 8666	1.3477 2144	1.3842 3387	1.4599 6972	1.5394 5406	1.6228 5305
12	1.3448 8882	1.3847 8378	1.4257 6089	1.5110 6866	1.6010 3222	1.6958 8143
13	1.3785 1104	1.4228 6533	1.4685 3371	1.5639 5606	1.6650 7351	1.7721 9610
14	1.4129 7382	1.4619 9413	1.5125 8972	1.6186 9452	1.7316 7645	1.8519 4492
15	1.4482 9817	1.5021 9896	1.5579 6742	1.6753 4883	1.8009 4351	1.9352 8244
16	1.4845 0562	1.5435 0944	1.6047 0644	1.7339 8604	1.8729 8125	2.0223 7015
17	1.5216 1826	1.5859 5595	1.6528 4763	1.7946 7555	1.9479 0050	2.1133 7681
18	1.5596 5872	1.6295 6973	1.7024 3306	1.8574 8920	2.0258 1652	2.2084 7677
19	1.5986 5019	1.6743 8290	1.7535 0603	1.9225 0132	2.1068 4918	2.3078 6031
20	1.6386 1644	1.7204 2843	1.8061 1123	1.9897 8886	2.1911 2314	2.4117 1402
21	1.6795 8185	1.7677 4021	1.8602 9457	2.0594 3147	2.2787 6807	2.5202 4116
22	1.7215 7140	1.8163 5307	1.9161 0341	2.1315 1158	2.3699 1879	2.6336 5201
23	1.7646 1068	1.8663 0278	1.9735 8651	2.2061 1448	2.4647 1554	2.7521 6635
24	1.8087 2595	1.9176 2610	2.0327 9411	2.2833 2849	2.5633 0416	2.8760 1383
25	1.8539 4410	1.9703 6082	2.0937 7793	2.3632 4498	2.6658 3633	3.0054 3446
26	1.9002 9270	2.0245 4575	2.1565 9127	2.4459 5856	2.7724 6978	3.1406 7901
27	1.9478 0002	2.0802 2075	2.2212 8901	2.5315 6711	2.8833 6858	3.2820 0956
28	1.9964 9502	2.1374 2682	2.2879 2768	2.6201 7196	2.9987 0332	3.4296 9999
29	2.0464 0739	2.1962 0606	2.3565 6551	2.7118 7798	3.1186 5145	3.5840 3649
30	2.0975 6758	2.2566 0173	2.4272 6247	2.8067 9370	3.2433 9751	3.7453 1813
31	2.1500 0677	2.3186 5828	2.5000 8035	2.9050 3148	3.3731 3341	3.9138 5745
32	2.2037 5694	2.3824 2138	2.5750 8276	3.0067 0259	3.5080 5875	4.0899 8104
33	2.2588 5086	2.4479 3797	2.6523 3524	3.1119 4235	3.6483 8110	4.2740 3018
34	2.3153 2213	2.5152 5626	2.7319 0530	3.2208 6033	3.7943 1634	4.4663 6154
35	2.3732 0519	2.5844 2581	2.8138 6245	3.3335 9045	3.9460 8899	4.6673 4781
36	2.4325 3532	2.6554 9752	2.8982 7833	3.4502 6611	4.1039 3255	4.8773 7846
37	2.4933 4870	2.7285 2370	2.9852 2668	3.5710 2543	4.2680 8986	5.0968 6049
38	2.5556 8242	2.8035 5810	3.0747 8348	3.6960 1132	4.4388 1345	5.3262 1921
39	2.6195 7448	2.8806 5595	3.1670 2698	3.8253 7171	4.6162 6599	5.5658 9908
40	2.6850 3384	2.9598 7399	3.2620 3779	3.9592 5972	4.8010 2063	5.8163 6454
41	2.7521 9043	3.0412 7052	3.3598 8893	4.0978 3381	4.9930 6145	6.0781 0094
42	2.8209 9520	3.1249 0546	3.4606 9589	4.2412 5799	5.1927 8391	6.3516 1548
43	2.8915 2008	3.2108 4036	3.5645 1677	4.3897 0202	5.4004 9527	6.6374 3818
44	2.9638 0808	3.2991 3847	3.6714 5227	4.5433 4160	5.6165 1508	6.9361 2290
45	3.0379 0328	3.3898 6478	3.7815 9584	4.7023 5855	5.8411 7568	7.2482 4843
46	3.1138 5086	3.4830 8606	3.8950 4372	4.8669 4110	6.0748 2271	7.5744 1961
47	3.1916 9713	3.5788 7093	4.0118 9503	5.0372 8404	6.3178 1562	7.9152 6849
48	3.2714 8956	3.6772 8988	4.1322 5188	5.2135 8898	6.5705 2824	8.2714 5557
49	3.3532 7680	3.7784 1535	4.2562 1944	5.3960 6459	6.8333 4937	8.6436 7107
50	3.4371 0872	3.8823 2177	4.3839 0602	5.5849 2686	7.1066 8335	9.0326 3627
51	3.5230 3644	3.9890 8562	4.5154 2320	5.7803 9930	7.3909 5068	9.4391 0490
52	3.6111 1235	4.0987 8547	4.6508 8590	5.9827 1327	7.6865 8871	9.8638 6463
53	3.7013 9016	4.2115 0208	4.7904 1247	6.1921 0824	7.9940 5226	10.3077 3853
54	3.7939 2491	4.3273 1838	4.9341 2485	6.4088 3202	8.3138 1435	10.7715 8677
55	3.8887 7303	4.4463 1964	5.0821 4859	6.6331 4114	8.6463 6692	11.2563 0817
56	3.9859 9236	4.5685 9343	5.2346 1305	6.8653 0108	8.9922 2160	11.7628 4204
57	4.0856 4217	4.6942 2975	5.3916 5144	7.1055 8662	9.3519 1046	12.2921 6993
58	4.1877 8322	4.8233 2107	5.5534 0098	7.3542 8215	9.7259 8698	12.8453 1758
59	4.2924 7780	4.9559 6239	5.7200 0301	7.6116 8203	10.1150 2635	13.4233 5687
60	4.3997 8975	5.0922 5136	5.8916 0310	7.8780 9090	10.5196 2741	14.0274 0793

COMPOUND AMOUNT OF 1 (Cont.)

	5%	5½%	6%	6½%	7%	8%
1	1.0500 0000	1.0550 0000	1.0600 0000	1.0650 0000	1.0700 0000	1.0800 0000
2	1.1025 0000	1.1130 2500	1.1236 0000	1.1342 2500	1.1449 0000	1.1664 0000
3	1.1576 2500	1.1742 4138	1.1910 1600	1.2079 4963	1.2250 4300	1.2597 1200
4	1.2155 0625	1.2388 2465	1.2624 7698	1.2864 6635	1.3107 9601	1.3604 8896
5	1.2762 8156	1.3069 6001	1.3382 2558	1.3700 8666	1.4025 5173	1.4693 2808
6	1.3400 9564	1.3788 4281	1.4185 1911	1.4591 4230	1.5007 3035	1.5868 7432
7	1.4071 0042	1.4546 7916	1.5036 3026	1.5539 8655	1.6057 8148	1.7138 2427
8	1.4774 5544	1.5346 8651	1.5938 4807	1.6549 9567	1.7181 8618	1.8509 3021
9	1.5513 2822	1.6190 9427	1.6894 7896	1.7625 7039	1.8384 5921	1.9990 0463
0	1.6288 9463	1.7081 4446	1.7908 4770	1.8771 3747	1.9671 5136	2.1589 2500
11	1.7103 3936	1.8020 9240	1.8982 9856	1.9991 5140	2.1048 5195	2.3316 3900
12	1.7958 5633	1.9012 0749	2.0121 9647	2.1290 9624	2.2521 9159	2.5181 7012
13	1.8856 4914	2.0057 7390	2.1329 2826	2.2674 8750	2.4098 4500	2.7196 2373
14	1.9799 3160	2.1160 9146	2.2609 0396	2.4148 7418	2.5785 3415	2.9371 9362
15	2.0789 2818	2.2324 7649	2.3965 5819	2.5718 4101	2.7590 3154	3.1721 6911
16	2.1828 7459	2.3552 6270	2.5403 5168	2.7390 1067	2.9521 6375	3.4259 4264
17	2.2920 1832	2.4848 0215	2.6927 7279	2.9170 4637	3.1588 1521	3.7000 1805
18	2.4066 1923	2.6214 6627	2.8543 3915	3.1066 5438	3.3799 3228	3.9960 1950
19	2.5269 5020	2.7656 4691	3.0255 9950	3.3085 8691	3.6165 2754	4.3157 0106
20	2.6532 9771	2.9177 5749	3.2071 3547	3.5236 4506	3.8696 8446	4.6609 5714
21	2.7859 6259	3.0782 3415	3.3995 6360	3.7526 8199	4.1405 6237	5.0338 3372
22	2.9252 6072	3.2475 3703	3.6035 3742	3.9966 0632	4.4304 0174	5.4365 4041
23	3.0715 2376	3.4261 5157	3.8197 4966	4.2563 8573	4.7405 2986	5.8714 6365
24	3.2250 9994	3.6145 8990	4.0489 3464	4.5330 5081	5.0723 6695	6.3411 8074
25	3.3863 5494	3.8133 9235	4.2918 7072	4.8276 9911	5.4274 3264	6.8484 7520
26	3.5556 7269	4.0231 2893	4.5493 8296	5.1414 9955	5.8073 5292	7.3963 5321
27	3.7334 5632	4.2444 0102	4.8223 4594	5.4756 9702	6.2138 6763	7.9880 6147
28	3.9201 2914	4.4778 4307	5.1116 8670	5.8316 1733	6.6488 3836	8.6201 0639
29	4.1161 3560	4.7241 2444	5.4183 8790	6.2106 7245	7.1142 5705	9.3172 7490
30	4.3219 4238	4.9839 5129	5.7434 9117	6.6143 6616	7.6122 5504	10.0626 5689
31	4.5380 3949	5.2580 6861	6.0881 0064	7.0442 9996	8.1451 1290	10.8676 6944
32	4.7649 4147	5.5472 6238	6.4533 8668	7.5021 7946	8.7152 7080	11.7370 8300
33	5.0031 8854	5.8523 6181	6.8405 9888	7.9898 2113	9.3253 3975	12.6760 4964
34	5.2533 4797	6.1742 4171	7.2510 2528	8.5091 5950	9.9781 1354	13.6901 3361
35	5.5160 1537	6.5138 2501	7.6860 8679	9.0622 5487	10.6765 8148	14.7853 4429
36	5.7918 1614	6.8720 8538	8.1472 5200	9.6513 0143	11.4239 4219	15.9581 7184
37	6.0814 0694	7.2500 5008	8.6360 8712	10.2786 3603	12.2236 1814	17.2456 2558
38	6.3854 7729	7.6488 0283	9.1542 5235	10.9467 4737	13.0792 7141	18.6252 7563
39	6.7047 5115	8.0694 8699	9.7035 0749	11.6582 8595	13.9948 2041	20.1152 9768
40	7.0399 8871	8.5133 0877	10.2857 1794	12.4160 7453	14.9744 5784	21.7245 2150
41	7.3919 8815	8.9815 4076	10.9028 6101	13.2231 1938	16.0226 6989	23.4624 8322
42	7.7615 8756	9.4755 2550	11.5570 3267	14.0826 2214	17.1442 5678	25.3394 8187
43	8.1496 6693	9.9966 7940	12.2504 5463	14.9979 9258	18.3443 5475	27.3666 4042
44	8.5571 5028	10.5464 9677	12.9854 8191	15.9728 6209	19.6284 5959	29.5559 7166
45	8.9850 0779	11.1265 5409	13.7646 1083	17.0110 9813	21.0024 5176	31.9204 4939
46	9.4342 5818	11.7385 1456	14.5904 8748	18.1168 1951	22.4726 2338	34.4740 8534
47	9.9059 7109	12.3841 3287	15.4659 1673	19.2944 1278	24.0457 0702	37.2320 1217
48	10.4012 6965	13.0652 6017	16.3938 7173	20.5485 4961	25.7289 0651	40.2105 7314
49	10.9213 3313	13.7838 4948	17.3775 0403	21.8842 0533	27.5299 2997	43.4274 1899
50	11.4673 9979	14.5419 6120	18.4201 5427	23.3066 7868	29.4570 2506	46.9016 1251
51	12.0407 6978	15.3417 6907	19.5253 6353	24.8216 1279	31.5190 1682	50.6537 4151
52	12.6428 0826	16.1855 6637	20.6968 8534	26.4350 1762	33.7253 4799	54.7060 4084
53	13.2749 4868	17.0757 7252	21.9386 9846	28.1532 9377	36.0861 2235	59.0825 2410
54	13.9386 9611	18.0149 4001	23.2550 2037	29.9832 5786	38.6121 5092	63.8091 2803
55	14.6356 3092	19.0057 6171	24.6503 2159	31.9321 6963	41.3150 0148	68.9138 5611
56	15.3674 1246	20.0510 7860	26.1293 4089	34.0077 6065	44.2070 5159	74.4269 6460
57	16.1357 8309	21.1539 8793	27.6971 0134	36.2182 6509	47.3015 4520	80.3811 2177
58	16.9425 7224	22.3173 5176	29.3589 2742	38.5724 5233	50.6126 5336	86.8116 1151
59	17.7897 0085	23.5448 0611	31.1204 6307	41.0796 6173	54.1555 3910	93.7565 4043
60	18.6791 8589	24.8397 7048	32.9876 9085	43.7498 3974	57.9464 2683	101.2570 6367

COMPOUND PRESENT VALUE OF 1

	$\frac{1}{2}\%$	$\frac{3}{8}\%$	$\frac{1}{4}\%$	$\frac{1}{8}\%$	1%	$1\frac{1}{8}\%$
1	0.9950 2488	0.9937 8882	0.9925 5583	0.9913 2590	0.9900 9901	0.9888 7515
2	0.9900 7450	0.9876 1622	0.9851 6708	0.9827 2704	0.9802 9605	0.9778 7407
3	0.9851 4876	0.9814 8196	0.9778 3333	0.9742 0276	0.9705 9015	0.9669 9537
4	0.9802 4752	0.9753 8580	0.9705 5417	0.9657 5243	0.9609 8034	0.9562 3770
5	0.9753 7067	0.9693 2750	0.9633 2920	0.9573 7539	0.9514 6569	0.9455 9970
6	0.9705 1808	0.9633 0683	0.9561 5802	0.9490 7102	0.9420 4524	0.9350 8005
7	0.9656 8963	0.9573 2356	0.9490 4022	0.9408 3868	0.9327 1805	0.9246 7743
8	0.9608 8520	0.9513 7745	0.941 7540	0.9326 7775	0.9234 8322	0.9143 9054
9	0.9561 0468	0.9454 6827	0.9349 6318	0.9245 8761	0.9143 3982	0.9042 1808
10	0.9513 4794	0.9395 9580	0.9280 C315	0.9165 6765	0.9052 8695	0.8941 5881
11	0.9466 1489	0.9337 5980	0.9210 9494	0.9086 1724	0.8963 2372	0.8842 1142
12	0.9419 0534	0.9279 6005	0.9142 3815	0.9007 3581	0.8874 4923	0.8743 7470
13	0.9372 1924	0.9221 9632	0.9074 3241	0.8929 2273	0.8786 6260	0.8646 4742
14	0.9325 5646	0.9164 6840	0.9006 7733	0.8851 7743	0.8699 6297	0.8550 2835
15	0.9279 1688	0.9107 7604	0.8939 7254	0.8774 9931	0.8613 4947	0.8455 1629
16	0.9233 0037	0.9051 1905	0.8873 1766	0.8698 8779	0.8528 2126	0.8361 1005
17	0.9187 0684	0.8994 9719	0.8807 1231	0.8623 4230	0.8443 7749	0.8268 0846
18	0.9141 3616	0.8939 1025	0.8741 5614	0.8548 6225	0.8360 1731	0.8178 1034
19	0.9095 8822	0.8883 5802	0.8676 4878	0.8474 4709	0.8277 9397	0.8085 1455
20	0.9050 6290	0.8828 4027	0.8611 8985	0.8400 9624	0.8195 4442	0.7995 1995
21	0.9005 6010	0.8773 5679	0.8547 7901	0.8328 0917	0.8114 3017	0.7906 2542
22	0.8960 2961	0.8719 0736	0.8484 1589	0.8255 8530	0.8033 9621	0.7818 2983
23	0.8916 2170	0.8664 9179	0.8421 0014	0.8184 2409	0.7954 4179	0.7731 3210
24	0.8871 8567	0.8611 0985	0.8358 3140	0.8113 2499	0.7875 6613	0.7645 3112
25	0.8827 7181	0.8557 6135	0.8296 0933	0.8042 8748	0.7797 6844	0.7560 2583
26	0.8783 7991	0.8504 4606	0.8234 3358	0.7973 1101	0.7720 4796	0.7476 1516
27	0.8740 0986	0.8451 6378	0.8173 0380	0.7903 9505	0.7644 0352	0.7392 9806
28	0.8696 6155	0.8399 1432	0.8112 1966	0.7835 3908	0.7568 3997	0.7310 7348
29	0.8653 3488	0.8346 9746	0.8051 8080	0.7767 4258	0.7493 4215	0.7229 4040
30	0.8610 2973	0.8295 1300	0.7991 8690	0.7700 0504	0.7419 2292	0.7148 9780
31	0.8567 4600	0.8243 6075	0.7932 3762	0.7633 2594	0.7345 7715	0.7069 4467
32	0.8524 8358	0.8192 4050	0.7873 3262	0.7567 0477	0.7273 0411	0.6990 8002
33	0.8482 4237	0.8141 5205	0.7814 7159	0.7501 4104	0.7201 0307	0.6913 0287
34	0.8440 2226	0.8090 9520	0.7756 5418	0.7436 3424	0.7129 7334	0.6836 1223
35	0.8398 2314	0.8040 6976	0.7698 8008	0.7371 8388	0.7059 1420	0.6760 0715
36	0.8356 4492	0.7990 7554	0.7641 4896	0.7307 8947	0.6989 2495	0.6684 8667
37	0.8314 8748	0.7941 1234	0.7584 6051	0.7244 5053	0.6920 0490	0.6610 4986
38	0.8273 5073	0.7891 7997	0.7528 1440	0.7181 6657	0.6851 5337	0.6536 9578
39	0.8232 3455	0.7842 7823	0.7472 1032	0.7119 3712	0.6783 6967	0.6464 2352
40	0.8191 3886	0.7794 0693	0.7416 4796	0.7057 6171	0.6716 5314	0.6392 3216
41	0.8150 6354	0.7745 6590	0.7361 2701	0.6996 3986	0.6650 0311	0.6321 2080
42	0.8110 0850	0.7697 5493	0.7306 4716	0.6935 7111	0.6584 1892	0.6250 8855
43	0.8069 7363	0.7649 7384	0.7252 0809	0.6875 5500	0.6518 9992	0.6181 3454
44	0.8029 5884	0.7602 2245	0.7198 0952	0.6815 9108	0.6454 4546	0.6112 5789
45	0.7989 6402	0.7555 0057	0.7144 5114	0.6756 7889	0.6390 5492	0.6044 5774
46	0.7949 8907	0.7508 0802	0.7091 3264	0.6698 1798	0.6327 2764	0.5977 3324
47	0.7910 3390	0.7461 4462	0.7038 5374	0.6640 0792	0.6264 6301	0.5910 8355
48	0.7870 9841	0.7415 1018	0.6986 1414	0.6582 4824	0.6202 6041	0.5845 0784
49	0.7831 8250	0.7369 0453	0.6934 1353	0.6525 3853	0.6141 1921	0.5780 0528
50	0.7792 8607	0.7323 2748	0.6882 5165	0.6468 7835	0.6080 3882	0.5715 7506
51	0.7754 0902	0.7277 7886	0.6831 2819	0.6412 6726	0.6020 1864	0.5652 1637
52	0.7715 5127	0.7232 5849	0.6780 4286	0.6357 0484	0.5960 5806	0.5589 2843
53	0.7677 1270	0.7187 6620	0.6729 9540	0.6301 9067	0.5901 5649	0.5527 1044
54	0.7638 9324	0.7143 0182	0.6679 8551	0.6247 2433	0.5843 1336	0.5465 6162
55	0.7600 9277	0.7098 6516	0.6630 1291	0.6193 0545	0.5785 2808	0.5404 8120
56	0.7563 1122	0.7054 5606	0.6580 7733	0.6139 3349	0.5728 0008	0.5344 6843
57	0.7525 4847	0.7010 7434	0.6531 7849	0.6086 0817	0.5671 2879	0.5285 2256
58	0.7488 0445	0.6967 1985	0.6483 1612	0.6033 2904	0.5615 1365	0.5226 4282
59	0.7450 7906	0.6923 9239	0.6434 8995	0.5980 9571	0.5559 5411	0.5168 2850
60	0.7413 7220	0.6880 9182	0.6386 9970	0.5929 0776	0.5504 4962	0.5110 7887

From J W Glover, "Tables of Applied Math in Finance, Insurance, Statistics." George Wahr, publisher, Ann Arbor, Michigan.

COMPOUND PRESENT VALUE OF 1 (Cont.)

	1½%	1¾%	1½%	1¾%	2%	2½%
1	0.9876 5432	0.9864 3650	0.9852 2167	0.9828 0098	0.9803 9216	0.9779 9511
2	0.9754 6106	0.9730 5696	0.9706 6175	0.9658 9777	0.9611 6878	0.9564 7444
3	0.9634 1833	0.9598 5890	0.9563 1699	0.9492 8528	0.9423 2233	0.9354 2732
4	0.9515 2428	0.9468 3986	0.9421 8423	0.9329 5851	0.9238 4543	0.9148 4335
5	0.9397 7706	0.9339 9739	0.9282 6033	0.9169 1254	0.9057 3081	0.8947 1232
6	0.9281 7488	0.9213 2912	0.9145 4219	0.9011 4254	0.8879 7138	0.8750 2427
7	0.9167 1593	0.9088 3267	0.9010 2679	0.8856 4378	0.8705 6018	0.8557 6946
8	0.9053 9845	0.8965 0571	0.8877 1112	0.8704 1157	0.8534 9037	0.8369 3835
9	0.8942 2069	0.8843 4596	0.8745 9224	0.8554 4135	0.8367 5527	0.8185 2161
10	0.8831 8093	0.8723 5113	0.8616 6723	0.8407 2860	0.8203 4830	0.8005 1013
11	0.8722 7746	0.8605 1899	0.8489 3323	0.8262 6889	0.8042 6304	0.7828 9499
12	0.8615 0860	0.8488 4734	0.8363 8742	0.8120 5788	0.7884 9318	0.7656 6748
13	0.8508 7269	0.8373 3400	0.8240 2702	0.7980 9128	0.7730 3253	0.7488 1905
14	0.8403 6809	0.8259 7682	0.8118 4928	0.7843 6490	0.7578 7502	0.7323 4137
15	0.8299 9318	0.8147 7368	0.7998 5150	0.7708 7459	0.7430 1473	0.7162 2628
16	0.8197 4635	0.8037 2250	0.7880 3104	0.7576 1631	0.7284 4581	0.7004 6580
17	0.8096 2602	0.7928 2120	0.7763 8526	0.7445 8605	0.7141 6256	0.6850 5212
18	0.7996 3064	0.7820 6777	0.7649 1159	0.7317 7990	0.7001 5937	0.6699 7763
19	0.7897 5866	0.7714 6020	0.7536 0747	0.7191 9401	0.6864 3076	0.6552 3484
20	0.7800 0855	0.7609 9649	0.7424 7042	0.7068 2458	0.6729 7133	0.6408 1647
21	0.7703 7881	0.7506 7472	0.7314 9795	0.6946 6789	0.6597 7582	0.6267 1538
22	0.7608 6796	0.7404 9294	0.7206 8763	0.6827 2028	0.6468 3904	0.6129 2457
23	0.7514 7453	0.7304 4926	0.7100 3708	0.6709 7817	0.6341 5592	0.5994 3724
24	0.7421 9707	0.7205 4181	0.6995 4392	0.6594 3800	0.6217 2149	0.5862 4668
25	0.7330 3414	0.7107 6874	0.6892 0583	0.6480 9632	0.6095 3087	0.5733 4639
26	0.7239 8434	0.7011 2823	0.6790 2052	0.6369 4970	0.5975 7928	0.5607 2997
27	0.7150 4626	0.6916 1847	0.6689 8574	0.6259 9479	0.5858 6204	0.5483 9117
28	0.7062 1853	0.6822 3771	0.6590 9925	0.6152 2829	0.5743 7455	0.5363 2388
29	0.6974 9978	0.6729 8417	0.6493 5887	0.6046 4697	0.5631 1231	0.5245 2213
30	0.6888 8867	0.6638 5615	0.6397 6243	0.5942 4764	0.5520 7089	0.5129 8008
31	0.6803 8387	0.6548 5194	0.6303 0781	0.5840 2716	0.5412 4597	0.5016 9201
32	0.6719 8407	0.6459 6985	0.6209 9292	0.5739 8247	0.5306 3330	0.4906 5233
33	0.6636 8797	0.6372 0824	0.6118 1568	0.5641 1053	0.5202 2873	0.4798 5558
34	0.6554 9429	0.6285 6546	0.6027 7407	0.5544 0839	0.5100 2817	0.4692 9641
35	0.6474 0177	0.6200 3991	0.5938 6608	0.5448 7311	0.5000 2761	0.4589 6960
36	0.6394 0916	0.6116 3000	0.5850 8974	0.5355 0183	0.4902 2315	0.4488 7002
37	0.6315 1522	0.6033 3416	0.5764 4309	0.5262 9172	0.4806 1093	0.4389 9268
38	0.6237 1873	0.5951 5083	0.5679 2423	0.5172 4002	0.4711 8719	0.4293 3270
39	0.6160 1850	0.5870 7850	0.5595 3126	0.5083 4400	0.4619 4822	0.4198 8528
40	0.6084 1334	0.5791 1566	0.5512 6232	0.4996 0098	0.4528 9042	0.4106 4575
41	0.6009 0206	0.5712 6083	0.5431 1559	0.4910 0834	0.4440 1021	0.4016 0954
42	0.5934 8352	0.5635 1253	0.5350 8925	0.4825 6348	0.4353 0413	0.3927 7216
43	0.5861 5656	0.5558 6933	0.5271 8153	0.4742 6386	0.4267 6875	0.3841 2925
44	0.5789 2006	0.5483 2979	0.5193 9067	0.4661 0699	0.4184 0074	0.3756 7653
45	0.5717 7290	0.5408 9252	0.5117 1494	0.4580 9040	0.4101 9680	0.3674 0981
46	0.5647 1397	0.5335 5612	0.5041 5265	0.4502 1170	0.4021 5373	0.3593 2500
47	0.5577 4219	0.5263 1923	0.4967 0212	0.4424 6850	0.3942 6836	0.3514 1809
48	0.5508 5649	0.5191 8050	0.4893 6170	0.4348 5848	0.3865 3761	0.3436 8518
49	0.5440 5579	0.5121 3860	0.4821 2975	0.4273 7934	0.3789 5844	0.3361 2242
50	0.5373 3905	0.5051 9220	0.4750 0468	0.4200 2883	0.3715 2788	0.3287 2608
51	0.5307 0524	0.4983 4003	0.4679 8491	0.4128 0475	0.3642 4302	0.3214 9250
52	0.5241 5332	0.4915 8079	0.4610 6887	0.4057 0492	0.3571 0100	0.3144 1810
53	0.5176 8229	0.4849 1323	0.4542 5505	0.3987 2719	0.3500 9902	0.3074 9936
54	0.5112 9115	0.4783 3611	0.4475 4192	0.3918 6947	0.3432 3433	0.3007 3287
55	0.5049 7892	0.4718 4820	0.4409 2800	0.3851 2970	0.3365 0425	0.2941 1528
56	0.4987 4461	0.4654 4829	0.4344 1182	0.3785 0585	0.3299 0613	0.2876 4330
57	0.4925 8727	0.4591 3518	0.4279 9194	0.3719 9592	0.3234 3738	0.2813 1374
58	0.4865 0594	0.4529 0770	0.4216 6694	0.3655 9796	0.3170 9547	0.2751 2347
59	0.4804 9970	0.4467 6468	0.4154 3541	0.3593 1003	0.3108 7791	0.2690 6940
60	0.4745 6760	0.4407 0499	0.4092 9597	0.3531 3025	0.3047 8227	0.2631 4856

COMPOUND PRESENT VALUE OF 1 (Cont.)

	2½%	2¾%	3%	3½%	4%	4½%
1	0.9756 0976	0.9732 3601	0.9708 7379	0.9661 8357	0.9615 3846	0.9569 3780
2	0.9518 1440	0.9471 8833	0.9425 9591	0.9335 1070	0.9245 8621	0.9157 2995
3	0.9285 9941	0.9218 3779	0.9151 4166	0.9019 4271	0.8889 9636	0.8762 9680
4	0.9059 5064	0.8971 6573	0.8884 8705	0.8714 4223	0.8548 0419	0.8385 6134
5	0.8838 5429	0.8731 5400	0.8626 0878	0.8419 7317	0.8219 2711	0.8024 5105
6	0.8622 9687	0.8497 8491	0.8374 8426	0.8135 0064	0.7903 1453	0.7678 9574
7	0.8412 6524	0.8270 4128	0.8130 9151	0.7859 9096	0.7599 1781	0.7348 2646
8	0.8207 4657	0.8049 0635	0.7894 0923	0.7594 1156	0.7306 9021	0.7031 8513
9	0.8007 2836	0.7833 6365	0.7664 1673	0.7337 3097	0.7025 8674	0.6729 0443
10	0.7811 9840	0.7623 9791	0.7440 9391	0.7089 1881	0.6755 6417	0.6439 2768
11	0.7621 4478	0.7419 9310	0.7224 2128	0.6849 4571	0.6495 8093	0.6161 9874
12	0.7435 5589	0.7221 3440	0.7013 7988	0.6617 8330	0.6245 9705	0.5896 6366
13	0.7254 2038	0.7028 0220	0.6809 5134	0.6394 0415	0.6005 7409	0.5642 7164
14	0.7077 2720	0.6839 9728	0.6611 1781	0.6177 8179	0.5774 7508	0.5399 7286
15	0.6904 6556	0.6656 9078	0.6418 6195	0.5968 9062	0.5552 6450	0.5167 2044
16	0.6736 2493	0.6478 7424	0.6231 6694	0.5767 0591	0.5339 0818	0.4944 6932
17	0.6571 9506	0.6305 3454	0.6050 1645	0.5572 0378	0.5133 7325	0.4731 7639
18	0.6411 6591	0.6136 5892	0.5873 9461	0.5383 6114	0.4936 2812	0.4528 0037
19	0.6255 2772	0.5972 3496	0.5702 8603	0.5201 5569	0.4746 4242	0.4333 0179
20	0.6102 7094	0.5812 5057	0.5536 7575	0.5025 6588	0.4563 8265	0.4146 4286
21	0.5953 8629	0.5656 9398	0.5375 4928	0.4855 7090	0.4388 3360	0.3967 8743
22	0.5808 6467	0.5505 5375	0.5218 9250	0.4691 5063	0.4219 5539	0.3797 0089
23	0.5666 9724	0.5358 1874	0.5066 9175	0.4532 8563	0.4057 2633	0.3633 5013
24	0.5528 7535	0.5214 7809	0.4919 3374	0.4379 5713	0.3901 2147	0.3477 0347
25	0.5393 9059	0.5075 2126	0.4776 0557	0.4231 4699	0.3751 1680	0.3327 3060
26	0.5262 3472	0.4939 3796	0.4636 9473	0.4088 3767	0.3606 8923	0.3184 0248
27	0.5133 9973	0.4807 1821	0.4501 8906	0.3950 1224	0.3468 1637	0.3046 9137
28	0.5008 7778	0.4678 5227	0.4370 7675	0.3816 5434	0.3334 7747	0.2915 7069
29	0.4886 6125	0.4553 3068	0.4243 4636	0.3687 4815	0.3206 5141	0.2790 1502
30	0.4767 4269	0.4431 4421	0.4119 8676	0.3562 7841	0.3083 1867	0.2670 0002
31	0.4651 1481	0.4312 8391	0.3999 8715	0.3442 3035	0.2964 6026	0.2555 0241
32	0.4537 7055	0.4197 4103	0.3883 3703	0.3325 8971	0.2850 5794	0.2444 9991
33	0.4427 0298	0.4085 0708	0.3770 2625	0.3213 4271	0.2740 8417	0.2339 7121
34	0.4319 0534	0.3975 7380	0.3660 4490	0.3104 7605	0.2635 5209	0.2238 9589
35	0.4213 7107	0.3869 3314	0.3553 8340	0.2999 7686	0.2534 1547	0.2142 5444
36	0.4110 9372	0.3765 7727	0.3450 3243	0.2898 3272	0.2436 6872	0.2050 2817
37	0.4010 6705	0.3664 9556	0.3349 8294	0.2800 3161	0.2342 9685	0.1961 9921
38	0.3912 8492	0.3566 8959	0.3252 2615	0.2705 6194	0.2252 8543	0.1877 5044
39	0.3817 4139	0.3471 4316	0.3157 5355	0.2614 1250	0.2166 2061	0.1796 6549
40	0.3724 3062	0.3378 5222	0.3065 5684	0.2525 7247	0.2082 8904	0.1719 2870
41	0.3633 4695	0.3288 0995	0.2976 2800	0.2440 3137	0.2002 7793	0.1645 2507
42	0.3544 8483	0.3200 0968	0.2889 5922	0.2357 7910	0.1925 7493	0.1574 4026
43	0.3458 3886	0.3114 4495	0.2805 4294	0.2278 0590	0.1851 6820	0.1506 6054
44	0.3374 0376	0.3031 0944	0.2723 7178	0.2201 0231	0.1780 4635	0.1441 7276
45	0.3291 7440	0.2949 9702	0.2644 3862	0.2126 5924	0.1711 9841	0.1379 6437
46	0.3211 4576	0.2871 0172	0.2567 3653	0.2054 6787	0.1646 1386	0.1320 2332
47	0.3133 1294	0.2794 1773	0.2492 5876	0.1985 1968	0.1582 8256	0.1263 3810
48	0.3056 7116	0.2719 3940	0.2419 9880	0.1918 0645	0.1521 9476	0.1208 9771
49	0.2982 1576	0.2646 6122	0.2349 5029	0.1853 2024	0.1463 4112	0.1156 9158
50	0.2909 4221	0.2575 7783	0.2281 0708	0.1790 5337	0.1407 1262	0.1107 0965
51	0.2838 4606	0.2506 8402	0.2214 6318	0.1729 9843	0.1353 0059	0.1059 4225
52	0.2769 2298	0.2439 7471	0.2150 1280	0.1671 4824	0.1300 9672	0.1013 8014
53	0.2701 6876	0.2374 4487	0.2087 5029	0.1614 9599	0.1250 9300	0.0970 1449
54	0.2635 7828	0.2310 9000	0.2026 7019	0.1560 3467	0.1202 8173	0.0928 3683
55	0.2571 5052	0.2249 0511	0.1967 6717	0.1507 5814	0.1156 5551	0.0888 3907
56	0.2508 7855	0.2188 8575	0.1910 3609	0.1456 6004	0.1112 0722	0.0850 1347
57	0.2447 5956	0.2130 2749	0.1854 7193	0.1407 3433	0.1069 3002	0.0813 5260
58	0.2387 8982	0.2073 2803	0.1800 6984	0.1359 7520	0.1028 1733	0.0778 4938
59	0.2329 6568	0.2017 7716	0.1748 2508	0.1313 7701	0.0988 6282	0.0744 9701
60	0.2272 8359	0.1963 7679	0.1697 3309	0.1269 3431	0.0950 6040	0.0712 8901

COMPOUND PRESENT VALUE OF 1 (Cont.)

	5%	5½%	6%	6½%	7%	8%
1	0.9523 8095	0.9478 6730	0.9433 9623	0.9389 6714	0.9345 7944	0.9259 2593
2	0.9070 2948	0.8984 5242	0.8899 9644	0.8816 5928	0.8734 3873	0.8573 3882
3	0.8638 3760	0.8516 1366	0.8396 1928	0.8278 4909	0.8162 9788	0.7938 3224
4	0.8227 0247	0.8072 1674	0.7920 9366	0.7773 2309	0.7628 9521	0.7350 2985
5	0.7835 2617	0.7651 3435	0.7472 5817	0.7298 8084	0.7129 8618	0.6805 8320
6	0.7462 1540	0.7252 4583	0.7049 6054	0.6853 3412	0.6663 4222	0.6301 6983
7	0.7106 8133	0.6874 3681	0.6650 5711	0.6435 0621	0.6227 4974	0.5834 9040
8	0.6768 3936	0.6515 9887	0.6274 1237	0.6042 3119	0.5820 0910	0.5402 6888
9	0.6446 0892	0.6176 2926	0.5918 9846	0.5673 5323	0.5439 3374	0.5002 4897
10	0.6139 1325	0.5854 3058	0.5583 9478	0.5327 2604	0.5083 4929	0.4631 9349
11	0.5846 7929	0.5549 1050	0.5267 8753	0.5002 1224	0.4750 9280	0.4288 8286
12	0.5568 3742	0.5259 8152	0.4969 6936	0.4696 8285	0.4440 1196	0.3971 1376
13	0.5303 2135	0.4985 6068	0.4688 3902	0.4410 1676	0.4149 6445	0.3676 9792
14	0.5050 6795	0.4725 6937	0.4423 0096	0.4141 0025	0.3878 1724	0.3404 6104
15	0.4810 1710	0.4479 3305	0.4172 6506	0.3888 2652	0.3624 4602	0.3152 4170
16	0.4581 1152	0.4245 8109	0.3936 4628	0.3650 9533	0.3387 3460	0.2918 9047
17	0.4362 9669	0.4024 4653	0.3713 6442	0.3428 1251	0.3165 7439	0.2702 6895
18	0.4155 2065	0.3814 6590	0.3503 4379	0.3218 8969	0.2958 6392	0.2502 4903
19	0.3957 3396	0.3615 7906	0.3305 1301	0.3022 4384	0.2765 0832	0.2317 1206
20	0.3768 8948	0.3427 2896	0.3118 0473	0.2837 9703	0.2584 1900	0.2145 4821
21	0.3589 4236	0.3248 6158	0.2941 5540	0.2664 7608	0.2415 1309	0.1986 5575
22	0.3418 4987	0.3079 2567	0.2775 0510	0.2502 1228	0.2257 1317	0.1839 4051
23	0.3255 7131	0.2918 7267	0.2617 9726	0.2349 4111	0.2109 4688	0.1703 1528
24	0.3100 6791	0.2766 5656	0.2469 7855	0.2206 0198	0.1971 4662	0.1576 9934
25	0.2953 0277	0.2622 3370	0.2329 9863	0.2071 3801	0.1842 4918	0.1460 1790
26	0.2812 4073	0.2485 6275	0.2198 1003	0.1944 9579	0.1721 9549	0.1352 0176
27	0.2678 4832	0.2356 0450	0.2073 6795	0.1826 2515	0.1609 3037	0.1251 8682
28	0.2550 9364	0.2233 2181	0.1956 3014	0.1714 7902	0.1504 0221	0.1159 1372
29	0.2429 4632	0.2116 7944	0.1845 5674	0.1610 1316	0.1405 6282	0.1073 2752
30	0.2313 7745	0.2006 4402	0.1741 1013	0.1511 8607	0.1313 6712	0.0993 7733
31	0.2203 5947	0.1901 8390	0.1642 5484	0.1419 5875	0.1227 7301	0.0920 1605
32	0.2098 6617	0.1802 6910	0.1549 5740	0.1332 9460	0.1147 4113	0.0852 0005
33	0.1998 7254	0.1708 7119	0.1461 8622	0.1251 5925	0.1072 3470	0.0788 8893
34	0.1903 5480	0.1619 6321	0.1379 1153	0.1175 2042	0.1002 1934	0.0730 4531
35	0.1812 9029	0.1535 1963	0.1301 0522	0.1103 4781	0.0936 6294	0.0676 3454
36	0.1726 5741	0.1455 1624	0.1227 4077	0.1036 1297	0.0875 3546	0.0626 2458
37	0.1644 3563	0.1379 3008	0.1157 9318	0.0972 8917	0.0818 0884	0.0579 8572
38	0.1566 0536	0.1307 3941	0.1092 3885	0.0913 5134	0.0764 5686	0.0536 9048
39	0.1491 4797	0.1239 2362	0.1030 5552	0.0857 7590	0.0714 5501	0.0497 1341
40	0.1420 4568	0.1174 6314	0.0972 2219	0.0805 4075	0.0667 8038	0.0460 3093
41	0.1352 8160	0.1113 3947	0.0917 1905	0.0756 2512	0.0624 1157	0.0426 2123
42	0.1288 3962	0.1055 3504	0.0865 2740	0.0710 0950	0.0583 2857	0.0394 6411
43	0.1227 0440	0.1000 3322	0.0816 2962	0.0666 7559	0.0545 1268	0.0365 4084
44	0.1168 6133	0.0948 1822	0.0770 0908	0.0626 0619	0.0509 4643	0.0338 3411
45	0.1112 9651	0.0898 7509	0.0726 5007	0.0587 8515	0.0476 1349	0.0313 2788
46	0.1059 9668	0.0851 8965	0.0685 3781	0.0551 9733	0.0444 9859	0.0290 0730
47	0.1009 4921	0.0807 4849	0.0646 5831	0.0518 2848	0.0415 8747	0.0268 5861
48	0.0961 4211	0.0765 3885	0.0609 9840	0.0486 6524	0.0388 6679	0.0248 6908
49	0.0915 6391	0.0725 4867	0.0575 4566	0.0456 9506	0.0363 2410	0.0230 2693
50	0.0872 0373	0.0687 6652	0.0542 8836	0.0429 0616	0.0339 4776	0.0213 2123
51	0.0830 5117	0.0651 8153	0.0512 1544	0.0402 8747	0.0317 2688	0.0197 4188
52	0.0790 9635	0.0617 8344	0.0483 1645	0.0378 2861	0.0296 8129	0.0182 7952
53	0.0753 2986	0.0585 6250	0.0455 8156	0.0355 1982	0.0277 1148	0.0169 2548
54	0.0717 4272	0.0555 0948	0.0430 0147	0.0333 5195	0.0258 9858	0.0156 7174
55	0.0683 2640	0.0526 1562	0.0405 6742	0.0313 1638	0.0242 0428	0.0145 1087
56	0.0650 7276	0.0498 7263	0.0382 7115	0.0294 0505	0.0226 2083	0.0134 3599
57	0.0619 7406	0.0472 7263	0.0361 0486	0.0276 1038	0.0211 4096	0.0124 4073
58	0.0590 2291	0.0448 0818	0.0340 6119	0.0259 2524	0.0197 5781	0.0115 1920
59	0.0562 1230	0.0424 7221	0.0321 3320	0.0243 4295	0.0184 6533	0.0106 6592
60	0.0535 3552	0.0402 5802	0.0303 1434	0.0228 5723	0.0172 5732	0.0098 7588

How to calculate the compound discount. The compound discount on a sum due in the future is the difference between that sum and its compound present value.

EXAMPLE

What is the compound discount, at 6% per year compounded annually, on a loan of \$8,200.00 due in 7 years?

Solution

(1) The table (page 1320) shows the compound present value of 1 for 7 periods at 6% to be 0.66505711. The compound present value of \$8,200.00 is, therefore, $0.66505711 \times 8,200 = \$5,453.47$.

(2) The compound discount is the difference between the sum due and its compound present value, or $\$8,200.00 - \$5,453.47 = \$2,746.53$.

10. HOW TO COMPUTE ANNUITIES

*Adapted from Moore, "Handbook of Financial Mathematics"
New York: Prentice-Hall, Inc.*

What an annuity is. An annuity is a series of equal payments made or due at equal intervals of time. Examples of annuities are: bond coupons, regular preferred stock dividends, periodic contributions to sinking funds and depreciation funds, insurance premiums, periodic payments to beneficiaries by insurance companies, income from trust funds, rent on land or buildings, and installment payments. Although the word annuity suggests annual payments, it applies to any series of equal payments made at equal intervals of time, whether the payments be made annually, semiannually, quarterly, monthly, or otherwise.

Ordinary annuities and annuities due. Annuities are of two principal types:

1. Ordinary annuities.
2. Annuities due.

An ordinary annuity is one in which the payments are made at the end of each period; payments to sinking funds and to depreciation funds are usually made at the end of each period. An annuity due is one in which the payments are made at the beginning of each period; insurance premiums and rent payments on land or buildings are usually made at the beginning of each period.

It is necessary to distinguish between these two classes of annuities

because the method of computation used in connection with ordinary annuities is slightly different from that used in connection with annuities due. The distinction can best be visualized by means of a diagram. As an example, take two annuities payable at annual intervals for a term of 6 years. In Figure 95, the arrows in the upper half (pointing downward) indicate the time of the six payments in an ordinary annuity; the arrows in the lower half (pointing upward) indicate the time of the payments in an annuity due. It is important to note that the straight line in the center of the diagram indicates the length of the term, and that this length is the same for both these annuities.

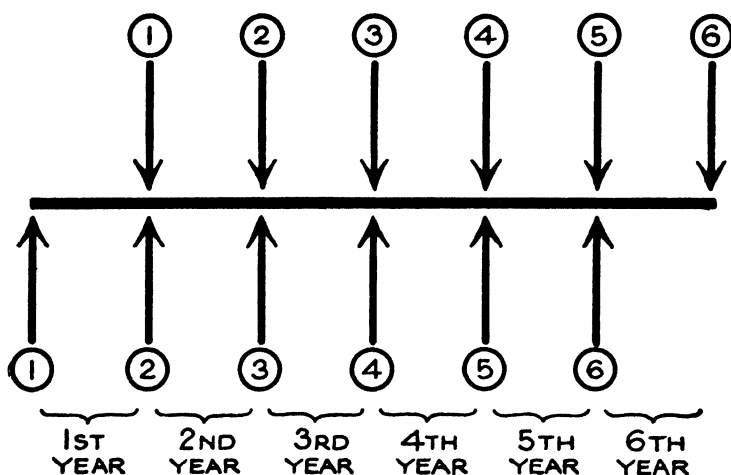


Figure 95. Comparison of an Ordinary Annuity with an Annuity Due.

How to calculate the amount of an ordinary annuity. The amount of an annuity is the sum of the invested rents (periodic payments) and the compound interest thereon to the end of the term of the annuity.

Table of amount of annuity of 1 per period. The table on pages 1330-33 shows the amount of an annuity of 1 per period (\$1, £1, 1 peso, or any other monetary unit) for different numbers of periods and at different rates of interest per period. The procedure in calculating the amount of an ordinary annuity is as follows, provided the inter-

est is compounded the same number of times a year as the rent payments are made (which is generally the case):

1. Find in the table the amount of an annuity of 1 per period for the given number of periods and at the given rate of interest per period.
2. Multiply this figure by the periodic rent.

EXAMPLE

To redeem a bond issue of \$2,000,000.00 in 20 years, the Eastport Oil Corporation placed \$30,000.00 in a sinking fund at the end of each six months. The sinking fund earned 5% per year compounded semiannually. What was the amount in the fund at the end of 10 years?

Solution

Since the payments are made at the end of each six months, the number of periods is $10 \times 2 = 20$. The rate of interest per period is $5\% \div 2 = 2\frac{1}{2}\%$. Then:

(1) In the table (page 1332) the figure given in the $2\frac{1}{2}\%$ column opposite 20 is 25.54465761. This is the amount of an annuity of 1 for 20 periods at $2\frac{1}{2}\%$ per period.

(2) To find the amount of an annuity of \$30,000.00, multiply 25.54465761 by 30,000. The result, \$766,339.73, is the amount in the sinking fund at the end of 10 years, if payments of \$30,000.00 are made at the end of each six months and interest at 5% per year is compounded semiannually.

Formula for amount of an ordinary annuity. The amount of an ordinary annuity may also be calculated by the use of the formula

$$R \left[\frac{(1+i)^n - 1}{i} \right]$$

where

R = periodic rent

i = rate of interest per period

n = number of periods

How to calculate the amount of an annuity due. In an annuity due the periodic rent payments are made at the beginning of each period, while in an ordinary annuity the periodic rent payments are made at the end of each period.

In the diagram (page 1322) it is seen that the ordinary annuity of six rents earns no interest after the date of the sixth payment; the annuity due of six rents earns interest for one full period after the date of the sixth payment. Consequently, the amount of the annuity due of six rents is equal to:

1. The amount of the ordinary annuity of six rents; *plus*
2. Interest on the amount of the ordinary annuity of six rents for one period.

This is equivalent to saying that the amount of the annuity due of six rents is equal to:

1. The amount of an ordinary annuity of seven rents; *minus*
2. One rent.

The procedure in calculating the amount of an annuity due is, therefore, as follows:

1. Calculate the amount of an ordinary annuity for one more than the given number of periods.
2. Deduct from the figure found in (1), one periodic rent; the result is the amount of the annuity due.

EXAMPLE

At the beginning of each six-month period, the Donahue Construction Company places \$40,000.00 in a depreciation fund for its machinery. To what amount will the fund have accumulated at the end of 7 years, if interest at 5% per year compounded semiannually is earned?

Solution

Since the payments are made semiannually, the given number of periods is $7 \times 2 = 14$. The rate of interest per period is $5\% \div 2 = 2\frac{1}{2}\%$. Then:

(1) Adding 1 to the given number of periods makes the number of periods 15. In the table (page 1332) the figure in the $2\frac{1}{2}\%$ column opposite 15 is 17.93192666. This is the amount of an annuity of 1 for 15 periods at $2\frac{1}{2}\%$ per period. To find the amount of an annuity of \$40,000.00, multiply 17.93192666 by 40,000. $17.93192666 \times 40,000 = \$717,277.07$.

(2) Deducting one rent, \$40,000.00, from \$717,277.07 gives \$717,277.07 - \$40,000.00 = \$677,277.07. This is the amount to which the depreciation fund will have accumulated at the end of 7 years, if payments of \$40,000.00 are made at the beginning of each six-month period and interest at 5% per year compounded semiannually is earned.

Formula for amount of an annuity due. The amount of an annuity due may also be calculated by the use of the formula

$$R \left[\frac{(1+i)^{n+1} - 1}{i} - 1 \right]$$

where

R = periodic rent
 i = rate of interest per period
 n = number of periods

How to calculate the present value of an ordinary annuity. The present value (or present worth) of an annuity is that sum which, invested at compound interest, will provide for the withdrawal of a stated number of equal rents at equal intervals of time. The interest earning increases the investment, and the rent withdrawals decrease it. The withdrawal of the last rent should exhaust the investment.

If the rents are withdrawn at the end of each period, the annuity is an ordinary annuity. If the rents are withdrawn at the beginning of each period, the annuity is an annuity due.

The present value of an annuity is also sometimes referred to as the "cash equivalent" of the annuity.

Table of present value of annuity of 1 per period. The table on pages 1334-37 shows the present value of an annuity of 1 per period (\$1, £1, 1 peso, or any other monetary unit) for different numbers of periods and at different rates of interest per period. The procedure in calculating the present value of an ordinary annuity is as follows, provided the interest is compounded the same number of times a year as the rent withdrawals are made (which is generally the case):

1. Find in the table the present value of an annuity of 1 for the given number of periods and at the given rate of interest per period.
2. Multiply this figure by the periodic rent.

EXAMPLE

Under the terms of a contract the Dubois Celluloid Novelty Company is obligated to make payments of \$2,500.00 at the end of each quarter for 8 years. To provide for these payments the Dubois Company decides to set up a fund out of which the quarterly payments will be made. What amount must be invested in the fund, if interest at 5% per year compounded quarterly is earned?

Solution

Since the payments are to be made quarterly, the number of periods is $8 \times 4 = 32$. The rate of interest per period is $5\% \div 4 = 1\frac{1}{4}\%$. Then:

(1) In the table (page 1335) the figure in the $1\frac{1}{4}\%$ column opposite 32 is 26.24127418. This is the present value of an annuity of 1 for 32 periods at $1\frac{1}{4}\%$ per period.

(2) To find the present value of an annuity of \$2,500.00, multiply 26.24127418 by 2,500. $26.24127418 \times 2,500 = \$65,603.19$. This is the amount which must be invested in the fund, at 5% per year compounded quarterly, to provide for payments of \$2,500.00 at the end of each quarter for 8 years.

Formula for present value of an ordinary annuity. The present value of an ordinary annuity may also be calculated by the use of the formula

$$R \left[\frac{1 - \frac{1}{(1+i)^n}}{i} \right]$$

where

R = periodic rent

i = rate of interest per period

n = number of periods

How to calculate the present value of an annuity due. In an annuity due the periodic rents are due at the beginning of each period, while in an ordinary annuity the periodic rents are due at the end of each period.

Referring to the diagram (page 1322), if the present value of the ordinary annuity of six rents is to be calculated, it is apparent that, since the first rent is due at the end of the first period, this first rent will be subject to discount; in the annuity due of six rents, however, the first rent is due at the beginning of the first period, and hence this first rent will not be subject to discount. Consequently, the present value of the annuity due of six rents is equal to:

1. The present value of the ordinary annuity of six rents; *minus*
2. The discount on one rent (the first).

This is equivalent to saying that the present value of the annuity due of six rents is equal to:

1. The present value of an ordinary annuity of five rents; *plus*
2. One rent (that is, the first rent, which is not subject to discount).

The procedure in calculating the present value of an annuity due is, therefore, as follows:

1. Calculate the present value of an ordinary annuity for one less than the given number of periods.
2. Add to the figure found in 1, one periodic rent; the result is the present value of the annuity due.

EXAMPLE

A building is leased for 15 years at an annual rental of \$7,000.00, payable in installments of \$1,750.00 at the beginning of each quarter. What is the cash value of the lease if money is worth 4% per year compounded quarterly?

Solution

Since the payments are due quarterly, the number of periods is $15 \times 4 = 60$. The rate of interest per period is $4\% \div 4 = 1\%$. Then:

(1) Deducting 1 from the given number of periods makes the number of periods 59. In the table (page 1334) the figure in the 1% column opposite 59 is 44.40458879. This is the present value of an annuity of 1 for 59 periods at 1% per period. To find the present value of an annuity of \$1,750.00, multiply 44.40458879 by 1,750. $44.40458879 \times 1,750 = \$77,708.03$.

(2) Adding one periodic rent, \$1,750.00, gives $\$77,708.03 + \$1,750.00 = \$79,458.03$.

The cash value of the lease is, therefore, \$79,458.03.

Formula for present value of an annuity due. The present value of an annuity due may also be calculated by the use of the formula

$$R \left[\frac{1 - \frac{1}{(1+i)^{n-1}}}{i} + 1 \right]$$

where

R = periodic rent
 i = rate of interest per period
 n = number of periods

Deferred annuities. A deferred annuity is an annuity in which a number of periods are to elapse before the periodic payments or rents are to begin. Since, when the payments do begin, they may occur either at the end or at the beginning of each period, there are two kinds of deferred annuities:

1. Deferred ordinary annuities.
2. Deferred annuities due.

A deferred ordinary annuity is a deferred annuity in which the payments are to be made at the end of each period after the interval of deferment has expired. A deferred annuity due is a deferred annuity in which the payments are to be made at the beginning of each period after the interval of deferment has expired.

How to calculate the amount of a deferred annuity. The amount of a deferred annuity is the same as the amount of an annuity that is not deferred. No interest is earned during the deferment interval, because no payments have been made during this interval. Therefore, if it is desired to find the amount of a deferred ordinary annuity, the procedure described on page 1322, "How to calculate the amount of an ordinary annuity," may be followed without modification; to find the amount of a deferred annuity due, the procedure described on page 1323, "How to calculate the amount of an annuity due," may be followed. The deferment interval is disregarded in the calculation of the amount of a deferred annuity.

How to calculate the present value of a deferred ordinary annuity. The present value of a deferred annuity is the value of the annuity as of the beginning of the interval of deferment. Hence the present value of a deferred annuity is not the same as the present value of an annuity that is not deferred.

The procedure in calculating the present value of a deferred ordinary annuity is as follows:

1. Eliminate the number of periods in the interval of deferment, and calculate the present value, at the given rate of interest per period, of an ordinary annuity for a number of periods corresponding to the number of rents.
2. Multiply the figure found in 1 by the present value of 1, at the given rate of interest per period, for the number of deferred periods; the result is the present value of the deferred ordinary annuity.

EXAMPLE

The Broadfield Bituminous Company has a mine estimated to yield \$75,000.00 net per year for 16 years, but it is not deemed advisable to start production until 3 years from now. What is the present value of the output, if money is worth $5\frac{1}{2}\%$ per year compounded annually?

Solution

(1) The number of periods corresponding to the number of rents is 16; the rate of interest per period is $5\frac{1}{2}\%$. In the table (page 1337), the

present value of an ordinary annuity of 1 for 16 periods at $5\frac{1}{2}\%$ is found to be 10.46216203. The present value of an annuity of \$75,000.00 is, therefore, $10.46216203 \times 75,000 = \$784,662.15225$.

(2) The number of periods in the interval of deferment is 3; the rate of interest per period is $5\frac{1}{2}\%$. In the table on page 1320, the present value of 1 for 3 periods at $5\frac{1}{2}\%$ is shown to be 0.85161366. Then, $\$784,662.15225 \times 0.85161366 = \$668,229.01$.

Thus the present value of the output of the mine is \$668,229.01.

How to calculate the present value of a deferred annuity due.

The procedure in calculating the present value of a deferred annuity due is as follows:

1. Eliminate the number of periods in the interval of deferment, and calculate the present value, at the given rate of interest per period, of an annuity due for a number of periods corresponding to the number of rents.
2. Multiply the figure found in 1 by the present value of 1, at the given rate of interest per period, for the number of deferred periods; the result is the present value of the deferred annuity due.

EXAMPLE

The Thorndike Engineering Corporation is at present devoting its entire resources to subway construction, but expects to complete this work by the end of 3 years. At that time it will be able to undertake some survey work in the Andes which, it is estimated, will take 6 years, and for which work the company will receive a fee of \$150,000.00 a year, payable in advance. If money is worth 5% per year compounded annually, what is the present value of this contract?

Solution

(1) The first step is to calculate the present value of an annuity due of \$150,000.00 for 6 periods at 5% per period. This is equivalent to finding the present value of an ordinary annuity of \$150,000.00 for 5 periods at 5% per period, and adding one rent (for method of calculating present value of an annuity due, see page 1326). In the table on page 1337, the present value of an ordinary annuity of 1 for 5 periods at 5% is found to be 4.32947667. The present value of an ordinary annuity of \$150,000.00 is, therefore, $4.32947667 \times 150,000 = \$649,421.50$. Adding one rent gives $\$649,421.50 + \$150,000.00 = \$799,421.50$. This is the present value of an annuity due of \$150,000.00 for 6 periods at 5%.

(2) The number of periods in the interval of deferment is 3; the rate of interest per period is 5%. In the table on page 1320, the present value of 1 for 3 periods at 5% is shown to be 0.86383760. Then, $\$799,421.50 \times 0.86383760 = \$690,570.35$.

Thus the present value of the contract is \$690,570.35.

AMOUNT OF ANNUITY OF 1

	$\frac{1}{2}\%$	$\frac{3}{8}\%$	$\frac{1}{4}\%$	$\frac{3}{16}\%$	1%	$1\frac{1}{8}\%$
1	1.0000 0000	1.0000 0000	1.0000 0000	1.0000 0000	1.0000 0000	1.0000 0000
2	2.0050 0000	2.0062 5000	2.0075 0000	2.0087 5000	2.0100 0000	2.0112 5000
3	3 0150 2500	3.1087 8906	3.0225 5625	3.0263 2656	3.0301 0000	3.0338 7656
4	4 0301 0013	4.0376 5649	4.0452 2542	4.0528 0692	4.0604 0100	4.0680 0767
5	5.0502 5063	5.0628 9185	5.0755 6461	5.0882 6898	5.1010 0501	5.1137 7276
6	6.0755 0188	6.0945 3492	6.1136 3135	6.1327 9133	6.1520 1506	6.1713 0270
7	7.1058 7939	7.1326 2576	7.1594 8358	7.1864 5326	7.2135 3521	7.2407 2986
8	8 1414 0879	8.1772 0468	8.2131 7971	8.2493 3472	8.2856 7056	8.3221 8807
9	9.1821 1583	9.2283 1220	9.2747 7856	9.3215 1640	9.3685 2727	9.4158 1269
10	10.2280 2641	10.2859 8916	10.3443 3940	10.4030 7967	10.4622 1254	10.5217 4058
11	11.2791 6654	11.3502 7659	11.4219 2194	11.4941 0662	11.5668 3467	11.6401 1016
12	12.3355 6237	12.4212 1582	12.5075 8636	12.5946 8005	12.6825 0301	12.7710 6140
13	13.3972 4018	13.4988 4842	13.6013 9325	13.7048 8350	13.8093 2804	13.9147 3584
14	14.4642 2639	14.5832 1622	14.7034 0370	14.8248 0123	14.9474 2132	15.0712 7662
15	15.5365 4752	15.6743 6132	15.8136 7923	15.9545 1824	16.0968 9554	16.2408 2848
16	16.6142 3026	16.7723 2608	16 9322 8183	17.0941 2028	17.2578 6449	17.4235 3780
17	17.6973 0141	17.8771 5312	18.0592 7394	18.2436 9383	18.4304 4314	18.6195 5260
18	18.7857 8791	18.9888 8532	19.1947 1849	19.4033 2615	19.6147 4757	19.8290 2257
19	19.8797 1685	20.1075 6586	20.3386 7888	20 5731 0526	20 8108 9504	21.0520 9907
20	20.9791 1544	21.2332 3814	21.4912 1897	21.7531 1993	22.0190 0399	22.2889 3519
21	22.0840 1101	22.3659 4588	22.6524 0312	22 9434 5973	23.2391 9403	23 5396 8571
22	23.1944 3107	23 5057 3304	23.8222 9614	24 1442 1500	24.4715 8598	24.8045 0717
23	24.3104 0322	24 6526 4387	25.0009 6336	25 3554 7688	25.7163 0183	26.0835 5788
24	25.4319 5524	25 8067 2290	26.1884 7059	26.5773 3730	26.9734 6485	27.3769 9790
25	26.5591 1502	26.9680 1492	27.3848 8412	27.8098 8900	28.2431 9950	28 6849 8913
26	27.6919 1059	28.1365 6501	28.5902 7075	29.0532 2553	29.5256 3150	30.0076 9526
27	28.8303 7015	29.3124 1854	29.8046 9778	30.3074 4126	30.8208 8781	31.3452 8183
28	29.9745 2200	30.4956 2116	31.0282 3301	31.5726 3137	32 1290 9669	32.6979 1623
29	31.1243 9461	31.6862 1879	32.2609 4476	32.8488 9189	33.4503 8766	34.0657 6781
30	32 2800 1658	32.8842 5766	33 5029 0184	34.1363 1970	34.7848 9153	35.4490 0769
31	33.4414 1666	34.0897 8427	34.7541 7361	35.4350 1249	36.1327 4045	36.8478 0903
32	34.6086 2375	35.3028 4542	36.0148 2991	36.7450 6885	37.4940 6785	38.2623 4688
33	35.7816 6686	36.5234 8820	37.2849 4113	38.0665 8820	38.8690 0853	39.6927 9829
34	36.9605 7520	37.7517 6000	38.5645 7819	39.3996 7085	40.2576 9862	41.1393 4227
35	38.1453 7807	38.9877 0850	39.8538 1253	40.7444 1797	41.6602 7360	42 6021 5987
36	39.3361 0496	40.2313 8168	41.1527 1612	42.1009 3163	43.0768 7836	44.0814 3417
37	40.5327 8549	41.4828 2782	42.4613 6149	43.4693 1478	44.5076 4714	45.5773 5030
38	41.7354 4942	42.7420 9549	43.7798 2170	44.8496 7128	45.9527 2361	47.0900 9549
39	42.9441 2666	44.0092 3359	45.1081 7037	46.2421 0591	47.4122 5085	48.6198 5906
40	44.1588 4730	45.2842 9130	46.4464 8164	47.6467 2433	48.8863 7336	50.1668 3248
41	45.3796 4153	46.5673 1812	47.7948 3026	49.0636 3317	50.3752 3709	51.7312 0934
42	46.6065 3974	47.8583 6386	49.1532 9148	50.4929 3996	51.8789 8946	53.3131 8545
43	47.8395 7244	49.1574 7863	50.5219 4117	51.9347 5319	53.3977 7936	54.9129 5879
44	49.0787 7030	50.4647 1287	51.9008 5573	53.3891 8228	54.9317 5715	56.5307 2957
45	50.3241 6415	51.7801 1733	53.2901 1215	54.8563 3762	56.4810 7472	58.1667 0028
46	51.5757 8497	53.1037 4306	54.6897 8799	56.3363 3058	58.0458 8547	59.8210 7566
47	52.8336 6390	54.4356 4146	56.0999 6140	57.8292 7347	59.6263 4432	61.4940 6276
48	54.0978 3222	55.7758 6421	57.5207 1111	59.3352 7961	61.2222 0777	63.1858 7097
49	55.3683 2138	57.1244 6337	58.9521 1644	60.8544 6331	62.8348 3385	64.8967 1201
50	56.6451 6299	58.4814 9126	60.3942 5732	62.3869 3986	64.4631 8218	66.6268 0002
51	57.9283 8880	59.8470 0058	61.8472 1424	63.9328 2559	66.1078 1401	68.3763 5152
52	59.2180 3075	61.2210 4434	63.3110 6835	65.4922 3781	67.7688 9215	70.1455 8548
53	60.5141 2090	62.6036 7586	64.7859 0136	67.0852 9489	69.4465 8107	71.9347 2332
54	61.8166 9150	63.9949 4884	66.2717 9562	68.6521 1622	71.1410 4688	73.7439 8895
55	63.1287 7496	65.3949 1727	67.7688 3409	70.2528 2224	72.8524 5735	75.5736 0883
56	64.4414 0384	66.8036 3550	69.2771 0035	71.8675 3443	74.5809 8192	77.4238 1193
57	65.7636 1086	68.2211 5822	70.7966 7860	73.4963 7536	76.3267 9174	79.2948 2981
58	67.0924 2891	69.6475 4046	72.3276 5369	75.1394 6864	78.0900 5966	81.1868 9665
59	68.4278 9105	71.0828 3759	73.8701 1109	76.7969 3900	79.8709 6025	83.1002 4923
60	69.7700 3051	72.5271 0532	75.4241 3693	78.4689 1221	81.6696 6986	85.0351 2704

From J. W. Glover, "Tables of Applied Math. in Finance, Insurance, Statistics. George Wahr, publisher, Ann Arbor, Michigan.

AMOUNT OF ANNUITY OF 1 (Cont.)

	1 1/4%	1 1/2%	1 3/4%	2%	2 1/2%
1	1.0000 0000	1.0000 0000	1.0000 0000	1.0000 0000	1.0000 0000
2	2.0125 0000	2.0137 5000	2.0150 0000	2.0175 0000	2.0200 0000
3	3.0376 5625	3.0414 3006	3.0452 2500	3.0528 0625	3.0604 0000
4	4.0756 2695	4.0832 5885	4.0909 0338	4.1062 3036	4.1216 0800
5	5.1265 7229	5.1394 0366	5.1522 6693	5.1780 8938	5.2040 4016
6	6.1906 5444	6.2100 7046	6.2295 5093	6.2687 0596	6.3081 2096
7	7.2680 3762	7.2954 5893	7.3229 9419	7.3784 0831	7.4342 8338
8	8.3588 8809	8.3957 7149	8.4328 3911	8.5075 3045	8.5829 6905
9	9.4633 7420	9.5112 1335	9.5593 3169	9.6564 1224	9.7546 2843
10	10.5816 6637	10.6419 9352	10.7027 2167	10.8253 9945	10.9497 2100
11	11.7139 3720	11.7883 1993	11.8632 6249	12.0148 4394	12.1687 1542
12	12.8603 6142	12.9504 0933	13.0412 1143	13.2251 0371	13.4120 8973
13	14.0211 1594	14.1284 7745	14.2368 2960	14.4565 4303	14.6803 3152
14	15.1963 7988	15.3227 4402	15.4503 8205	15.7095 3253	15.9739 3815
15	16.3863 3463	16.5334 3175	16.6821 3778	16.9844 4935	17.2934 1692
16	17.5911 6382	17.7607 6644	17.9323 6984	18.2816 7721	18.6392 8525
17	18.8110 5336	19.0049 7697	19.2013 5539	19.6016 0656	20.0120 7096
18	20.0461 9153	20.2662 9541	20.4893 7572	20.9446 3468	21.4123 1238
19	21.2967 6893	21.5449 5697	21.7967 1636	22.3111 6578	22.8405 5863
20	22.5629 7854	22.8412 0013	23.1236 6710	23.7016 1119	24.2973 6980
21	23.8450 1577	24.1552 6663	24.4705 2211	25.1163 8938	25.7833 1719
22	25.1430 7847	25.4874 0155	25.8375 7994	26.5559 2620	27.2989 8354
23	26.4573 6695	26.8378 5332	27.2251 4364	28.0206 5490	28.8449 6321
24	27.7880 8403	28.2068 7380	28.6335 2080	29.5110 1637	30.4218 6247
25	29.1354 3508	29.5947 1832	30.0630 2361	31.0274 5915	32.0302 9972
26	30.4996 2802	31.0016 4569	31.5139 6896	32.5704 3969	33.6709 0572
27	31.8808 7337	32.4279 1832	32.9866 7850	34.1404 2238	35.3443 2383
28	33.2793 8429	33.8738 0220	34.4814 7867	35.7378 7977	37.0512 1031
29	34.6953 7659	35.3395 6698	35.9987 0085	37.3632 9267	38.7922 3451
30	36.1290 6880	36.8254 8602	37.5386 8137	39.0171 5029	40.5680 7921
31	37.5806 8216	38.3318 3646	39.1017 6159	40.6999 5042	42.3794 4079
32	39.0504 4069	39.8588 9921	40.6882 8801	42.4121 9555	44.2270 2961
33	40.5385 7120	41.4069 5907	42.2986 1233	44.1544 1305	46.1115 7020
34	42.0453 0334	42.9783 0476	43.9330 9152	45.9271 1527	48.0338 0160
35	43.5708 6963	44.5672 2895	45.5920 8789	47.7308 3979	49.9444 7763
36	45.1155 0550	46.1800 2835	47.2759 6921	49.5661 2949	51.9943 6719
37	46.6794 4932	47.8150 0374	48.9851 0874	51.4335 3675	54.0342 5453
38	48.2926 4243	49.4724 6004	50.7198 8538	53.3336 2365	56.1149 3962
39	49.8862 2921	51.1527 0636	52.4806 8366	55.2669 6206	58.2372 3841
40	51.4895 5708	52.8560 5608	54.2678 9391	57.2341 3390	60.4019 8318
41	53.1331 7654	54.5828 2685	56.0819 1232	59.2357 3124	62.6100 2284
42	54.7973 4125	56.3333 4072	57.9231 4100	61.2723 5654	64.8622 2330
43	56.4823 0801	58.1079 2415	59.7919 8812	63.3446 2278	67.1594 6777
44	58.1883 3687	59.9069 0811	61.6888 6794	65.4531 5367	69.5026 5712
45	59.9156 9108	61.7306 2810	63.6142 0096	67.5985 8386	71.8927 1027
46	61.6646 3721	63.5794 2423	65.5684 1398	69.7815 5908	74.3305 6447
47	63.4354 4518	65.4536 4131	67.5519 4018	72.0027 3637	76.8171 7576
48	65.2283 8824	67.3536 2888	69.5852 1929	74.2627 8425	79.3535 1927
49	67.0437 4310	69.2797 4128	71.6086 9758	76.5623 8298	81.9405 8966
50	68.8817 8989	71.2323 3772	73.6828 2804	78.9022 2468	84.5794 0145
51	70.7428 1226	73.2117 8237	75.7880 7046	81.2830 1361	87.2709 8948
52	72.6270 9741	75.2184 4437	77.9248 9152	83.7054 6635	90.0164 0927
53	74.5349 3613	77.2526 9798	80.0937 6489	86.1703 1201	92.8167 3746
54	76.4666 2283	79.3149 2258	82.2951 7136	88.6782 9247	95.6730 7221
55	78.4224 5562	81.4055 0277	84.5295 9893	91.2301 6259	98.5865 3365
56	80.4027 3631	83.5248 2843	86.7975 4292	93.8266 9043	101.5582 6432
57	82.4077 7052	85.6732 9482	89.0995 0606	96.4686 5752	104.5894 2961
58	84.4378 6765	87.8513 0262	91.4359 9865	99.1568 5902	107.6812 1820
59	86.4933 4099	90.0592 5804	93.8075 3863	101.8921 0405	110.8348 4257
60	88.5745 0776	92.2975 7283	96.2146 5171	104.6752 1588	114.0515 3942
					124.4504 3493

AMOUNT OF ANNUITY OF 1 (Cont.)

	2½%	2¾%	3%	3½%	4%	4½%
1	1.0000 0000	1.0000 0000	1.0000 0000	1.0000 0000	1.0000 0000	1.0000 0000
2	2.0250 0000	2.0275 0000	2.0300 0000	2.0350 0000	2.0400 0000	2.0450 0000
3	3.0756 2500	3.0832 5625	3.0909 0000	3.1062 2500	3.1216 0000	3.1370 2500
4	4.1525 1563	4.1680 4580	4.1836 2700	4.2149 4288	4.2464 6400	4.2781 9113
5	5.2563 2852	5.2862 6706	5.3091 3581	5.3624 6588	5.4163 2256	5.4707 0973
6	6.3877 3673	6.4279 4040	6.4684 0988	6.5501 5218	6.6329 7546	6.7168 9166
7	7.5474 3015	7.6047 0876	7.6624 6218	7.7794 0751	7.8982 9448	8.0191 5179
8	8.7361 1590	8.8138 3825	8.8923 3605	9.0516 8677	9.2142 2626	9.3800 1362
9	9.9545 1880	10.0562 1880	10.1591 0613	10.3684 9581	10.5827 9531	10.8021 1423
10	11.2033 8177	11.3327 6482	11.4638 7931	11.7313 9316	12.0061 0712	12.2862 0937
11	12.4834 6631	12.6444 1585	12.8077 9569	13.1419 9192	13.4863 5141	13.8411 7879
12	13.7955 5297	13.9921 3729	14.1920 2956	14.6019 6164	15.0258 0546	15.4640 3184
13	15.1404 4179	15.3769 2107	15.6177 9045	16.1130 3030	16.6268 3768	17.1599 1327
14	16.5189 5284	16.7997 8639	17.0863 2416	17.6769 8636	18.2919 1119	18.9321 0937
15	17.9319 2666	18.2617 8052	18.5989 1389	19.2956 8088	20.0235 8764	20.7840 5429
16	19.3802 2483	19.7639 7948	20.1568 8130	20.9710 2971	21.8245 3114	22.7193 3673
17	20.8647 3045	21.3074 8892	21.7615 8774	22.7050 1575	23.6955 1239	24.7417 0689
18	22.3863 4871	22.8934 4487	23.4144 3537	24.4996 9130	25.6454 1288	26.8550 8370
19	23.9460 0743	24.5230 1460	25.1168 6844	26.3571 8050	27.6712 2940	29.0635 6246
20	25.5446 5761	26.1973 9750	26.8703 7449	28.2796 8181	29.7780 7858	31.3714 2277
21	27.1832 7405	27.9178 2593	28.6764 8572	30.2694 7068	31.9692 0172	33.7831 3680
22	28.8628 5590	29.6855 6615	30.5367 8030	32.3289 0215	34.2479 6979	36.3033 7795
23	30.5844 2730	31.5013 1921	32.4528 8370	34.4604 1373	36.6178 8858	38.9370 2996
24	32.3490 3798	33.3682 2199	34.4264 7022	36.6665 2821	39.0826 0412	41.6891 9631
25	34.1577 6393	35.2858 4810	36.4592 6432	38.9498 5669	41.6459 0829	44.5652 1015
26	36.0117 0803	37.2562 0892	38.5530 4225	41.3131 0168	44.3117 4462	47.5706 4460
27	37.9120 0073	39.2807 5467	40.7096 3352	43.7590 6024	47.0842 1440	50.7113 2361
28	39.8598 0075	41.3609 7542	42.9309 2252	46.2906 2734	49.9875 8298	53.9933 3317
29	41.8562 9577	43.4984 0224	45.2188 5020	48.9107 9930	52.9662 8630	57.4230 3316
30	43.9027 0316	45.6946 0830	47.5754 1571	51.6226 7728	56.0849 3775	61.0070 6966
31	46.0002 7074	47.9512 1003	50.0026 7818	54.4294 7098	59.3283 3526	64.7523 8779
32	48.1502 7751	50.2698 6831	52.5027 5852	57.3345 0247	62.7014 6867	68.6662 4524
33	50.3540 3445	52.6522 8969	55.0778 4128	60.3412 1005	66.2095 2742	72.7562 2628
34	52.6128 8531	55.1002 2765	57.7301 7652	63.4531 5240	69.8579 0851	77.0302 5646
35	54.9282 0744	57.6154 8391	60.4620 8181	66.6740 1274	73.6522 2486	81.4966 1800
36	57.3014 1263	60.1999 0972	63.2759 4427	70.0076 0318	77.5983 1385	86.1639 6584
37	59.7339 4794	62.8554 0724	66.1742 2259	73.4578 6930	81.7022 4640	91.0413 4427
38	62.2272 9664	65.5839 3094	69.1594 4927	77.0288 9472	85.9703 3626	96.1382 0476
39	64.7829 7906	68.3874 8904	72.2342 3275	80.7249 0604	90.4091 4971	101.4644 2398
40	67.4025 5354	71.2681 4499	75.4012 5973	84.5502 7775	95.0255 1570	107.0303 2306
41	70.0876 1737	74.2280 1898	78.6632 9753	88.5095 3747	99.8265 3633	112.8466 8760
42	72.8398 0781	77.2692 8950	82.0231 9645	92.6073 7128	104.8195 9778	118.9247 8854
43	75.6608 0300	80.3941 9496	85.4838 9234	96.8486 2928	110.0123 8169	125.2764 0402
44	78.5523 2308	83.6050 3532	89.0484 0911	101.2383 3130	115.4128 7696	131.9138 4220
45	81.5161 3116	86.9041 7379	92.7198 6139	105.7816 7290	121.0293 9204	138.8499 6510
46	84.5540 3443	90.2940 3857	96.5014 5723	110.4840 3145	126.8705 6772	146.0982 1353
47	87.6678 8530	93.7771 2463	100.3965 0095	115.3509 7255	132.9453 9043	153.6726 3334
48	90.8595 8243	97.3559 9556	104.4083 9598	120.3882 5659	139.2632 0604	161.5879 0163
49	94.1310 7199	101.0332 8544	108.5406 4785	125.6018 4557	145.8337 3429	169.8593 5720
50	97.4843 4879	104.8117 0079	112.7968 6729	130.9979 1016	152.6670 8366	178.5030 2828
51	100.9214 5751	108.6940 2256	117.1807 7331	136.5828 3702	159.7737 6700	187.5356 6455
52	104.4444 9395	112.6831 0818	121.6961 9651	142.3632 3631	167.1647 1768	196.9747 6946
53	108.0556 0629	116.7818 9365	126.3470 8240	148.3459 4958	174.8513 0639	206.8386 3408.
54	111.7569 9645	120.9993 9573	131.1374 9488	154.5380 5782	182.8333 5865	217.1463 7262.
55	115.5509 2136	125.3207 1411	136.0716 1972	160.9468 8984	191.1591 7299	227.9179 5938
56	119.4396 9440	129.7670 3375	141.1537 6831	167.5800 3099	199.8055 3991	239.1742 6756
57	123.4256 8676	134.3356 2718	146.3883 8136	174.4453 3207	208.7977 6151	250.9371 0960
58	127.5113 2893	139.0298 5692	151.7800 3280	181.5509 1869	218.1496 7197	263.2292 7953
59	131.6991 1215	143.8531 7799	157.3334 3379	188.9052 0085	227.8756 5885	276.0745 9711
60	135.9915 8995	148.8091 4038	163.0534 3680	196.5168 8288	237.9906 8520	289.4979 5398

AMOUNT OF ANNUITY OF 1 (Cont.)

	5%	5½%	6%	6½%	7%	8%
1	1.0000 0000	1.0000 0000	1.0000 0000	1.0000 0000	1.0000 0000	1.0000 0000
2	2.0500 0000	2.0550 0000	2.0600 0000	2.0650 0000	2.0700 0000	2.0800 0000
3	3.1525 0000	3.1680 2500	3.1836 0000	3.1992 2500	3.2149 0000	3.2464 0000
4	4.3101 2500	4.3422 6638	4.3746 1600	4.4071 7463	4.4399 4300	4.5061 1200
5	5.5256 3125	5.5810 9103	5.6370 9296	5.6936 4098	5.7507 3901	5.8666 0096
6	6.8019 1281	6.8880 5103	6.9753 1854	7.0637 2764	7.1532 9074	7.3359 2904
7	8.1420 0845	8.2668 9384	8.3938 3765	8.5228 6994	8.6540 2109	8.9228 0336
8	9.5491 0888	9.7215 7300	9.8974 6791	10.0768 5648	10.2598 0257	10.6366 2763
9	11.0265 6432	11.2562 5951	11.4913 1598	11.7318 5215	11.9779 8875	12.4875 5784
10	12.5778 9254	12.8753 5379	13.1807 9494	13.4944 2254	13.8164 4796	14.4865 6247
11	14.2067 8716	14.5834 9825	14.9716 4264	15.3715 6001	15.7835 9932	16.6454 8746
12	15.9171 2652	16.3855 9065	16.8699 4120	17.3707 1141	17.8884 5127	18.9771 2646
13	17.7129 8285	18.2867 9814	18.8821 3767	19.4998 0765	20.1406 4286	21.4952 9658
14	19.5986 3199	20.2925 7203	21.0150 6593	21.7672 9515	22.5504 8786	24.2149 2030
15	21.5785 6359	22.4086 6350	23.2759 6988	24.1821 6933	25.1290 2201	27.1521 1393
16	23.6574 9177	24.6411 3999	25.6725 2808	26.7540 1034	27.8880 5355	30.3242 8304
17	25.8403 6636	26.9964 0269	28.2128 7976	29.4930 2101	30.8402 1730	33.7502 2569
18	28.1323 8467	29.4812 0483	30.9056 5255	32.4100 6738	33.9990 3251	37.4502 4374
19	30.5390 0391	32.1026 7110	33.7599 9170	35.5167 2176	37.3789 6479	41.4462 6324
20	33.0659 5410	34.8683 1801	36.7855 9120	38.8253 0867	40.9954 9232	45.7619 6430
21	35.7192 5181	37.7860 7550	39.9927 2668	42.3489 5373	44.8651 7678	50.4229 2144
22	38.5052 1440	40.8643 0965	43.3922 9028	46.1016 3573	49.0057 3916	55.4567 5516
23	41.4304 7512	44.1118 4669	46.9958 2769	50.0982 4205	53.4361 4090	60.8932 9557
24	44.5019 9887	47.5379 9825	50.8155 7735	54.3546 2778	58.1766 7076	66.7647 5922
25	47.7270 9882	51.1525 8816	54.8645 1200	58.8876 7859	63.2490 3772	73.1059 3995
26	51.1134 5376	54.9659 8051	59.1563 8272	63.7153 7769	68.6764 7036	79.9544 1515
27	54.6691 2645	58.9891 0943	63.7057 6568	68.8568 7725	74.4838 2328	87.3507 6836
28	58.4025 8277	63.2335 1045	68.5281 1162	74.3325 7427	80.6976 9091	95.3388 2983
29	62.3227 1191	67.7113 5353	73.6397 9832	80.1641 9159	87.4605 2927	103.9659 3622
30	66.4388 4750	72.4354 7797	79.0581 8622	86.3748 6405	94.4607 8632	113.2832 1111
31	70.7607 8988	77.4194 2926	84.8016 7739	92.9892 3021	102.0730 4137	123.3458 6800
32	75.2988 2937	82.6774 9787	90.8897 7803	100.0335 3017	110.2181 5426	134.2135 3744
33	80.0637 7084	88.2247 6025	97.3431 6471	107.5357 0963	118.9334 2506	145.9506 2044
34	85.0669 5938	94.0771 2207	104.1837 5460	115.5255 3076	128.2587 6481	158.6266 7007
35	90.3203 0735	100.2513 6348	111.4347 7987	124.0346 9026	138.2368 7835	172.3186 0368
36	95.8363 2272	106.7651 8879	119.1208 6666	133.0969 4513	148.9134 5984	187.1021 4797
37	101.6281 3886	113.6372 7417	127.2681 1866	142.7482 4656	160.3374 0202	203.0703 1981
38	107.7095 4580	120.8873 2425	135.9042 0578	153.0268 8259	172.5610 2017	220.3159 4540
39	114.0590 2309	128.5361 2708	145.0584 5813	163.9736 2995	185.6402 9158	238.9412 2103
40	120.7997 7424	136.6056 1407	154.7619 6562	175.6319 1590	199.6351 1199	259.0565 1871
41	127.8397 6295	145.1189 2285	165.0476 8356	188.0479 9044	214.6095 6983	280.7810 4021
42	135.2317 5110	154.1004 6360	175.9505 4457	201.2711 0981	230.6322 3972	304.2435 3744
43	142.9933 3866	163.5759 8910	187.5075 7724	215.3537 3195	247.7764 9690	329.5830 0530
44	151.1430 0559	173.5726 6850	199.7580 3188	230.3517 2453	266.1208 5125	356.9496 4572
45	159.7001 5587	184.1191 6527	212.7435 1379	246.3245 8662	285.7493 1084	386.5056 1738
46	168.6851 6366	195.2457 1936	226.5081 2462	263.3356 8475	306.7517 6260	418.9260 6677
47	178.1194 2185	206.9842 3392	241.0986 1210	281.4525 0426	329.2243 8598	452.0001 5211
48	188.0253 9294	219.3683 6679	256.5645 2882	300.7469 1704	353.2700 9300	490.1321 6428
49	198.4266 6259	232.4336 2696	272.9584 0055	321.2954 6665	378.9989 9951	530.3427 3742
50	209.3479 9572	246.2174 7645	290.3359 0458	343.1796 7198	406.5289 2947	573.7701 5642
51	220.8153 9550	260.7594 3765	308.7560 5886	366.4863 5066	435.9859 5454	620.6717 6893
52	232.8561 6528	276.1012 0672	328.2814 2239	391.3079 6345	467.5049 7135	671.3255 1044
53	245.4989 7354	292.2867 7309	348.9783 0773	417.7429 8108	501.2303 1935	726.0315 5128
54	258.7739 2222	309.3625 4561	370.9170 0620	445.8962 7485	537.3164 4170	785.1140 7538
55	272.7126 1833	327.3774 8562	394.1720 2657	475.8795 3271	575.9285 9262	848.9232 0141
56	287.3482 4924	346.3832 4733	418.8223 4816	507.8117 0234	617.2435 9410	917.8370 5752
57	302.7156 6171	366.4343 2593	444.9516 8905	541.8194 6299	661.4506 4569	992.2640 2213
58	318.8514 4479	387.5882 1386	472.6487 9040	578.0377 2808	708.7521 9089	1072.6451 4390
59	335.7940 1703	409.9055 6562	502.0077 1782	616.6101 8041	759.3648 4425	1159.4567 5841
60	353.5837 1788	433.4503 7173	533.1281 8089	657.6898 4214	813.5203 8335	1253.2132 9584

PRESENT VALUE OF ANNUITY OF 1

	$\frac{1}{2}\%$	$\frac{3}{8}\%$	$\frac{1}{4}\%$	$\frac{3}{16}\%$	1%	$1\frac{1}{8}\%$
1	0.9950 2488	0.9937 8882	0.9925 5583	0.9913 2590	0.9900 9901	0.9888 7515
2	1.9850 9938	1.9814 0504	1.9777 2291	1.9740 5294	1.9703 9506	1.9667 4923
3	2.9702 4814	2.9628 8699	2.9555 5624	2.9482 5570	2.9409 8521	2.9337 4460
4	3.9504 9566	3.9382 7279	3.9261 1041	3.9140 0813	3.9019 6555	3.8899 8230
5	4.9258 6633	4.9076 0029	4.8894 3961	4.8713 8352	4.8534 3124	4.8355 8200
6	5.8963 8441	5.8709 0712	5.8455 9763	5.8204 5454	5.7954 7647	5.7706 6205
7	6.8620 7404	6.8282 3068	6.7946 3785	6.7612 9323	6.7281 9453	6.6953 3948
8	7.8229 5924	7.7796 0813	7.7366 1325	7.6939 7098	7.6516 7775	7.6097 3002
9	8.7790 6392	8.7250 7640	8.6715 7642	8.6185 5859	8.5660 1758	8.5139 4810
10	9.7304 1186	9.6646 7220	9.5995 7958	9.5351 2624	9.4713 0453	9.4081 0690
11	10.6770 2673	10.5984 3200	10.5206 7452	10.4437 4348	10.3676 2825	10.2923 1832
12	11.6189 3207	11.5263 9205	11.4349 1267	11.3444 7929	11.2550 7747	11.1666 9302
13	12.5561 5131	12.4485 8837	12.3423 4508	12.2374 0202	12.1337 4007	12.0313 4044
14	13.4887 0777	13.3650 5676	13.2430 2242	13.1225 7945	13.0037 0304	12.8863 6880
15	14.4166 2465	14.2758 3281	14.1369 9495	14.0000 7876	13.8650 5252	13.7318 8509
16	15.3399 2502	15.1809 5186	15.0243 1261	14.8699 6656	14.7178 7378	14.5679 9514
17	16.2586 3186	16.0804 4905	15.9050 2492	15.7323 0885	15.5622 5127	15.3948 0360
18	17.1727 6802	16.9743 5931	16.7791 8107	16.5871 7111	16.3982 6858	16.2124 1395
19	18.0823 5624	17.8627 1733	17.6468 2984	17.4346 1820	17.2260 0850	17.0209 2850
20	18.9874 1915	18.7455 5759	18.5080 1969	18.2747 1445	18.0455 5297	17.8204 4845
21	19.8879 7925	19.6229 1438	19.3627 9870	19.1075 2361	18.8569 8313	18.6110 7387
22	20.7840 5896	20.4946 2174	20.2112 1459	19.9331 0891	19.6603 7934	19.3929 0371
23	21.6756 8055	21.3613 1353	21.0533 1473	20.7515 3300	20.4558 2113	20.1660 3580
24	22.5628 6622	22.2224 2338	21.8891 4614	21.5628 5799	21.2433 8726	20.9305 6693
25	23.4456 3803	23.0781 8473	22.7187 5547	22.3671 4547	22.0231 5570	21.6865 9276
26	24.3240 1794	23.9286 3079	23.5421 8905	23.1644 5647	22.7952 0366	22.4342 0792
27	25.1980 2780	24.7737 9457	24.3594 9286	23.9548 5152	23.5596 0759	23.1735 0598
28	26.0676 8936	25.6137 0889	25.1707 1251	24.7383 9060	24.3164 4316	23.9045 7946
29	26.9330 2423	26.4484 0635	25.9758 9331	25.5151 3319	25.0657 8530	24.6275 1986
30	27.7940 5397	27.2779 1935	26.7750 8021	26.2851 3823	25.8077 0822	25.3424 1766
31	28.6507 9997	28.1022 8010	27.5683 1783	27.0484 6417	26.5422 8537	26.0493 6233
32	29.5032 8355	28.9215 2060	28.3556 5045	27.8051 8994	27.2895 8947	26.7484 4236
33	30.3515 2592	29.7356 7265	29.1371 2203	28.5553 0998	27.9896 9255	27.4397 4522
34	31.1955 4818	30.5447 6785	29.9127 7621	29.2989 4422	28.7026 6589	28.1233 5745
35	32.0353 7132	31.3488 3761	30.6826 5629	30.0361 2809	29.4085 8009	28.7993 6460
36	32.8710 1624	32.1479 1315	31.4468 0525	30.7669 1757	30.1075 0504	29.4678 5127
37	33.7025 0372	32.9420 2550	32.2052 6576	31.4913 6810	30.7995 0994	30.1289 0114
38	34.5298 5445	33.7312 0546	32.9580 8016	32.2095 3467	31.4846 6330	30.7825 9692
39	35.3530 8900	34.5154 8369	33.7052 9048	32.9214 7179	32.1630 3298	31.4290 2044
40	36.1722 2786	35.2948 9062	34.4469 3844	33.6272 3350	32.8346 8611	32.0682 5260
41	36.9872 9141	36.0694 5652	35.1830 6545	34.3268 7335	33.4996 8922	32.7903 7340
42	37.7982 9991	36.8392 1145	35.9137 1260	35.0204 4446	34.1581 0814	33.3254 6195
43	38.6052 7354	37.6041 8529	36.6389 2070	35.7079 9947	34.8100 0806	33.9435 9649
44	39.4082 3238	38.3644 0774	37.3587 3022	36.3895 9055	35.4554 5352	34.5548 5438
45	40.2071 9640	39.1199 0831	38.0731 8136	37.0652 6944	36.0945 0844	35.1593 1212
46	41.0021 8547	39.8707 1634	38.7823 1401	37.7350 8743	36.7272 3608	35.7570 4536
47	41.7932 1937	40.6168 6096	39.4861 6774	38.3990 9535	37.3536 9909	36.3481 2891
48	42.5803 1778	41.3583 7114	40.1847 8189	39.0573 4359	37.9739 5949	36.9326 3674
49	43.3635 0028	42.0952 7566	40.8781 9542	39.7098 8212	38.5880 7871	37.5106 4202
50	44.1427 8635	42.8276 0314	41.5664 4707	40.3567 6047	39.1961 1753	38.0822 1708
51	44.9181 9537	43.5553 8201	42.2495 7525	40.9980 2772	39.7981 3617	38.6474 3345
52	45.6897 4664	44.2786 4050	42.9276 1812	41.6337 3256	40.3941 9423	39.2063 6188
53	46.4574 5934	44.9974 0671	43.6006 1351	42.2639 2324	40.9843 5072	39.7590 7232
54	47.2213 5258	45.7117 0853	44.2685 9902	42.8886 4757	41.5686 6408	40.3056 3394
55	47.9814 4535	46.4215 7370	44.9316 1193	43.5079 5298	42.1471 9216	40.8461 1514
56	48.7377 5657	47.1270 2976	45.5896 8926	44.1218 8647	42.7199 9224	41.3805 8358
57	49.4903 0505	47.8281 0410	46.2428 6776	44.7304 9465	43.2871 2102	41.9091 0613
58	50.2391 0950	48.5248 2396	46.8911 8388	45.3338 2369	43.8486 3468	42.4317 4896
59	50.9841 8855	49.2172 1636	47.5346 7382	45.9319 1939	44.4045 8879	42.9485 7746
60	51.7255 6075	49.9053 0818	48.1733 7352	46.5248 2716	44.9550 3841	43.4596 5633

From J. W. Glover, "Tables of Applied Math. in Finance, Insurance, Statistics"
George Wahr, publisher, Ann Arbor, Michigan.

PRESENT VALUE OF ANNUITY OF 1 (Cont.)

	1 1/4%	1 3/8%	1 1/2%	1 3/4%	2%	2 1/4%
1	0.9876 5432	0.9864 3650	0.9852 2167	0.9828 0098	0.9803 9216	0.9779 9511
2	1.9631 1538	1.9594 9346	1.9558 8342	1.9486 9875	1.9415 6094	1.9344 6955
3	2.9265 3371	2.9193 5237	2.9122 0042	2.8979 8403	2.8838 8327	2.8698 9687
4	3.8780 5798	3.8661 9222	3.8543 8465	3.8309 4254	3.8077 2870	3.7847 4021
5	4.8178 3504	4.8001 8962	4.7826 4497	4.7478 5508	4.7134 5951	4.6794 5253
6	5.7460 0992	5.7215 1874	5.6971 8717	5.6489 9762	5.6014 3089	5.5544 7680
7	6.6627 2585	6.6303 5140	6.5982 1396	6.5346 4139	6.4719 9107	6.4102 4626
8	7.5681 2429	7.5268 5712	7.4859 2508	7.4050 5297	7.3254 8144	7.2471 8461
9	8.4623 4498	8.4112 0308	8.3605 1732	8.2604 9432	8.1622 3671	8.0657 0622
10	9.3455 2591	9.2835 5421	9.2221 8455	9.1012 2291	8.9825 8501	8.8662 1635
11	10.2178 0337	10.1440 7320	10.0711 1779	9.9274 9181	9.7868 4805	9.6491 1134
12	11.0793 1197	10.9929 2054	10.9075 0521	10.7395 4969	10.5753 4122	10.4147 7882
13	11.9301 8466	11.8302 5454	11.7315 3222	11.5376 4097	11.3483 7375	11.1635 9787
14	12.7705 5275	12.6562 3136	12.5433 8150	12.3220 0587	12.1062 4877	11.8959 3924
15	13.6005 4592	13.4710 0504	13.3432 3301	13.0928 8046	12.8492 6350	12.6121 6551
16	14.4202 9227	14.2747 2754	14.1312 6405	13.8504 9677	13.5777 0931	13.3126 3131
17	15.2299 1829	15.0675 4874	14.9076 4931	14.5950 8282	14.2918 7188	13.9976 8343
18	16.0295 4893	15.8496 1651	15.6725 6089	15.3268 6272	14.9920 3125	14.6676 6106
19	16.8193 0759	16.6210 7671	16.4261 6837	16.0460 5673	15.6784 6201	15.3228 9590
20	17.5993 1613	17.3820 7320	17.1686 3879	16.7528 8130	16.3514 3334	15.9637 1237
21	18.3696 9495	18.1327 4792	17.9001 3673	17.4475 4919	17.0112 0916	16.5904 2775
22	19.1305 6291	18.8732 4086	18.6208 2437	18.1302 6948	17.6580 4820	17.2033 5232
23	19.8820 3744	19.6036 9012	19.3308 6145	18.8012 4764	18.2922 0412	17.8027 8955
24	20.6242 3451	20.3242 3193	20.0304 0537	19.4606 8565	18.9139 2560	18.3890 3624
25	21.3572 6865	21.0350 0067	20.7196 1120	20.1087 8196	19.5234 5647	18.9623 8263
26	22.0812 5299	21.7361 2890	21.3986 3172	20.7457 3166	20.1210 3576	19.5231 1260
27	22.7962 9925	22.4277 4737	22.0676 1746	21.3717 2644	20.7068 9780	20.0715 0376
28	23.5025 1778	23.1099 8508	22.7267 1671	21.9869 5474	21.2812 7236	20.6078 2764
29	24.2000 1756	23.7829 6925	23.3760 7558	22.5916 0171	21.8443 8466	21.1323 4977
30	24.8889 0623	24.4468 2540	24.0158 3801	23.1858 4934	22.3964 5555	21.6453 2985
31	25.5692 9010	25.1016 7734	24.6461 4582	23.7698 7650	22.9377 0152	22.1470 2186
32	26.2412 7418	25.7476 4719	25.2671 3874	24.3438 5897	23.4683 3482	22.6376 7419
33	26.9049 6215	26.3848 5543	25.8789 5442	24.9079 6951	23.9885 6355	23.1175 2977
34	27.5604 5644	27.0134 2089	26.4817 2849	25.4623 7789	24.4985 9172	23.5868 2618
35	28.2078 5822	27.6334 6080	27.0755 9458	26.0072 5100	24.9986 1933	24.0457 9577
36	28.8472 6737	28.2450 9080	27.6606 8431	26.5427 5283	25.4888 4248	24.4946 6579
37	29.4787 8259	28.8484 2496	28.2371 2740	27.0690 4455	25.9694 5341	24.9336 5848
38	30.1025 0133	29.4453 7579	28.8050 5163	27.5862 8457	26.4406 4060	25.3629 9118
39	30.7185 1983	30.0306 5430	29.3645 8288	28.0946 2857	26.9025 8883	25.7828 7646
40	31.3269 3316	30.6097 6996	29.9158 4520	28.5942 2955	27.3554 7924	26.1935 2221
41	31.9278 3522	31.1810 3079	30.4589 6079	29.0852 3789	27.7994 8945	26.5951 3174
42	32.5213 1874	31.7445 4332	30.9940 5004	29.5678 0135	28.2347 9358	26.9879 0390
43	33.1074 7530	32.3004 1264	31.5212 3157	30.0420 6522	28.6615 6233	27.3720 3316
44	33.6863 9536	32.8487 4243	32.0406 2223	30.5081 7221	29.0799 6307	27.7477 0969
45	34.2581 6825	33.3896 3495	32.5523 3718	30.9662 6261	29.4901 5987	28.1151 1950
46	34.8228 8222	33.9231 9108	33.0564 8983	31.4164 7431	29.8923 1360	28.4744 4450
47	35.3806 2442	34.4495 1031	33.5531 9195	31.8589 4281	30.2865 8196	28.8258 6259
48	35.9314 8091	34.9686 9081	34.0425 5365	32.2938 0129	30.6731 1957	29.1695 4777
49	36.4755 3670	35.4808 2941	34.5246 8339	32.7211 8063	31.0520 7801	29.5056 7019
50	37.0128 7574	35.9860 2161	34.9996 8807	33.1412 0946	31.4236 0589	29.8343 9627
51	37.5435 8099	36.4843 6164	35.4676 7298	33.5540 1421	31.7878 4892	30.1558 8877
52	38.0677 3431	36.9759 4243	35.9287 4185	33.9597 1913	32.1449 4992	30.4703 0687
53	38.5854 1660	37.4608 5566	36.3829 9690	34.3584 4633	32.4950 4894	30.7778 0623
54	39.0967 0776	37.9391 9178	36.8305 3882	34.7503 1579	32.8382 8327	31.0785 3910
55	39.6016 8667	38.4110 3998	37.2714 6681	35.1354 4550	33.1747 8752	31.3726 8438
56	40.1004 3128	38.8764 8826	37.7058 7863	35.5139 5135	33.5046 9365	31.6602 9768
57	40.5930 1855	39.3356 2344	38.1338 7058	35.8859 4727	33.8281 3103	31.9416 1142
58	41.0795 2449	39.7885 3114	38.5555 3751	36.2515 4523	34.1452 2650	32.2167 3489
59	41.5600 2419	40.2352 9582	38.9709 7292	36.6108 5526	34.4561 0441	32.4858 0429
60	42.0345 9179	40.6760 0081	39.3802 6889	36.9639 8552	34.7608 8668	32.7489 5285

PRESENT VALUE OF ANNUITY OF 1 (Cont.)

	2½%	2%	3%	3½%	4%	4½%
1	0.9756 0976	0.9732 3601	0.9708 7379	0.9661 8357	0.9615 3846	0.9569 3780
2	1.9274 2415	1.9204 2434	1.9134 6970	1.8996 9428	1.8860 9467	1.8726 6775
3	2.8560 2356	2.8422 6213	2.8266 1135	2.8016 3698	2.7750 9103	2.7489 6435
4	3.7619 7421	3.7394 2787	3.7170 9840	3.6730 7921	3.6298 9522	3.5875 2570
5	4.6458 2850	4.6125 8186	4.5797 0719	4.5150 5238	4.4518 2233	4.3899 7674
6	5.5081 2536	5.4623 6678	5.4171 9144	5.3285 5302	5.2421 3686	5.1578 7248
7	6.3493 9060	6.2894 0806	6.2302 8296	6.1145 4398	6.0020 5467	5.8927 0094
8	7.1701 3717	7.0943 1441	7.0196 9219	6.8739 5554	6.7327 4487	6.5958 8607
9	7.9708 6553	7.8776 7826	7.7861 0892	7.6076 8651	7.4353 3161	7.2687 9050
10	8.7520 6393	8.6400 7616	8.5302 0284	8.3166 0532	8.1108 9578	7.9127 1818
11	9.5142 0871	9.3820 6926	9.2526 2411	9.0015 5104	8.7604 7671	8.5289 1692
12	10.2577 6460	10.1042 0366	9.9540 0399	9.6633 3433	9.3850 7376	9.1185 8078
13	10.9831 8497	10.8070 1086	10.6349 5533	10.3027 3849	9.9856 4785	9.6828 5242
14	11.6909 1217	11.4910 0814	11.2960 7314	10.9205 2028	10.5631 2293	10.2228 2528
15	12.3813 7773	12.1566 9892	11.9379 3509	11.5174 1090	11.1183 8743	10.7395 4573
16	13.0550 0266	12.8045 7315	12.5611 0203	12.0941 1681	11 6522 9561	11.2340 1505
17	13.7121 9772	13.4351 0769	13.1661 1847	12 6513 2059	12.1656 6885	11.7071 9143
18	14.3533 6363	14.0487 6661	13 7535 1308	13.1896 8173	12.6592 9697	12.1599 9180
19	14.9788 9134	14.6460 0157	14.3237 9911	13.7098 3742	13.1339 3940	12.5932 9359
20	15.5891 6229	15.2272 5213	14.8774 7486	14.2124 0330	13.5903 2634	13.0079 3645
21	16.1845 4857	15.7929 4612	15.4150 2414	14.6979 7420	14 0291 5995	13.4047 2388
22	16.7654 1324	16.3434 9987	15.9369 1664	15.1671 2484	14.4511 1533	13.7844 2476
23	17.3321 1048	16.8793 1861	16.4436 0839	15 6204 1047	14.8568 4167	14.1477 7489
24	17.8849 8583	17.4007 9670	16.9355 4212	16 0583 6760	15.2469 6314	14.4954 7837
25	18.4243 7642	17.9083 1795	17.4131 4769	16 4815 1459	15.6220 7994	14.8282 0896
26	18.9506 1114	18.4022 5592	17.8768 4242	16.8903 5226	15.9827 6918	15.1466 1145
27	19.4640 1087	18.8829 7413	18.3270 3147	17 2853 6451	16.3295 8575	15.4513 0282
28	19.9648 8866	19.3508 2640	18.7641 0823	17 6670 1885	16 6630 6322	15.7428 7351
29	20.4535 4991	19.8061 5708	19.1884 5459	18 0357 6700	16.9837 1463	16.0218 8853
30	20.9302 9259	20.2493 0130	19.6004 4135	18 3920 4541	17.2920 3330	16.2888 8854
31	21.3954 0741	20.6805 8520	20.0004 2849	18.7362 7576	17.5884 9356	16.5443 9095
32	21.8491 7796	21.1003 2623	20.3887 6553	19.0688 6547	17.8735 5150	16.7888 9087
33	22.2918 8094	21.5088 3332	20.7657 9178	19.3902 0818	18.1476 4567	17.0228 6206
34	22.7237 8628	21.9064 0712	21.1318 3668	19.7006 8423	18.4111 9776	17.2467 5796
35	23 1451 5734	22.2933 4026	21 4872 2007	20 0006 6110	18.6646 1323	17.4610 1240
36	23.5562 5107	22.6699 1753	21.8322 5250	20 2904 9381	18.9082 8195	17.6660 4058
37	23.9573 1812	23.0364 1609	22 1672 3544	20.5705 2542	19.1425 7880	17.8622 3979
38	24.3486 0304	23.3931 0568	22 4924 6159	20 8410 8736	19.3678 6423	18.0499 9023
39	24.7303 4443	23.7402 4884	22.8082 1513	21.1024 9987	19.5844 8484	18.2296 5572
40	25.1027 7505	24.0781 0106	23.1147 7197	21.3550 7234	19.7927 7388	18.4015 8442
41	25.4661 2200	24.4069 1101	23.4123 9997	21.5991 0371	19.9930 5181	18.5661 0949
42	25.8206 0683	24.7269 2069	23.7013 5920	21.8348 8281	20.1856 2674	18.7235 4975
43	26.1664 4569	25.0383 6563	23.9819 0213	22.0626 8870	20.3707 9494	18.8742 1029
44	26.5038 4945	25.3414 7507	24.2542 7392	22 2827 9102	20.5488 4129	19.0183 8305
45	26.8330 2386	25.6364 7209	24.5187 1254	22.4954 5026	20.7200 3970	19.1563 4742
46	27.1541 6962	25.9235 7381	24.7754 4907	22.7009 1813	20.8846 5356	19.2883 7074
47	27.4674 8255	26.2029 9154	25.0247 0783	22.8994 3780	21.0429 3612	19.4147 0884
48	27.7731 5371	26.4749 3094	25.2667 0664	23.0912 4425	21.1951 3088	19.5356 0654
49	28.0713 6947	26.7395 9215	25.5016 5693	23.2765 6450	21.3414 7200	19.6512 9813
50	28.3623 1168	26.9971 6998	25.7297 6401	23.4556 1787	21.4821 8462	19.7620 0778
51	28.6461 5774	27.2478 5400	25.9512 2719	23.6286 1630	21.6174 8521	19.8679 5003
52	28.9230 8072	27.4918 2871	26.1662 3999	23.7957 6454	21.7475 8193	19.9693 3017
53	29.1932 4948	27.7292 7368	26.3749 9028	23.9572 6043	21.8726 7493	20.0663 4466
54	29.4568 2876	27.9603 6368	26.5776 6047	24.1132 9510	21.9929 5667	20.1591 8149
55	29.7139 7928	28.1852 6879	26.7744 2764	24.2640 5323	22.1086 1218	20.2480 2057
56	29.9648 5784	28.4041 5454	26.9654 6373	24.4097 1327	22.2189 1940	20.3330 3404
57	30.2096 1740	28.6171 8203	27.1509 3566	24.5504 4760	22.3267 4943	20.4143 8664
58	30.4484 0722	28.8245 0806	27.3310 0549	24.6864 2281	22.4295 6676	20.4922 3602
59	30.6813 7290	29.0262 8522	27.5058 3058	24.8177 9981	22.5284 2957	20.5667 3303
60	30.9086 5649	29.2226 6201	27.6755 6367	24.9447 3412	22.6234 8997	20.6380 2204

PRESENT VALUE OF ANNUITY OF 1 (Cont.)

	5%	5½%	6%	6½%	7%	8%
1	0.9523 8095	0.9478 6730	0.9433 9623	0.9389 6714	0.9345 7944	0.9259 2593
2	1.8594 1043	1.8463 1971	1.8333 9267	1.8206 2642	1.8080 1817	1.7832 6475
3	2.7232 4803	2.6979 3338	2.6730 1195	2.6484 7551	2.6243 1604	2.5770 9699
4	3.5459 5050	3.5051 5012	3.4651 0561	3.4257 9860	3.3872 1126	3.3121 2684
5	4.3294 7667	4.2702 8448	4.2123 6379	4.1556 7944	4.1001 9744	3.9927 1004
6	5.0756 9206	4.9955 3031	4.9173 2433	4.8410 1356	4.7665 3966	4.6228 7966
7	5.7863 7340	5.6829 6712	5.5823 8144	5.4845 1977	5.3892 8940	5.2063 7006
8	6.4632 1276	6.3345 6599	6.2097 9381	6.0887 5096	5.9712 9851	5.7466 3894
9	7.1078 2168	6.9521 9525	6.8016 9227	6.6561 0419	6.5152 3225	6.2468 8791
10	7.7217 3493	7.5376 2583	7.3600 8705	7.1888 3022	7.0235 8154	6.7100 8140
11	8.3064 1422	8.0925 3633	7.8868 7458	7.6890 4246	7.4986 7434	7.1389 6426
12	8.8632 5164	8.6185 1785	8.3838 4394	8.1587 2532	7.9426 8630	7.5360 7802
13	9.3935 7299	9.1170 7853	8.8526 8296	8.5997 4208	8.3576 5074	7.9037 7594
14	9.8986 4094	9.5896 4790	9.2949 8393	9.0138 4233	8.7454 6799	8.2442 3698
15	10.3796 5804	10.0375 8094	9.7122 4899	9.4026 6885	9.1079 1401	8.5594 7869
16	10.8377 6956	10.4621 6203	10.1058 9527	9.7677 6418	9.4466 4860	8.8513 6916
17	11.2740 6625	10.8646 0856	10.4772 5969	10.1105 7670	9.7632 2299	9.1216 3811
18	11.6895 8690	11.2460 7447	10.8276 0348	10.4324 6638	10.0590 8691	9.3718 8714
19	12.0853 2086	11.6076 5352	11.1581 1649	10.7347 1022	10.3355 9524	9.6035 9920
20	12.4622 1034	11.9503 8249	11.4699 2122	11.0185 0725	10.5940 1425	9.8181 4741
21	12.8211 5271	12.2752 4406	11.7640 7662	11.2849 8333	10.8355 2733	10.0168 0316
22	13.1630 0258	12.5831 6973	12.0415 8172	11.5351 9562	11.0612 4050	10.2007 4366
23	13.4885 7388	12.8750 4240	12.3033 7898	11.7701 3673	11.2721 8738	10.3710 5895
24	13.7986 4179	13.1516 9895	12.5503 5753	11.9907 3871	11.4693 3400	10.5287 5828
25	14.0939 4457	13.4139 3266	12.7833 5616	12.1978 7672	11.6535 8318	10.6747 7619
26	14.3751 8530	13.6624 9541	13.0031 6619	12.3923 7251	11.8257 7867	10.8099 7795
27	14.6430 3362	13.8980 9991	13.2105 3414	12.5749 9766	11.9867 0904	10.9351 6477
28	14.8981 2726	14.1214 2172	13.4061 6428	12.7464 7668	12.1371 1125	11.0510 7849
29	15.1410 7358	14.3331 0116	13.5907 2102	12.9074 8984	12.2776 7407	11.1584 0601
30	15.3724 5103	14.5337 4517	13.7648 3115	13.0586 7591	12.4090 4118	11.2577 8334
31	15.5928 1050	14.7239 2907	13.9290 8599	13.2006 3465	12.5318 1419	11.3497 9939
32	15.8026 7667	14.9041 9817	14.0840 4339	13.3339 2925	12.6465 5532	11.4349 9944
33	16.0025 4921	15.0750 6936	14.2302 2961	13.4590 8850	12.7537 9002	11.5138 8837
34	16.1929 0401	15.2370 3257	14.3681 4114	13.5766 0892	12.8540 0936	11.5869 3367
35	16.3741 9429	15.3905 5220	14.4982 4636	13.6869 5673	12.9476 7230	11.6545 6822
36	16.5468 5171	15.5360 6843	14.6209 8713	13.7905 6970	13.0352 0776	11.7171 9279
37	16.7112 8734	15.6739 9851	14.7367 8031	13.8878 5887	13.1170 1660	11.7751 7851
38	16.8678 9271	15.8047 3793	14.8460 1916	13.9792 1021	13.1934 7345	11.8288 6899
39	17.0170 4067	15.9286 6154	14.9490 7468	14.0649 8611	13.2649 2846	11.8785 8240
40	17.1590 8635	16.0461 2469	15.0462 9687	14.1455 2687	13.3317 0884	11.9246 1333
41	17.2943 6796	16.1574 6416	15.1380 1592	14.2211 5199	13.3941 2041	11.9672 3457
42	17.4232 0758	16.2629 9920	15.2245 4332	14.2921 6149	13.4524 4898	12.0066 9867
43	17.5459 1198	16.3630 3242	15.3061 7294	14.3588 3708	13.5069 6167	12.0432 3951
44	17.6627 7331	16.4578 5063	15.3831 8202	14.4214 4327	13.5579 0810	12.0770 7362
45	17.7740 6982	16.5477 2572	15.4558 3209	14.4802 2842	13.6055 2159	12.1084 0150
46	17.8800 6650	16.6329 1537	15.5243 6990	14.5354 2575	13.6500 2018	12.1374 0880
47	17.9810 1571	16.7136 6386	15.5890 2821	14.5872 5422	13.6916 0764	12.1642 6741
48	18.0771 5782	16.7902 0271	15.6500 2661	14.6359 1946	13.7304 7443	12.1891 3649
49	18.1687 2173	16.8627 5139	15.7075 7227	14.6816 1451	13.7667 9853	12.2121 6341
50	18.2559 2546	16.9315 1790	15.7618 6064	14.7245 2067	13.8007 4629	12.2334 8464
51	18.3389 7663	16.9966 9943	15.8130 7607	14.7648 0814	13.8324 7317	12.2532 2652
52	18.4180 7298	17.0584 8287	15.8613 9252	14.8026 3675	13.8621 2446	12.2715 0604
53	18.4934 0284	17.1170 4538	15.9069 7408	14.8381 5658	13.8898 3594	12.2884 3152
54	18.5651 4556	17.1725 5486	15.9499 7554	14.8715 0852	13.9157 3453	12.3041 0326
55	18.6334 7196	17.2251 7048	15.9905 4297	14.9028 2490	13.9399 3881	12.3186 1413
56	18.6985 4473	17.2750 4311	16.0288 1412	14.9322 2996	13.9625 5964	12.3320 5012
57	18.7605 1879	17.3223 1575	16.0649 1898	14.9598 4033	13.9837 0059	12.3444 9085
58	18.8195 4170	17.3671 2393	16.0989 8017	14.9857 6557	14.0034 5850	12.3560 1005
59	18.8757 5400	17.4095 9614	16.1311 1337	15.0101 0852	14.0219 2383	12.3666 7597
60	18.9292 8952	17.4498 5416	16.1614 2771	15.0329 6574	14.0391 8115	12.3765 5182

ANNUITY WHICH AMOUNTS TO 1

	$\frac{1}{2}\%$	$\frac{3}{4}\%$	1%	$1\frac{1}{4}\%$	$1\frac{1}{2}\%$	$1\frac{3}{4}\%$
1	1.0000 0000	1.0000 0000	1.0000 0000	1.0000 0000	1.0000 0000	1.0000 0000
2	0.4987 5312	0.4984 4237	0.4981 3200	0.4978 2203	0.4975 1244	0.4972 0323
3	0.3316 7221	0.3312 5865	0.3308 4579	0.3304 3361	0.3300 2211	0.3296 1130
4	0.2481 3279	0.2476 6842	0.2472 0501	0.2467 4257	0.2462 8109	0.2458 2058
5	0.1980 0997	0.1975 1558	0.1970 2242	0.1965 3049	0.1960 3980	0.1955 5034
6	0.1645 9546	0.1640 8143	0.1635 6891	0.1630 5789	0.1625 4837	0.1620 4034
7	0.1407 2854	0.1402 0082	0.1396 7488	0.1391 5070	0.1386 2828	0.1381 0762
8	0.1228 2886	0.1222 9118	0.1217 5552	0.1212 2190	0.1206 9029	0.1201 6071
9	0.1089 0736	0.1083 6218	0.1078 1929	0.1072 7868	0.1067 4036	0.1062 0432
10	0.0977 7057	0.0972 1962	0.0966 7123	0.0961 2538	0.0955 8208	0.0950 4131
11	0.0886 5903	0.0881 0358	0.0875 5094	0.0870 0111	0.0864 5408	0.0859 0984
12	0.0810 6643	0.0805 0742	0.0799 5148	0.0793 9860	0.0788 4879	0.0783 0203
13	0.0746 4224	0.0740 8039	0.0735 2188	0.0729 6669	0.0724 1482	0.0718 6626
14	0.0691 3609	0.0685 7198	0.0680 1146	0.0674 5453	0.0669 0117	0.0663 5138
15	0.0643 6436	0.0637 9845	0.0632 3639	0.0626 7817	0.0621 2378	0.0615 7321
16	0.0601 8937	0.0596 2202	0.0590 5879	0.0584 9965	0.0579 4460	0.0573 9363
17	0.0565 0579	0.0559 3732	0.0553 7321	0.0548 1346	0.0542 5806	0.0537 0698
18	0.0532 3173	0.0526 6239	0.0520 9766	0.0515 3756	0.0509 8205	0.0504 3113
19	0.0503 0253	0.0497 3252	0.0491 6740	0.0486 0715	0.0480 5175	0.0475 0120
20	0.0476 6645	0.0470 9597	0.0465 3063	0.0459 7042	0.0454 1531	0.0448 6531
21	0.0452 8163	0.0447 1083	0.0441 4543	0.0435 8541	0.0430 3075	0.0424 8145
22	0.0431 1380	0.0425 4281	0.0419 7748	0.0414 1779	0.0408 6372	0.0403 1525
23	0.0411 3465	0.0405 6360	0.0399 9846	0.0394 3921	0.0388 8584	0.0383 3833
24	0.0393 2061	0.0387 4959	0.0381 8474	0.0376 2604	0.0370 7347	0.0365 2701
25	0.0376 5186	0.0370 8096	0.0365 1650	0.0359 5843	0.0354 0675	0.0348 6144
26	0.0361 1163	0.0355 4094	0.0349 7693	0.0344 1959	0.0338 6888	0.0333 2479
27	0.0346 8565	0.0341 1523	0.0335 5176	0.0329 9520	0.0324 4553	0.0319 0273
28	0.0333 6167	0.0327 9159	0.0322 2871	0.0316 7300	0.0311 2444	0.0305 8299
29	0.0321 2914	0.0315 5946	0.0309 9723	0.0304 4243	0.0298 9502	0.0293 5498
30	0.0309 7892	0.0304 0969	0.0298 4816	0.0292 9434	0.0287 4811	0.0282 0953
31	0.0299 0304	0.0293 3430	0.0287 7352	0.0282 2088	0.0276 7573	0.0271 3866
32	0.0288 9453	0.0283 2633	0.0277 6634	0.0272 1454	0.0266 7089	0.0261 3535
33	0.0279 4727	0.0273 7964	0.0268 2048	0.0262 6976	0.0257 2744	0.0251 9349
34	0.0270 5586	0.0264 8883	0.0259 3053	0.0253 8092	0.0248 3997	0.0243 0763
35	0.0262 1550	0.0256 4911	0.0250 9170	0.0245 4324	0.0240 0368	0.0234 7299
36	0.0254 2194	0.0248 5622	0.0242 9973	0.0237 5244	0.0232 1431	0.0226 8529
37	0.0246 7139	0.0241 0636	0.0235 5082	0.0230 0473	0.0224 6805	0.0219 4072
38	0.0239 6045	0.0233 9614	0.0228 4157	0.0222 9671	0.0217 6150	0.0212 3589
39	0.0232 8607	0.0227 2250	0.0221 6893	0.0216 2531	0.0210 9160	0.0205 6773
40	0.0226 4552	0.0220 8271	0.0215 3016	0.0209 8780	0.0204 5560	0.0199 3349
41	0.0220 3631	0.0214 7429	0.0209 2276	0.0203 8169	0.0198 5102	0.0193 3069
42	0.0214 5622	0.0208 9499	0.0203 4452	0.0198 0475	0.0192 7563	0.0187 5709
43	0.0209 0320	0.0203 4278	0.0197 9338	0.0192 5493	0.0187 2737	0.0182 1064
44	0.0203 7541	0.0198 1583	0.0192 6751	0.0187 3039	0.0182 0441	0.0176 8949
45	0.0198 7117	0.0193 1243	0.0187 6521	0.0182 2943	0.0177 0505	0.0171 9197
46	0.0193 8894	0.0188 3108	0.0182 8495	0.0177 5053	0.0172 2775	0.0167 1652
47	0.0189 2733	0.0183 7032	0.0178 2532	0.0172 9228	0.0167 7111	0.0162 6173
48	0.0184 8503	0.0179 2890	0.0173 8504	0.0168 5338	0.0163 3384	0.0158 2632
49	0.0180 6087	0.0175 0563	0.0169 6292	0.0164 3265	0.0159 1474	0.0154 0910
50	0.0176 5376	0.0170 9943	0.0165 5767	0.0160 2900	0.0155 1273	0.0150 0898
51	0.0172 6269	0.0167 0928	0.0161 6888	0.0156 4142	0.0151 2680	0.0146 2494
52	0.0168 8675	0.0163 3425	0.0157 9303	0.0152 6899	0.0147 5603	0.0142 5606
53	0.0165 2507	0.0159 7350	0.0154 3546	0.0149 1084	0.0143 9958	0.0139 0148
54	0.0161 7686	0.0156 2623	0.0150 8938	0.0145 6619	0.0140 5658	0.0135 6041
55	0.0158 4139	0.0152 9171	0.0147 5605	0.0142 3430	0.0137 2637	0.0132 3211
56	0.0155 1797	0.0149 6925	0.0144 3478	0.0139 1449	0.0134 0824	0.0129 1591
57	0.0152 0596	0.0146 5821	0.0141 2496	0.0136 0811	0.0131 0156	0.0126 1111
58	0.0149 0481	0.0143 5801	0.0138 2597	0.0133 0858	0.0128 0573	0.0123 1721
59	0.0146 1392	0.0140 6809	0.0133 3727	0.0130 2138	0.0125 2020	0.0120 3361
60	0.0143 3280	0.0137 8798	0.0132 5836	0.0127 4390	0.0122 4445	0.0117 5981

From J. W. Glover, "Tables of Applied Math. in Finance, Insurance, Statistics," George Wahr, publisher, Ann Arbor, Michigan.

ANNUITY WHICH AMOUNTS TO 1 (Cont.)

	1½%	1¾%	1⅝%	1½%	2%	2½%
1	1.0000 0000	1.0000 0000	1.0000 0000	1.0000 0000	1.0000 0000	1.0000 0000
2	0.4968 9441	0.4968 8597	0.4962 7792	0.4956 6295	0.4980 4980	0.4944 3758
3	0.3292 0117	0.3287 9173	0.3283 8296	0.3275 6746	0.3267 5467	0.3259 4458
4	0.2453 6102	0.2449 0243	0.2444 4478	0.2435 3237	0.2426 2378	0.2417 1893
5	0.1950 6211	0.1945 7510	0.1940 8932	0.1931 2142	0.1921 5839	0.1912 0021
6	0.1615 3361	0.1610 2877	0.1605 2521	0.1595 2256	0.1585 2581	0.1575 3496
7	0.1375 8672	0.1370 7157	0.1365 5616	0.1355 3059	0.1345 1186	0.1335 0025
8	0.1196 3314	0.1191 0758	0.1185 8402	0.1175 4292	0.1165 0980	0.1154 8462
9	0.1056 7055	0.1051 3906	0.1046 0982	0.1035 5813	0.1025 1544	0.1014 8170
10	0.0945 0307	0.0939 6737	0.0934 3418	0.0923 7534	0.0913 2653	0.0902 8768
11	0.0853 6839	0.0848 2973	0.0842 9384	0.0832 3038	0.0821 7794	0.0811 3649
12	0.0777 5831	0.0772 1764	0.0766 7999	0.0756 1377	0.0745 5960	0.0735 1740
13	0.0713 2100	0.0707 7903	0.0702 4036	0.0691 7283	0.0681 1835	0.0670 7686
14	0.0658 0515	0.0652 6246	0.0647 2332	0.0636 5562	0.0626 0197	0.0615 6230
15	0.0610 2646	0.0604 8351	0.0599 4436	0.0588 7739	0.0578 2547	0.0567 8852
16	0.0568 4672	0.0563 0388	0.0557 6508	0.0546 9958	0.0536 5013	0.0526 1663
17	0.0531 6023	0.0526 1780	0.0520 7966	0.0510 1623	0.0499 6984	0.0489 4039
18	0.0498 8479	0.0493 4301	0.0488 0578	0.0477 4492	0.0467 0210	0.0456 7720
19	0.0469 5548	0.0464 1457	0.0458 7847	0.0448 2061	0.0437 8177	0.0427 6182
20	0.0443 2039	0.0437 8054	0.0432 4574	0.0421 9122	0.0411 5672	0.0401 4207
21	0.0419 3748	0.0413 9884	0.0408 6550	0.0398 1464	0.0387 8477	0.0377 7572
22	0.0397 7238	0.0392 3507	0.0387 0331	0.0376 5638	0.0366 3140	0.0356 2821
23	0.0377 9666	0.0372 6080	0.0367 3075	0.0356 8796	0.0346 6810	0.0336 7097
24	0.0359 8665	0.0354 5235	0.0349 2410	0.0338 8565	0.0328 7110	0.0318 8023
25	0.0343 2247	0.0337 8981	0.0332 6345	0.0322 2952	0.0312 2044	0.0302 3599
26	0.0327 8729	0.0322 5635	0.0317 3196	0.0307 0269	0.0296 9923	0.0287 2134
27	0.0313 6677	0.0308 3763	0.0303 1527	0.0292 9079	0.0282 9309	0.0273 2188
28	0.0300 4863	0.0295 2134	0.0290 0108	0.0279 8151	0.0269 8967	0.0260 2525
29	0.0288 2228	0.0282 9689	0.0277 7878	0.0267 6424	0.0257 7836	0.0248 2081
30	0.0276 7854	0.0261 5511	0.0266 3919	0.0256 2975	0.0246 4992	0.0236 9934
31	0.0266 0842	0.0260 8798	0.0255 7430	0.0245 7005	0.0235 9635	0.0226 5280
32	0.0256 0791	0.0250 8850	0.0245 7710	0.0235 7812	0.0226 1061	0.0216 7415
33	0.0246 6786	0.0241 5053	0.0236 4144	0.0226 4779	0.0216 8653	0.0207 5722
34	0.0237 8387	0.0232 6864	0.0227 6189	0.0217 7363	0.0208 1867	0.0198 9655
35	0.0229 5111	0.0224 3801	0.0219 3363	0.0209 5082	0.0200 0221	0.0190 8731
36	0.0221 6533	0.0216 5438	0.0211 5240	0.0201 7507	0.0192 3285	0.0183 2522
37	0.0214 2270	0.0209 1394	0.0204 1437	0.0194 4257	0.0185 0678	0.0176 0643
38	0.0207 1983	0.0202 1327	0.0197 1613	0.0187 4990	0.0178 2057	0.0169 2753
39	0.0200 5365	0.0195 4931	0.0190 8463	0.0180 9399	0.0171 7114	0.0162 8543
40	0.0194 2141	0.0189 1931	0.0184 2710	0.0174 7209	0.0165 5575	0.0156 7738
41	0.0188 2063	0.0183 2078	0.0178 3108	0.0168 8170	0.0159 7188	0.0151 0087
42	0.0182 4906	0.0177 5148	0.0172 6426	0.0163 2057	0.0154 1729	0.0145 5364
43	0.0177 0466	0.0172 0936	0.0167 2465	0.0157 8666	0.0148 8993	0.0140 3364
44	0.0171 8557	0.0166 9257	0.0162 1038	0.0152 7810	0.0143 8794	0.0135 3901
45	0.0166 9012	0.0161 9941	0.0157 1976	0.0147 9321	0.0139 0962	0.0130 6805
46	0.0162 1675	0.0157 2836	0.0152 5125	0.0143 3043	0.0134 5342	0.0126 1921
47	0.0157 6406	0.0152 7799	0.0148 0342	0.0138 8836	0.0130 1792	0.0121 9107
48	0.0153 3075	0.0148 4701	0.0143 7500	0.0134 6569	0.0126 0184	0.0117 8253
49	0.0149 1963	0.0144 3424	0.0139 6478	0.0130 6124	0.0122 0396	0.0113 9179
50	0.0145 1763	0.0140 3897	0.0135 7168	0.0126 7391	0.0118 2321	0.0110 1836
51	0.0141 3571	0.0136 5900	0.0131 9469	0.0123 0269	0.0114 5856	0.0106 6102
52	0.0137 6897	0.0132 9481	0.0128 3287	0.0119 4665	0.0111 0909	0.0103 1884
53	0.0134 1653	0.0128 4453	0.0124 8537	0.0116 0492	0.0107 7392	0.0099 9094
54	0.0130 7760	0.0126 0797	0.0121 5138	0.0112 7672	0.0104 5226	0.0096 7654
55	0.0127 5145	0.0122 8418	0.0118 3018	0.0109 6129	0.0101 4337	0.0093 7489
56	0.0124 3739	0.0119 7249	0.0115 2106	0.0106 5795	0.0098 4656	0.0090 8530
57	0.0121 3478	0.0116 7225	0.0112 2341	0.0103 6606	0.0095 6120	0.0088 0712
58	0.0118 4303	0.0113 8267	0.0109 3661	0.0100 8503	0.0092 8667	0.0085 3977
59	0.0115 6158	0.0111 0380	0.0106 8012	0.0098 1430	0.0090 2243	0.0082 8268
60	0.0112 8993	0.0108 3452	0.0103 9343	0.0095 5336	0.0087 6797	0.0080 3533

ANNUITY WHICH AMOUNTS TO 1 (Cont.)

	2 $\frac{1}{2}$ %	2 $\frac{3}{4}$ %	3%	3 $\frac{1}{4}$ %	4%	4 $\frac{1}{2}$ %
1	1.0000 0000	1.0000 0000	1.0000 0000	1.0000 0000	1.0000 0000	1.0000 0000
2	0.4938 2716	0.4932 1825	0.4926 1084	0.4914 0049	0.4901 9608	0.4889 9756
3	0.3251 3717	0.3243 3243	0.3235 3036	0.3219 3418	0.3203 4854	0.3187 7336
4	0.2408 1788	0.2399 2059	0.2390 2705	0.2372 5114	0.2354 9008	0.2337 4365
5	0.1902 4686	0.1892 9832	0.1883 5457	0.1864 8137	0.1846 2711	0.1827 9164
6	0.1565 4997	0.1555 7083	0.1545 9750	0.1526 6821	0.1507 6190	0.1488 7839
7	0.1324 9543	0.1314 9747	0.1305 0635	0.1285 4449	0.1266 0961	0.1247 0147
8	0.1144 6735	0.1134 5795	0.1124 5639	0.1104 7665	0.1085 2783	0.1066 0965
9	0.1004 5689	0.0994 4095	0.0984 3366	0.0964 4601	0.0944 9299	0.0925 7447
10	0.0892 5876	0.0882 3972	0.0872 3051	0.0852 4137	0.0832 9094	0.0813 7884
11	0.0801 0596	0.0790 8629	0.0780 7745	0.0760 9197	0.0741 4904	0.0722 4818
12	0.0724 8713	0.0714 6871	0.0704 6209	0.0684 8395	0.0665 5217	0.0646 6619
13	0.0660 4827	0.0650 3252	0.0640 2954	0.0620 6157	0.0601 4373	0.0582 7535
14	0.0605 3653	0.0595 2457	0.0585 2634	0.0565 7073	0.0546 6897	0.0528 2032
15	0.0557 6646	0.0547 5917	0.0537 6658	0.0518 2507	0.0499 4110	0.0481 1381
16	0.0515 9899	0.0505 9710	0.0496 1085	0.0476 8483	0.0458 2000	0.0440 1537
17	0.0479 2777	0.0469 3186	0.0459 5253	0.0440 4313	0.0421 9852	0.0404 1758
18	0.0446 7008	0.0436 8063	0.0427 0870	0.0408 1684	0.0389 9333	0.0372 3990
19	0.0417 6062	0.0407 7802	0.0398 1388	0.0379 4033	0.0361 3862	0.0344 0734
20	0.0391 4713	0.0381 7173	0.0372 1571	0.0353 6108	0.0335 8175	0.0318 7614
21	0.0367 8733	0.0358 1941	0.0348 7178	0.0330 3659	0.0312 8011	0.0296 0057
22	0.0346 4661	0.0336 8640	0.0327 4739	0.0309 3207	0.0291 9881	0.0275 4565
23	0.0326 9638	0.0317 4410	0.0308 1390	0.0290 1880	0.0273 0906	0.0256 8249
24	0.0309 1282	0.0299 6863	0.0290 4742	0.0272 7283	0.0255 8683	0.0239 8703
25	0.0292 7592	0.0283 3997	0.0274 2787	0.0256 7404	0.0240 1196	0.0224 3903
26	0.0277 6875	0.0268 4116	0.0259 3829	0.0242 0540	0.0225 6738	0.0210 2137
27	0.0263 7687	0.0254 5776	0.0245 6421	0.0228 5241	0.0212 3854	0.0197 1946
28	0.0250 8793	0.0241 7738	0.0232 9323	0.0216 0265	0.0200 1298	0.0185 2081
29	0.0238 9127	0.0229 8935	0.0221 1467	0.0204 4538	0.0188 7993	0.0174 1461
30	0.0227 7764	0.0218 8442	0.0210 1926	0.0193 7133	0.0178 3010	0.0163 9154
31	0.0217 3900	0.0208 5453	0.0199 9893	0.0183 7240	0.0168 5535	0.0154 4345
32	0.0207 6831	0.0198 9263	0.0190 4662	0.0174 4150	0.0159 4859	0.0145 6320
33	0.0198 5838	0.0189 9253	0.0181 5612	0.0165 7242	0.0151 0357	0.0137 4453
34	0.0190 0675	0.0181 4875	0.0173 2196	0.0157 5966	0.0143 1477	0.0129 8191
35	0.0182 0558	0.0173 5645	0.0165 3929	0.0149 8635	0.0135 7732	0.0122 7045
36	0.0174 5158	0.0166 1132	0.0158 0379	0.0142 8416	0.0128 8688	0.0116 0578
37	0.0167 4090	0.0159 0953	0.0151 1162	0.0136 1325	0.0122 3957	0.0109 8402
38	0.0160 7012	0.0152 4764	0.0144 5934	0.0129 8214	0.0116 3192	0.0104 0169
39	0.0154 3615	0.0146 2256	0.0138 4385	0.0123 8775	0.0110 6083	0.0098 5567
40	0.0148 3623	0.0140 3151	0.0132 6238	0.0118 2728	0.0105 2349	0.0093 4315
41	0.0142 6786	0.0134 7200	0.0127 1241	0.0112 9822	0.0100 1738	0.0088 6158
42	0.0137 2876	0.0129 4157	0.0121 9167	0.0107 9828	0.0095 4020	0.0084 0868
43	0.0132 1688	0.0124 3881	0.0116 9811	0.0103 2539	0.0090 9899	0.0079 8235
44	0.0127 3037	0.0119 6100	0.0112 2985	0.0098 7768	0.0086 6454	0.0075 8071
45	0.0122 6752	0.0115 0693	0.0107 8518	0.0094 5343	0.0082 6246	0.0072 0202
46	0.0118 2676	0.0110 7493	0.0103 6254	0.0090 5108	0.0078 8205	0.0068 4471
47	0.0114 0669	0.0106 6358	0.0099 6051	0.0086 6919	0.0075 2189	0.0065 0734
48	0.0110 0599	0.0102 7158	0.0095 7777	0.0083 0646	0.0071 8065	0.0061 8858
49	0.0106 2348	0.0098 9773	0.0092 1314	0.0079 6167	0.0068 5712	0.0058 8722
50	0.0102 5806	0.0095 4092	0.0088 6550	0.0076 3371	0.0065 5020	0.0056 0215
51	0.0099 0870	0.0092 0014	0.0085 3382	0.0073 2156	0.0062 5885	0.0053 3232
52	0.0095 7446	0.0088 7444	0.0082 1718	0.0070 2429	0.0059 8212	0.0050 7679
53	0.0092 5449	0.0085 6297	0.0079 1471	0.0067 4100	0.0057 1915	0.0048 3469
54	0.0089 4799	0.0082 6491	0.0076 2558	0.0064 7090	0.0054 6910	0.0046 0519
55	0.0086 5419	0.0079 7953	0.0073 4907	0.0062 1323	0.0052 3124	0.0043 8784
56	0.0083 7243	0.0077 0612	0.0070 8447	0.0059 6730	0.0050 0487	0.0041 8105
57	0.0081 0204	0.0074 4404	0.0068 3114	0.0057 3245	0.0047 8932	0.0039 8506
58	0.0078 4244	0.0071 9270	0.0065 8848	0.0055 0810	0.0045 8401	0.0037 9897
59	0.0075 9307	0.0069 5153	0.0063 5593	0.0052 9366	0.0043 8836	0.0036 2221
60	0.0073 5340	0.0067 2002	0.0061 3296	0.0050 8862	0.0042 0185	0.0034 5426

ANNUITY WHICH AMOUNTS TO 1 (Cont.)

	5%	5½%	6%	6½%	7%	8%
1	1.0000 0000	1.0000 0000	1.0000 0000	1.0000 0000	1.0000 0000	1.0000 0000
2	0.4878 0488	0.4866 1800	0.4854 3689	0.4842 6150	0.4830 9179	0.4807 6923
3	0.3172 0856	0.3156 5407	0.3141 0981	0.3125 7570	0.3110 5166	0.3080 3351
4	0.2320 1183	0.2302 9449	0.2285 9149	0.2269 0274	0.2252 2812	0.2219 2080
5	0.1809 7480	0.1791 7644	0.1773 9640	0.1756 3454	0.1738 9069	0.1704 5645
6	0.1470 1747	0.1451 7895	0.1433 6263	0.1415 6831	0.1397 9580	0.1363 1539
7	0.1228 1982	0.1209 6442	0.1191 3502	0.1173 3137	0.1155 5322	0.1120 7240
8	0.1047 2181	0.1028 6401	0.1010 3594	0.0992 3730	0.0974 6776	0.0940 1476
9	0.0906 9008	0.0888 3946	0.0870 2224	0.0852 3803	0.0834 8647	0.0800 7971
10	0.0795 0458	0.0776 6777	0.0758 6796	0.0741 0469	0.0723 7750	0.0690 2949
11	0.0703 8889	0.0685 7065	0.0667 9294	0.0650 5521	0.0633 5690	0.0600 7634
12	0.0628 2541	0.0610 2923	0.0592 7703	0.0575 6817	0.0559 0199	0.0526 9502
13	0.0564 5577	0.0546 8426	0.0529 6011	0.0512 8256	0.0496 5085	0.0465 2181
14	0.0510 2397	0.0492 7912	0.0475 8491	0.0459 4048	0.0443 4494	0.0412 9685
15	0.0463 4229	0.0446 2560	0.0429 6276	0.0413 5278	0.0397 9462	0.0368 2954
16	0.0422 6991	0.0405 8254	0.0389 5214	0.0373 7757	0.0358 5765	0.0329 7687
17	0.0386 9914	0.0370 4197	0.0354 4480	0.0339 0633	0.0324 2519	0.0296 2943
18	0.0355 4622	0.0339 1992	0.0323 5654	0.0308 5461	0.0294 1260	0.0267 0210
19	0.0327 4501	0.0311 5006	0.0296 2086	0.0281 5575	0.0267 5301	0.0241 2763
20	0.0302 4259	0.0286 7933	0.0271 8456	0.0257 5640	0.0243 9293	0.0218 5221
21	0.0279 9611	0.0264 6478	0.0250 0455	0.0236 1333	0.0222 8900	0.0198 3225
22	0.0259 7051	0.0244 7123	0.0230 4557	0.0216 9120	0.0204 0577	0.0180 3207
23	0.0241 3682	0.0226 6965	0.0212 7848	0.0199 6078	0.0187 1393	0.0164 2217
24	0.0224 7090	0.0210 3580	0.0196 7900	0.0183 9770	0.0171 8902	0.0149 7796
25	0.0209 5246	0.0195 4935	0.0182 2672	0.0169 8148	0.0158 1052	0.0136 7878
26	0.0195 6432	0.0181 9307	0.0169 0435	0.0156 9480	0.0145 6103	0.0125 0713
27	0.0182 9186	0.0169 5228	0.0156 9717	0.0145 2288	0.0134 2573	0.0114 4809
28	0.0171 2253	0.0158 1440	0.0145 9255	0.0134 5305	0.0123 9193	0.0104 8891
29	0.0160 4551	0.0147 6857	0.0135 7961	0.0124 7440	0.0114 4865	0.0096 1854
30	0.0150 5144	0.0138 0539	0.0126 4891	0.0115 7744	0.0105 8640	0.0088 2743
31	0.0141 3212	0.0129 1665	0.0117 9222	0.0107 5393	0.0097 9691	0.0081 0728
32	0.0132 8042	0.0120 9519	0.0110 0234	0.0099 9665	0.0090 7292	0.0074 5081
33	0.0124 9004	0.0113 3469	0.0102 7293	0.0092 9924	0.0084 0807	0.0068 5163
34	0.0117 5545	0.0106 2958	0.0095 9843	0.0086 5610	0.0077 9674	0.0063 0411
35	0.0110 7171	0.0099 7493	0.0089 7386	0.0080 6226	0.0072 3396	0.0058 0326
36	0.0104 3446	0.0093 6635	0.0083 9483	0.0075 1332	0.0067 1531	0.0053 4467
37	0.0098 3979	0.0087 9993	0.0078 5743	0.0070 0534	0.0062 3685	0.0049 2440
38	0.0092 8423	0.0082 7217	0.0073 5812	0.0065 3480	0.0057 9505	0.0045 3894
39	0.0087 6462	0.0077 7991	0.0068 9377	0.0060 9854	0.0053 8676	0.0041 8513
40	0.0082 7816	0.0073 2034	0.0064 6154	0.0056 9373	0.0050 0914	0.0038 6016
41	0.0078 2229	0.0068 9090	0.0060 5886	0.0053 1779	0.0046 5962	0.0035 6149
42	0.0073 9471	0.0064 8927	0.0056 8342	0.0049 6842	0.0043 3591	0.0032 6684
43	0.0069 9333	0.0061 1337	0.0053 3312	0.0046 4352	0.0040 3590	0.0030 3414
44	0.0066 1625	0.0057 6128	0.0050 0606	0.0043 4119	0.0037 5769	0.0028 0152
45	0.0062 6173	0.0054 3127	0.0047 0050	0.0040 5968	0.0034 9957	0.0025 8728
46	0.0059 2820	0.0051 2175	0.0044 1485	0.0037 9743	0.0032 5996	0.0023 8991
47	0.0056 1421	0.0048 3129	0.0041 4768	0.0035 5300	0.0030 3744	0.0022 0799
48	0.0053 1843	0.0045 5654	0.0038 9766	0.0033 2506	0.0028 3070	0.0020 4027
49	0.0050 3965	0.0043 0230	0.0036 6356	0.0031 1240	0.0026 3853	0.0018 8557
50	0.0047 7674	0.0040 6145	0.0034 4429	0.0029 1393	0.0024 5985	0.0017 4286
51	0.0045 2867	0.0038 3495	0.0032 3880	0.0027 2861	0.0022 9365	0.0016 1116
52	0.0042 9450	0.0036 2185	0.0030 4617	0.0025 5553	0.0021 3901	0.0014 8959
53	0.0040 7334	0.0034 2130	0.0028 6551	0.0023 9382	0.0019 9509	0.0013 7735
54	0.0038 6438	0.0032 3245	0.0026 9602	0.0022 4267	0.0018 6110	0.0012 7370
55	0.0036 6686	0.0030 5458	0.0025 3696	0.0021 0137	0.0017 3633	0.0011 7796
56	0.0034 8010	0.0028 8698	0.0023 8765	0.0019 6923	0.0016 2011	0.0010 8952
57	0.0033 0343	0.0027 2900	0.0022 4744	0.0018 4563	0.0015 1183	0.0010 0780
58	0.0031 3626	0.0025 8006	0.0021 1574	0.0017 2999	0.0014 1093	0.0009 3227
59	0.0029 7802	0.0024 3959	0.0019 9200	0.0016 2177	0.0013 1689	0.0008 6247
60	0.0028 2818	0.0023 0707	0.0018 7572	0.0015 2047	0.0012 2923	0.0007 8785

ANNUITY WHICH I WILL BUY

	$\frac{3}{8}\%$	$\frac{7}{8}\%$	$\frac{5}{8}\%$	$\frac{3}{4}\%$	1%	$1\frac{1}{8}\%$
1	1.0050 0000	1.0062 5000	1.0075 0000	1.0087 5000	1.0100 0000	1.0112 5000
2	0.5037 5312	0.5046 9237	0.5056 3200	0.5065 7203	0.5075 1244	0.5084 5323
3	0.3366 7221	0.3373 0865	0.3383 4579	0.3391 8361	0.3400 2211	0.3408 6130
4	0.2531 3279	0.2539 1842	0.2547 0501	0.2554 9257	0.2562 8109	0.2570 7058
5	0.2030 0997	0.2037 6558	0.2045 2242	0.2052 8049	0.2060 3980	0.2068 0034
6	0.1695 9546	0.1703 3143	0.1710 6891	0.1718 0789	0.1725 4837	0.1732 9034
7	0.1457 2854	0.1464 5082	0.1471 7488	0.1479 0070	0.1486 2828	0.1493 5762
8	0.1278 2886	0.1285 4118	0.1292 5552	0.1299 7190	0.1306 9029	0.1314 1071
9	0.1139 0736	0.1146 1218	0.1153 1929	0.1160 2868	0.1167 4037	0.1174 5432
10	0.1027 7057	0.1034 6963	0.1041 7123	0.1048 7538	0.1055 8208	0.1062 9131
11	0.0936 5903	0.0943 5358	0.0950 5094	0.0957 5111	0.0964 5408	0.0971 5984
12	0.0860 6643	0.0867 5742	0.0874 5148	0.0881 4860	0.0888 4879	0.0895 5203
13	0.0796 4224	0.0803 3039	0.0810 2188	0.0817 1669	0.0824 1482	0.0831 1626
14	0.0741 3609	0.0748 2198	0.0755 1146	0.0762 0453	0.0769 0117	0.0776 0138
15	0.0693 6436	0.0700 4845	0.0707 3639	0.0714 2817	0.0721 2378	0.0728 2321
16	0.0651 8937	0.0658 7202	0.0665 5879	0.0672 4965	0.0679 4460	0.0686 4363
17	0.0615 0579	0.0621 8732	0.0628 7321	0.0635 6346	0.0642 5806	0.0649 5698
18	0.0582 3173	0.0589 1239	0.0595 9766	0.0602 8756	0.0609 8205	0.0616 8113
19	0.0553 0253	0.0559 8232	0.0566 6740	0.0573 5715	0.0580 5175	0.0587 5120
20	0.0526 6645	0.0533 4597	0.0540 3063	0.0547 2042	0.0554 1532	0.0561 1531
21	0.0502 8163	0.0509 6083	0.0516 4543	0.0523 3541	0.0530 3075	0.0537 3145
22	0.0481 1380	0.0487 9281	0.0494 7748	0.0501 6779	0.0508 6371	0.0515 6525
23	0.0461 3465	0.0468 1360	0.0474 9846	0.0481 8921	0.0488 8584	0.0495 8833
24	0.0443 2061	0.0449 9959	0.0456 8474	0.0463 7604	0.0470 7347	0.0477 7701
25	0.0426 5186	0.0433 3096	0.0440 1650	0.0447 0843	0.0454 0675	0.0461 1144
26	0.0411 1163	0.0417 9094	0.0424 7693	0.0431 6959	0.0438 6888	0.0445 7479
27	0.0396 8565	0.0403 6523	0.0410 5176	0.0417 4520	0.0424 4533	0.0431 5273
28	0.0383 6167	0.0390 4159	0.0397 2871	0.0404 2300	0.0411 2444	0.0418 3299
29	0.0371 2914	0.0378 0946	0.0384 9723	0.0391 9243	0.0398 9502	0.0406 0498
30	0.0359 7892	0.0366 5969	0.0373 4816	0.0380 4431	0.0387 4811	0.0394 5953
31	0.0349 0304	0.0355 8430	0.0362 7352	0.0369 7068	0.0376 7573	0.0383 8866
32	0.0338 9453	0.0345 7633	0.0352 6634	0.0359 6454	0.0366 7089	0.0373 8535
33	0.0329 4727	0.0336 2964	0.0343 2048	0.0350 1976	0.0357 2744	0.0364 4349
34	0.0320 5586	0.0327 3883	0.0334 3053	0.0341 3092	0.0348 3997	0.0355 5763
35	0.0312 1550	0.0318 9911	0.0325 9170	0.0332 9324	0.0340 0368	0.0347 2299
36	0.0304 2194	0.0311 0622	0.0317 9973	0.0325 0244	0.0332 1431	0.0339 3529
37	0.0296 7139	0.0303 5636	0.0310 5082	0.0317 5473	0.0324 6805	0.0331 9072
38	0.0289 6045	0.0296 4614	0.0303 4157	0.0310 4671	0.0317 6150	0.0324 8589
39	0.0282 8607	0.0289 7250	0.0296 6893	0.0303 7531	0.0310 9160	0.0318 1773
40	0.0276 4552	0.0283 3271	0.0290 3016	0.0297 3780	0.0304 5560	0.0311 8349
41	0.0270 3631	0.0277 2429	0.0284 2276	0.0291 3169	0.0298 5102	0.0305 8069
42	0.0264 5622	0.0271 4499	0.0278 4452	0.0285 5475	0.0292 7563	0.0300 0709
43	0.0259 0320	0.0265 9278	0.0272 9338	0.0280 0493	0.0287 2737	0.0294 6064
44	0.0253 7541	0.0260 6583	0.0267 6781	0.0274 8039	0.0282 0441	0.0289 3949
45	0.0248 7117	0.0255 6243	0.0262 6521	0.0269 7943	0.0277 0505	0.0284 4197
46	0.0243 8894	0.0250 8106	0.0257 8495	0.0265 0053	0.0272 2775	0.0279 6652
47	0.0239 2733	0.0246 2032	0.0253 2532	0.0260 4228	0.0267 7111	0.0275 1173
48	0.0234 8503	0.0241 7890	0.0248 8504	0.0256 0358	0.0263 3384	0.0270 7632
49	0.0230 6087	0.0237 5563	0.0244 6292	0.0251 8265	0.0259 1474	0.0266 8910
50	0.0226 5376	0.0233 4943	0.0240 5787	0.0247 7900	0.0255 1273	0.0262 8898
51	0.0222 6269	0.0229 5928	0.0236 6888	0.0243 9142	0.0251 2680	0.0258 7494
52	0.0218 8675	0.0225 8425	0.0232 9503	0.0240 1899	0.0247 5803	0.0255 0806
53	0.0215 2507	0.0222 2350	0.0229 3546	0.0236 6084	0.0243 9956	0.0251 5149
54	0.0211 7686	0.0218 7623	0.0225 8938	0.0233 1619	0.0240 5658	0.0248 1043
55	0.0208 4139	0.0215 4171	0.0222 5605	0.0229 8430	0.0237 2637	0.0244 8213
56	0.0205 1797	0.0212 1925	0.0219 3478	0.0226 6449	0.0234 0823	0.0241 6592
57	0.0202 0598	0.0209 0821	0.0216 2496	0.0223 5611	0.0231 0156	0.0238 6116
58	0.0199 0481	0.0206 0801	0.0213 2597	0.0220 5858	0.0228 0573	0.0235 6726
59	0.0196 1392	0.0203 1809	0.0210 3727	0.0217 7135	0.0225 2020	0.0232 8366
60	0.0193 3280	0.0200 3795	0.0207 5836	0.0214 9390	0.0222 4445	0.0230 0985

From J. W. Glover, "Tables of Applied Math. in Finance, Insurance, Statistics," George Wahr, publisher, Ann Arbor, Michigan.

ANNUITY WHICH I WILL BUY (Cont.)

	1½%	1¾%	1⅝%	1⅞%	2%	2½%
1	1.0125 0000	1 0137 5000	1.0150 0000	1.0175 0000	1.0200 0000	1.0225 0000
2	0.5093 9441	0.5103 3597	0.5112 7782	0.5131 6295	0.5150 4950	0.5169 3758
3	0.3417 0117	0.3425 4173	0.3433 8296	0.3450 6746	0.3467 5467	0.3484 4458
4	0.2578 6102	0.2586 5243	0.2594 4478	0.2610 3237	0.2626 2375	0.2642 1893
5	0.2075 6211	0.2083 2510	0.2090 8932	0.2106 2142	0.2121 5839	0.2137 0021
6	0.1740 3381	0.1747 7877	0.1755 2521	0.1770 2256	0.1785 2581	0.1800 3496
7	0.1500 8872	0.1508 2157	0.1515 5616	0.1530 3059	0.1545 1198	0.1560 0025
8	0.1321 3314	0.1328 5758	0.1335 8402	0.1350 4292	0.1365 0980	0.1379 8462
9	0.1181 7055	0.1188 8906	0.1196 0982	0.1210 5813	0.1225 1544	0.1239 8170
10	0.1070 0307	0.1077 1737	0.1084 3418	0.1098 7534	0.1113 2653	0.1127 8768
11	0.0978 6839	0.0985 7973	0.0992 9384	0.1007 3038	0.1021 7794	0.1036 3649
12	0.0902 5931	0.0909 6764	0.0916 7999	0.0931 1377	0.0945 5960	0.0960 1740
13	0.0838 2100	0.0845 2903	0.0852 4036	0.0866 7283	0.0881 1835	0.0895 7686
14	0.0783 0515	0.0790 1246	0.0797 2332	0.0811 5562	0.0826 0197	0.0840 6230
15	0.0735 2646	0.0742 3351	0.0749 4436	0.0763 7739	0.0778 2547	0.0792 8852
16	0.0693 4672	0.0700 5388	0.0707 6508	0.0721 9958	0 0736 5013	0.0751 1663
17	0.0656 6023	0.0663 6780	0.0670 7966	0.0685 1623	0 0699 6984	0.0714 4039
18	0.0623 8479	0.0630 9301	0.0638 0578	0 0652 4492	0.0667 0210	0.0681 7720
19	0.0594 5548	0.0601 6457	0.0608 7847	0.0623 2061	0.0637 8177	0.0652 6182
20	0.0568 2039	0.0575 3054	0.0582 4574	0.0596 9122	0 0611 5672	0.0626 4207
21	0.0544 3748	0.0551 4884	0.0558 6550	0.0573 1464	0.0587 8477	0.0602 7572
22	0.0522 7238	0.0529 8507	0.0537 0331	0.0551 5638	0.0566 3140	0.0581 2821
23	0.0502 9666	0.0510 1080	0.0517 3075	0.0531 8796	0 0546 6810	0.0561 7097
24	0.0484 8665	0.0492 0235	0.0499 2410	0.0513 8565	0.0528 7110	0.0543 8023
25	0.0468 2247	0.0475 3981	0.0482 6345	0.0497 2952	0.0512 2044	0.0527 3599
26	0.0452 8729	0.0460 0635	0.0467 3196	0.0482 0269	0.0496 9923	0.0512 2134
27	0.0438 6677	0.0445 8763	0.0453 1527	0.0467 9079	0.0482 9309	0.0498 2188
28	0.0425 4863	0.0432 7134	0.0440 0108	0.0454 8151	0.0469 8967	0.0485 2525
29	0.0413 2228	0.0420 4699	0.0427 7878	0.0442 6424	0.0457 7836	0.0473 2081
30	0.0401 7854	0.0409 0511	0.0416 3919	0.0431 2975	0.0446 4992	0.0461 9934
31	0.0391 0942	0.0398 3798	0.0405 7430	0.0420 7005	0.0435 9635	0.0451 5280
32	0.0381 0791	0.0388 3850	0.0395 7710	0.0410 7812	0.0426 1061	0.0441 7415
33	0.0371 6786	0.0378 0053	0.0386 4144	0.0401 4779	0.0416 8653	0.0432 5722
34	0.0362 8387	0.0370 1864	0.0377 6189	0.0392 7363	0.0408 1867	0.0423 9655
35	0.0354 5111	0.0361 8801	0.0369 3363	0.0384 5082	0.0400 0221	0.0415 8731
36	0.0346 6533	0.0354 0438	0.0361 5240	0.0376 7507	0.0392 3285	0.0408 2522
37	0.0339 2270	0.0346 6394	0.0354 1437	0.0369 4257	0.0385 0678	0.0401 0643
38	0.0332 1983	0.0339 6327	0.0347 1613	0.0362 4990	0.0378 2057	0.0394 2753
39	0.0325 5365	0.0332 9931	0.0340 5463	0.0355 9399	0.0371 7114	0.0387 8543
40	0.0319 2141	0.0326 6931	0.0334 2710	0.0349 7209	0.0365 5575	0.0381 7738
41	0.0313 2063	0.0320 7078	0.0328 3106	0.0343 8170	0.0359 7188	0.0376 0087
42	0.0307 4906	0.0315 0148	0.0322 6426	0.0338 2057	0.0354 1729	0.0370 5364
43	0.0302 0466	0.0309 5936	0.0317 2465	0.0332 8666	0.0348 8993	0.0365 3364
44	0.0296 8557	0.0304 4257	0.0312 1038	0.0327 7810	0.0343 8794	0.0360 3901
45	0.0291 9012	0.0299 4941	0.0307 1976	0.0322 9321	0.0339 0962	0.0355 6805
46	0.0287 1675	0.0294 7836	0.0302 5125	0.0318 3043	0.0334 5342	0.0351 1921
47	0.0282 6406	0.0290 2799	0.0298 0342	0.0313 8836	0.0330 1792	0.0346 9107
48	0.0278 3075	0.0285 9701	0.0293 7500	0.0309 6569	0.0326 0184	0.0342 8233
49	0.0274 1563	0.0281 8424	0.0289 6478	0.0305 6124	0.0322 0396	0.0338 9179
50	0.0270 1763	0.0277 8857	0.0285 7168	0.0301 7391	0.0318 2321	0.0335 1836
51	0.0266 3571	0.0274 0900	0.0281 9469	0.0298 0269	0.0314 5856	0.0331 6102
52	0.0262 6897	0.0270 4461	0.0278 3267	0.0294 4665	0.0311 0909	0.0328 1884
53	0.0259 1653	0.0266 9453	0.0274 8537	0.0291 0492	0.0307 7392	0.0324 9094
54	0.0255 7760	0.0263 5787	0.0271 5138	0.0287 7672	0.0304 5226	0.0321 7654
55	0.0252 5145	0.0260 3418	0.0268 3018	0.0284 6129	0.0301 4337	0.0318 7489
56	0.0249 3739	0.0257 2249	0.0265 2106	0.0281 5795	0.0298 4656	0.0315 8530
57	0.0246 3478	0.0254 2228	0.0262 2341	0.0278 6606	0.0295 6120	0.0313 0712
58	0.0243 4303	0.0251 3287	0.0259 3661	0.0275 8503	0.0292 8667	0.0310 3977
59	0.0240 6158	0.0248 5380	0.0256 6012	0.0273 1430	0.0290 2243	0.0307 8268
60	0.0237 8993	0.0245 8452	0.0253 9343	0.0270 5336	0.0287 6797	0.0305 3533

ANNUITY WHICH I WILL BUY (Cont.)

	2½%	2¾%	3%	3½%	4%	4½%
1	1.0250 0000	1.0275 0000	1.0300 0000	1.0350 0000	1.0400 0000	1.0450 0000
2	0.5188 2716	0.5207 1825	0.5226 1084	0.5264 0049	0.5301 9608	0.5339 8756
3	0.3501 3717	0.3518 3243	0.3535 3036	0.3569 3418	0.3603 4854	0.3637 7336
4	0.2658 1788	0.2674 2059	0.2690 2705	0.2722 5114	0.2754 9005	0.2787 4365
5	0.2152 4686	0.2167 9832	0.2183 5457	0.2214 8137	0.2246 2711	0.2277 9164
6	0.1815 4997	0.1830 7083	0.1845 9750	0.1876 6821	0.1907 6190	0.1938 7839
7	0.1574 9543	0.1589 9747	0.1605 0635	0.1635 4449	0.1666 0961	0.1697 0147
8	0.1394 6735	0.1409 5795	0.1424 5639	0.1454 7665	0.1485 2783	0.1516 0965
9	0.1254 5689	0.1269 4095	0.1284 3366	0.1314 4601	0.1344 9299	0.1375 7447
10	0.1142 5876	0.1157 3972	0.1172 3051	0.1202 4137	0.1232 9094	0.1263 7862
11	0.1051 0596	0.1065 8629	0.1080 7745	0.1110 9197	0.1141 4904	0.1172 4818
12	0.0974 8713	0.0989 6871	0.1004 6209	0.1034 8395	0.1065 5217	0.1096 6619
13	0.0910 4827	0.0925 3252	0.0940 2954	0.0970 6157	0.1001 4373	0.1032 7535
14	0.0855 3653	0.0870 2457	0.0885 2634	0.0915 7073	0.0946 6897	0.0978 2032
15	0.0807 6646	0.0822 5917	0.0837 6658	0.0868 2307	0.0899 4110	0.0931 1381
16	0.0765 9899	0.0780 9710	0.0796 1085	0.0826 8483	0.0858 2000	0.0890 1537
17	0.0729 2777	0.0744 3186	0.0759 5253	0.0790 4313	0.0821 9852	0.0854 1758
18	0.0696 7008	0.0711 8063	0.0727 0870	0.0758 1684	0.0789 9333	0.0822 3690
19	0.0667 6062	0.0682 7802	0.0698 1388	0.0729 4033	0.0761 3862	0.0794 0734
20	0.0641 4713	0.0656 7173	0.0672 1571	0.0703 6108	0.0735 8175	0.0768 7614
21	0.0617 8733	0.0633 1941	0.0648 7178	0.0680 3659	0.0712 8011	0.0746 0057
22	0.0596 4661	0.0611 8640	0.0627 4739	0.0659 3207	0.0691 9881	0.0725 4565
23	0.0576 9638	0.0592 4410	0.0608 1390	0.0640 1880	0.0673 0906	0.0706 8249
24	0.0559 1282	0.0574 6863	0.0590 4742	0.0622 7283	0.0655 8683	0.0689 8703
25	0.0542 7592	0.0558 3997	0.0574 2787	0.0606 7404	0.0640 1196	0.0674 3903
26	0.0527 6875	0.0543 4116	0.0559 3829	0.0592 0540	0.0625 6738	0.0660 2157
27	0.0513 7687	0.0529 5776	0.0545 6421	0.0578 8241	0.0612 3854	0.0647 1946
28	0.0500 8793	0.0516 7738	0.0532 9323	0.0566 0265	0.0600 1298	0.0635 2081
29	0.0488 9127	0.0504 8935	0.0521 1467	0.0554 4538	0.0588 7993	0.0624 1461
30	0.0477 7764	0.0493 8442	0.0510 1926	0.0543 7133	0.0578 3010	0.0613 9154
31	0.0467 3900	0.0483 5453	0.0499 8993	0.0533 7240	0.0568 5535	0.0604 4348
32	0.0457 6831	0.0473 9263	0.0490 4662	0.0524 4150	0.0559 4859	0.0595 6320
33	0.0448 5938	0.0464 9253	0.0481 5612	0.0515 7242	0.0551 0357	0.0587 4453
34	0.0440 0675	0.0456 4875	0.0473 2196	0.0507 5966	0.0543 1477	0.0579 8191
35	0.0432 0558	0.0448 5645	0.0465 3929	0.0499 9835	0.0535 7732	0.0572 7048
36	0.0424 5158	0.0441 1132	0.0458 0379	0.0492 8416	0.0528 8688	0.0566 0598
37	0.0417 4090	0.0434 0953	0.0451 1162	0.0486 1325	0.0522 3957	0.0559 8402
38	0.0410 7012	0.0427 4764	0.0444 5934	0.0479 8214	0.0516 3192	0.0554 0169
39	0.0404 3615	0.0421 2256	0.0438 4385	0.0473 8775	0.0510 6083	0.0548 5567
40	0.0398 3623	0.0415 3151	0.0432 6238	0.0468 2728	0.0505 2349	0.0543 4315
41	0.0392 6786	0.0409 7200	0.0427 1241	0.0462 9822	0.0500 1738	0.0538 6158
42	0.0387 2876	0.0404 4178	0.0421 9167	0.0457 9828	0.0495 4020	0.0534 0868
43	0.0382 1688	0.0399 3871	0.0416 9811	0.0453 2539	0.0490 8989	0.0529 8235
44	0.0377 3037	0.0394 6100	0.0412 2985	0.0448 7768	0.0486 6454	0.0525 8071
45	0.0372 6752	0.0390 0693	0.0407 8518	0.0444 5343	0.0482 6246	0.0522 0202
46	0.0368 2676	0.0385 7493	0.0403 6254	0.0440 5108	0.0478 8205	0.0518 4471
47	0.0364 0669	0.0381 6358	0.0399 6051	0.0436 6919	0.0475 2189	0.0515 0734
48	0.0360 0599	0.0377 7158	0.0395 7777	0.0433 0646	0.0471 8065	0.0511 8858
49	0.0356 2348	0.0373 9773	0.0392 1314	0.0429 6167	0.0468 5712	0.0508 8722
50	0.0352 5806	0.0370 4092	0.0388 6550	0.0426 3371	0.0465 5020	0.0506 0215
51	0.0349 0870	0.0367 0014	0.0385 3382	0.0423 2156	0.0462 5885	0.0503 3232
52	0.0345 7446	0.0363 7444	0.0382 1718	0.0420 2429	0.0459 8212	0.0500 7679
53	0.0342 5449	0.0360 6297	0.0379 1471	0.0417 4100	0.0457 1915	0.0498 3469
54	0.0339 4799	0.0357 6491	0.0376 2858	0.0414 7090	0.0454 6910	0.0496 0519
55	0.0336 5419	0.0354 7953	0.0373 4907	0.0412 1323	0.0452 3124	0.0493 8754
56	0.0333 7243	0.0352 0612	0.0370 8447	0.0409 6730	0.0450 0487	0.0491 8105
57	0.0331 0204	0.0349 4404	0.0368 3114	0.0407 3245	0.0447 8932	0.0489 8506
58	0.0328 4244	0.0346 9270	0.0365 8848	0.0405 0810	0.0445 8401	0.0487 9897
59	0.0325 9307	0.0344 5153	0.0363 5593	0.0402 8366	0.0443 8836	0.0486 2221
60	0.0323 5340	0.0342 2092	0.0361 3296	0.0400 8862	0.0442 0185	0.0484 5426

ANNUITY WHICH I WILL BUY (Cont.)

	5%	5½%	6%	6½%	7%	8%
1	1.0500 0000	1.0550 0000	1.0600 0000	1.0650 0000	1.0700 0000	1.0800 0000
2	0.5378 0488	0.5416 1800	0.5454 3689	0.5492 6150	0.5530 9179	0.5607 6923
3	0.3672 0856	0.3706 5407	0.3741 0981	0.3775 7570	0.3810 5166	0.3880 3351
4	0.2820 1183	0.2852 9449	0.2885 9149	0.2919 0274	0.2952 2812	0.3019 2080
5	0.2309 7480	0.2341 7644	0.2373 9640	0.2406 3454	0.2438 9069	0.2504 5645
6	0.1970 1747	0.2001 7895	0.2033 6263	0.2065 6831	0.2097 9580	0.2163 1539
7	0.1728 1982	0.1759 6442	0.1791 3502	0.1823 3137	0.1855 5322	0.1920 7240
8	0.1547 2181	0.1578 6401	0.1610 3594	0.1642 3730	0.1674 6776	0.1740 1476
9	0.1406 9008	0.1438 3946	0.1470 2224	0.1502 3803	0.1534 8647	0.1600 7971
10	0.1295 0458	0.1326 6777	0.1358 6796	0.1391 0469	0.1423 7750	0.1490 2949
11	0.1203 8889	0.1235 7065	0.1267 9294	0.1300 5521	0.1333 5890	0.1400 7634
12	0.1128 2541	0.1160 2923	0.1192 7703	0.1225 6817	0.1259 0199	0.1326 9502
13	0.1064 5577	0.1096 8426	0.1129 6011	0.1162 8256	0.1196 5085	0.1265 2181
14	0.1010 2397	0.1042 7912	0.1075 8491	0.1109 4048	0.1143 4494	0.1212 9685
15	0.0963 4229	0.0996 2560	0.1029 6276	0.1063 5278	0.1097 9462	0.1168 2954
16	0.0922 6991	0.0955 8254	0.0989 5214	0.1023 7757	0.1058 5765	0.1129 7687
17	0.0886 9914	0.0920 4197	0.0954 4480	0.0989 0633	0.1024 2519	0.1096 2943
18	0.0855 4622	0.0889 1992	0.0923 5654	0.0958 5461	0.0994 1260	0.1067 0210
19	0.0827 4501	0.0861 5006	0.0896 2086	0.0931 5575	0.0967 5301	0.1041 2763
20	0.0802 4259	0.0836 7933	0.0871 8456	0.0907 5640	0.0943 9293	0.1018 5221
21	0.0779 9611	0.0814 6478	0.0850 0455	0.0886 1333	0.0922 8900	0.0998 3225
22	0.0759 7051	0.0794 7123	0.0830 4537	0.0866 9120	0.0904 0577	0.0980 3207
23	0.0741 3682	0.0776 6965	0.0812 7848	0.0849 6078	0.0887 1393	0.0964 2217
24	0.0724 7090	0.0760 3580	0.0796 7900	0.0833 9770	0.0871 8902	0.0949 7796
25	0.0709 5246	0.0745 4935	0.0782 2672	0.0819 8148	0.0858 1052	0.0936 7678
26	0.0695 6432	0.0731 9307	0.0769 0435	0.0806 9480	0.0845 6103	0.0925 0713
27	0.0682 9186	0.0719 5228	0.0756 9717	0.0795 2288	0.0834 2573	0.0914 4809
28	0.0671 2253	0.0708 1440	0.0745 9255	0.0784 5305	0.0823 9193	0.0904 8891
29	0.0660 4551	0.0697 6857	0.0735 7961	0.0774 7440	0.0814 4865	0.0896 1854
30	0.0650 5144	0.0688 0539	0.0726 4891	0.0765 7744	0.0805 8640	0.0888 2743
31	0.0641 3212	0.0679 1665	0.0717 9222	0.0757 5393	0.0797 9691	0.0881 0728
32	0.0632 8042	0.0670 9519	0.0710 0234	0.0749 9665	0.0790 7292	0.0874 5081
33	0.0624 9004	0.0663 3469	0.0702 7293	0.0742 9924	0.0784 0807	0.0868 5163
34	0.0617 5545	0.0656 2958	0.0695 9843	0.0736 5610	0.0777 9674	0.0863 0411
35	0.0610 7171	0.0649 7493	0.0689 7386	0.0730 6226	0.0772 3396	0.0858 0326
36	0.0604 3446	0.0643 6635	0.0683 9483	0.0725 1332	0.0767 1531	0.0853 4467
37	0.0598 3979	0.0637 9993	0.0678 5743	0.0720 0534	0.0762 3685	0.0849 2440
38	0.0592 8423	0.0632 7217	0.0673 5812	0.0715 3480	0.0757 9505	0.0845 3894
39	0.0587 6462	0.0627 7991	0.0668 9377	0.0710 9854	0.0753 8678	0.0841 8513
40	0.0582 7816	0.0623 2034	0.0664 6154	0.0706 9373	0.0750 0914	0.0838 6016
41	0.0578 2229	0.0618 9090	0.0660 5886	0.0703 1779	0.0746 3962	0.0835 6149
42	0.0573 9471	0.0614 8927	0.0656 8342	0.0699 6842	0.0743 3594	0.0832 8684
43	0.0569 9333	0.0611 1337	0.0653 3312	0.0696 4352	0.0740 3590	0.0830 3414
44	0.0566 1625	0.0607 6128	0.0650 0606	0.0693 4119	0.0737 5769	0.0828 0152
45	0.0562 6173	0.0604 3127	0.0647 0050	0.0690 5968	0.0734 9957	0.0825 8728
46	0.0559 2820	0.0601 2175	0.0644 1485	0.0687 9743	0.0732 5996	0.0823 8991
47	0.0556 1421	0.0598 3129	0.0641 4768	0.0685 5300	0.0730 3744	0.0822 0799
48	0.0553 1843	0.0595 5854	0.0638 9766	0.0683 2506	0.0728 3070	0.0820 4027
49	0.0550 3965	0.0593 0230	0.0636 6356	0.0681 1240	0.0726 3853	0.0818 8557
50	0.0547 7674	0.0590 6145	0.0634 4429	0.0679 1393	0.0724 5985	0.0817 4286
51	0.0545 2867	0.0588 3495	0.0632 3880	0.0677 2861	0.0722 9365	0.0816 1116
52	0.0542 9450	0.0586 2186	0.0630 4617	0.0675 5553	0.0721 3901	0.0814 8959
53	0.0540 7334	0.0584 2130	0.0628 6551	0.0673 9382	0.0719 9509	0.0813 7735
54	0.0538 6438	0.0582 3245	0.0626 9602	0.0672 4267	0.0718 6110	0.0812 7370
55	0.0536 6686	0.0580 5458	0.0625 3696	0.0671 0137	0.0717 3633	0.0811 7796
56	0.0534 8010	0.0578 8698	0.0623 8765	0.0669 6923	0.0716 2011	0.0810 8952
57	0.0533 0343	0.0577 2900	0.0622 4744	0.0668 4563	0.0715 1183	0.0810 0780
58	0.0531 3626	0.0575 8006	0.0621 1574	0.0667 2999	0.0714 1093	0.0809 3227
59	0.0529 7802	0.0574 3959	0.0619 9200	0.0666 2177	0.0713 1689	0.0808 6247
60	0.0528 2818	0.0573 0707	0.0618 7872	0.0665 2047	0.0712 2923	0.0807 9795

11. DEPRECIATION METHODS

Adapted from Finney, "Principles of Accounting," and Curtis and Cooper, "Mathematics of Accounting" New York: Prentice-Hall, Inc.

Factors to be taken into account in calculating depreciation. The factors that must be taken into consideration in estimating depreciation are:

1. Cost, which includes installation and other incidental expenditures.
2. Scrap or residual value, which is the estimated value that may be recovered from the asset after it is taken out of service. This scrap value should be net after estimated costs of dismantling are deducted.
3. Estimated life. This will, of course, be affected by the policy concerning repairs, and this policy should be taken into consideration in estimating the life.

These factors determine the total depreciation to be provided and the estimated life over which the total depreciation is to be spread. The portion of the total depreciation to be charged to each period of the total life depends upon the depreciation method used.

Straight-line method of depreciation. This is the simplest and most common method. It results in spreading the total depreciation equally over all periods of life. The procedure under the straight-line method is as follows:

1. Find the difference between the cost and the scrap value.
2. Divide the figure found in 1 by the number of periods that the asset is expected to be of service. The result is the depreciation charge per period.

EXAMPLE

What will be the depreciation charge and the asset valuation at the end of each year for an asset costing \$1,000.00, and having an estimated life of 10 years and an estimated scrap value of \$100.00?

Formula

$$\begin{aligned} \text{Cost} - \text{Scrap} &= \text{Depreciation} \\ \text{Depreciation} \div \text{Number of years} &= \text{Annual charge} \end{aligned}$$

Arithmetical Substitution

$$\begin{aligned} \$1,000.00 - \$100.00 &= \$900.00 \\ \$900.00 \div 10 &= \$90.00 \end{aligned}$$

TABLE OF DEPRECIATION

<i>Years</i>	<i>Periodic Depreciation Charge</i>	<i>Accumulated Depreciation Reserve</i>	<i>Asset Value</i>
			\$1,000.00
1.....	\$90.00	\$ 90.00	910.00
2.....	90.00	180.00	820.00
3.....	90.00	270.00	730.00
4.....	90.00	360.00	640.00
5.....	90.00	450.00	550.00
6.....	90.00	540.00	460.00
7.....	90.00	630.00	370.00
8.....	90.00	720.00	280.00
9.....	90.00	810.00	190.00
10.....	90.00	900.00	100.00

Working-hours method of depreciation. This method recognizes the fact that property, particularly machinery, depreciates more rapidly if it is run full time or overtime than if it is run part time. Not only is the wear and tear greater, but there is less opportunity for making repairs. Moreover, the full-time and overtime years get more benefit from the asset than do the part-time years. The procedure under the working-hours method is as follows:

1. Find the difference between the cost and the scrap value.
2. Divide the figure found in 1 by the total number of hours that the asset is expected to be of service; this gives the depreciation charge per hour.
3. Multiply the figure found in 2 by the number of working hours per period. The result is the depreciation charge per period.

EXAMPLE

A machine costing \$7,400.00 will have a scrap value of \$200.00. Machines of this class have a working-hour average life of 24,000 hours. What will be the depreciation charge and the asset valuation at the end of each year, if the machine is run as follows:

First year	2,000 hours	Sixth year	2,000 hours
Second year . .	2,000 "	Seventh year . .	3,000 "
Third year . . .	1,800 "	Eighth year . . .	3,000 "
Fourth year . .	2,600 "	Ninth year . . .	3,000 "
Fifth year	2,800 "	Tenth year . . .	1,800 "

Formula

$$\text{Depreciation} \div \text{Total number of hours} = \text{Charge per hour}$$

$$\text{Cost} - \text{Scrap} = \text{Depreciation}$$

Arithmetical Substitution

$$\begin{aligned} \$7,400.00 - \$200.00 &= \$7,200.00 \\ \$7,200.00 \div 24,000 &= \$0.30 \end{aligned}$$

TABLE OF DEPRECIATION

<i>Years</i>	<i>Number of Hours</i>	<i>Periodic Depreciation Charge</i>	<i>Accumulated Depreciation Reserve</i>	<i>Asset Value</i>
				\$7,400.00
1	2,000	\$600.00	\$ 600.00	6,800.00
2	2,000	600.00	1,200.00	6,200.00
3	1,800	540.00	1,740.00	5,660.00
4	2,600	780.00	2,520.00	4,880.00
5	2,800	840.00	3,360.00	4,040.00
6	2,000	600.00	3,960.00	3,440.00
7	3,000	900.00	4,860.00	2,540.00
8	3,000	900.00	5,760.00	1,640.00
9	3,000	900.00	6,660.00	740.00
10	1,800	540.00	7,200.00	200.00

Unit-production method of depreciation. This method is similar to the working-hours method in that it distributes the depreciation among the periods in proportion to the use made of the asset during each period. The estimated life is stated in units of product which can be produced by the asset before it is worn out, and the rate of depreciation is a rate per unit of product. The procedure under the unit-production method is as follows:

1. Find the difference between the cost and the scrap value.
2. Divide the figure found in 1 by the total number of units of product that it is expected the asset will produce during its life; this gives the depreciation charge per unit of product.
3. Multiply the figure found in 2 by the number of units produced per period. The result is the depreciation charge per period.

EXAMPLE

A certain one-purpose machine that costs \$1,000.00, and has no scrap value, has been installed in a factory. A machine of this class produces 10,000 units of product during its life. Assuming that the annual pro-

duction is as given below, set up a table showing the depreciation to be written off each year.

First year	1,000 units	Fifth year	1,000 units
Second year	2,000 "	Sixth year	1,200 "
Third year	1,800 "	Seventh year . .	1,200 "
Fourth year	1,000 "	Eighth year . . .	800 "

Formula

$$\text{Depreciation} \div \text{Total number of units} = \text{Charge per unit}$$

Arithmetical Substitution

$$\begin{aligned} \$1,000.00 - \$0.00 &= \$1,000.00 \\ \$1,000.00 \div 10,000 &= \$0.10 \end{aligned}$$

TABLE OF DEPRECIATION

Years	Units Produced	Periodic Depreciation Charge	Accumulated Depreciation Reserve	Asset Value
				\$1,000.00
1	1,000	\$100.00	\$ 100.00	900.00
2	2,000	200.00	300.00	700.00
3	1,800	180.00	480.00	520.00
4	1,000	100.00	580.00	420.00
5	1,000	100.00	680.00	320.00
6	1,200	120.00	800.00	200.00
7	1,200	120.00	920.00	80.00
8	800	80.00	1,000.00	0.00

Reducing-charge methods of depreciation. Although actual depreciation is usually small during the early periods of life, and large during the later periods, it is sometimes contended that theoretical depreciation should be provided in an opposite manner; that is, by making large charges during the early periods and small charges during the later periods. This procedure is advocated on the theory that the cost of the use of an asset is composed of two elements—repairs and depreciation—and that the sum of these two charges should be a fairly uniform amount year by year. Since repairs tend to increase with the age of the asset, it is contended that the depreciation charge should decrease, in order that the increasing repair charges and the decreasing depreciation charges will tend to equalize each other and produce a uniform total charge.

This method is excellent theory, but the plan of making decreasing depreciation charges assumes that repairs will increase in the same proportion that depreciation decreases. Perhaps they will, but it is likely to be a matter of luck. If it is desirable to equalize the total repair and depreciation charges, it would seem better to create two reserves: one for depreciation on the straight-line method, and another for repairs. By estimating the total repair charges to be made during the life of the asset, and by providing a reserve for repairs by equal periodical charges, an equality is maintained as between periods. Such a plan is subject to the objection that it may be difficult to estimate accurately the total future repair cost, but with statistics showing past experience it should be no more difficult to do this than to estimate depreciation.

Three methods of providing a diminishing depreciation charge are: *

1. Fixed-percentage-of-diminishing-value method.
2. Sum-of-digits method.
3. Diminishing-rates-on-cost method.

Fixed-percentage-of-diminishing-value method. The difficulty encountered in this method is that of finding the rate percent to be used in the calculation of the charge. The procedure is as follows:

1. Divide the scrap value by the cost.
2. Extract the root, corresponding to the number of periods of depreciation to be taken on the life of the asset, of the figure found in 1.
3. Deduct from 1 the result obtained in 2, to find the rate percent to be used.
4. Multiply the net asset or the carrying value of the asset at the beginning of each period by the rate found in 3, to obtain the depreciation charge for each period.

EXAMPLE

What will be the depreciation charges for an asset valued at \$1,000.00, with a scrap value of \$100.00, which is to be written off in 10 years by the fixed-percentage-of-diminishing-value method?

The following are the formula and solution for the calculation of the rate:

* See page 1359 for new declining-balance method permitted by the 1954 Internal Revenue Code.

<i>Formula</i>	<i>Arithmetical Substitution</i>
$1 - \sqrt[n]{\frac{\text{Scrap value}}{\text{Cost value}}} = r$	$1 - \sqrt[10]{\frac{100}{1,000}} = 20.5672\%$

Solution, Part 1

$$\begin{aligned}
 100 \div 1,000 &= .1 \\
 \log .1 &= \bar{1}.000000 \\
 \text{Changed, } \bar{1}.000000 &= 9.000000 - 10 \\
 9.000000 - 10 \div 10 &= .900000 - 1 \\
 \text{Changed} &= \bar{1}.900000 \\
 \text{The antilog of } \bar{1}.900000 &= .794328 \\
 1 - .794328 &= 20.5672, \text{ or } 20.567\%
 \end{aligned}$$

Solution, Part 2

$$\begin{aligned}
 \$1,000.00 \times 20.567\% &= \$205.67, \text{ first depreciation charge} \\
 \$1,000.00 - \$205.67 &= \$794.33, \text{ new asset value} \\
 \$794.33 \times 20.567\% &= \$163.37, \text{ second depreciation charge}
 \end{aligned}$$

This process is continued for each of the 10 years.

TABLE OF DEPRECIATION
(Rate, 20.567%)

Year	Periodic Depreciation Charge	Accumulated Depreciation Reserve	Asset Value
			\$1,000.00
1.....	\$205.67	\$205.67	794.33
2.....	163.37	369.04	630.96
3.....	129.77	498.81	501.19
4.....	103.08	601.89	398.11
5.....	81.88	683.77	316.23
6.....	65.04	748.81	251.19
7.....	51.66	800.47	199.53
8.....	41.04	841.51	158.49
9.....	32.60	874.11	125.89
10.....	25.89	900.00	100.00

It should be clearly understood that the rate to be used in the fixed-percentage-of-diminishing-value method cannot be computed by di-

viding 100% by the years of life. If this were done in the above example, a rate of 10% would be obtained. Since the correct rate is 20.567%, it is evident that the use of a 10% rate would leave a large balance undepreciated at the end of 10 years.

Sum-of-digits method. The procedure under this method is as follows:

1. Find the sum of the digits, or numbers representing the periods of useful life of the asset. Use this sum as the denominator of certain fractions.

2. Use the same digits or numbers in inverse order as the numerators of these fractions.

3. Compute the periodic depreciation by multiplying the total depreciation by the fractions obtained in 1 and 2.

EXAMPLE

An asset is valued at \$1,000.00, and has a scrap value of \$100.00. What should be the depreciation charges if the asset is to be written down in 9 years by the sum-of-digits method?

Solution

TABLE OF DEPRECIATION

Year	Fractional Part	Periodic Depreciation Charge	Accumulated Depreciation Reserve	Asset Value
				\$1,000.00
1.....	9/45	\$180.00	\$180.00	820.00
2.....	8/45	160.00	340.00	660.00
3.....	7/45	140.00	480.00	520.00
4.....	6/45	120.00	600.00	400.00
5.....	5/45	100.00	700.00	300.00
6.....	4/45	80.00	780.00	220.00
7.....	3/45	60.00	840.00	160.00
8.....	2/45	40.00	880.00	120.00
9.....	1/45	20.00	900.00	100.00
<u>45</u>	<u>45/45</u>	<u>\$900.00</u>		

The denominator of the fractions used in the second column is found by adding the first column. The numerators are the same numbers taken in inverse order.

Diminishing-rates-on-cost method. The procedure under this method is as follows:

1. Choose a depreciation rate for each year. No formula is used in determining the rates, which are chosen arbitrarily and diminish from year to year.

2. Multiply the cost by the rate chosen for the year. The result is the depreciation charge.

EXAMPLE

What will be the depreciation charge each year on an asset the cost of which is \$6,000.00, scrap value \$400.00, and estimated life 8 years?

Solution

DEPRECIATION TABLE

Year	Rate	Periodic Depreciation Charge	Accumulated Depreciation Reserve	Asset Value
				\$6,000.00
1	15 $\frac{3}{4}$ %	\$ 940.00	\$ 940.00	5,060.00
2	14%	880.00	1,820.00	4,180.00
3	13	780.00	2,600.00	3,400.00
4	12	720.00	3,320.00	2,680.00
5	11	660.00	3,980.00	2,020.00
6	10	600.00	4,580.00	1,420.00
7	9	540.00	5,120.00	880.00
8	8	480.00	5,600.00	400.00
	<u>93$\frac{1}{4}$%</u>	<u>\$5,600.00</u>		

Annuity method of depreciation. The theory applied in this method is that the depreciation charge should include, in addition to the amount credited to the reserve, interest on the carrying value of the asset.

The investment in property is regarded, first, as the amount of scrap value that draws interest, and second, as an investment in an annuity to be reduced by equal periodic amounts. The interest on the scrap value plus the equal periodic reduction of the investment is the charge to depreciation, offset by a credit to interest computed on the diminishing value of the property, and a credit to the reserve account for the balance. This charge to depreciation is the same each period during the life of the property. The theory of an investment in an annuity is that the annuity is to be reduced by equal periodic payments, and as the credits to interest will decrease, the credits to the reserve must correspondingly increase.

The procedure under the annuity method is as follows:

1. Find the difference between the cost and the scrap value.
2. Divide the figure found in 1 by the present value of an annuity of 1.
3. Calculate the interest on the scrap value for one period at the given rate percentage.
4. Determine the sum of 2 and 3. The result is the periodic charge to depreciation.

EXAMPLE

Calculate by the annuity method the annual charge to depreciation for an asset valued at \$1,000.00, with a scrap value of \$100.00, which is to be written off in 10 years on a 6% basis.

Formula

$$\left[\frac{\text{Cost} - \text{Scrap}}{1 - \frac{1}{(1+i)^n}} \right] \div i + (\text{Scrap} \times i) = \text{Periodic charge}$$

Arithmetical Substitution

$$\left[\frac{1,000 - 100}{1 - \frac{1}{(1.06)^{10}}} \right] \div .06 + (100 \times .06) = \$128.28$$

Solution

(1) The difference between the cost and the scrap value is \$1,000.00 - \$100.00 = \$900.00.

(2) The present value of an annuity of 1 for 10 years at 6% is 7.36008705 (from the table on page 1337). Then, \$900.00 ÷ 7.36008705 = \$122.28.

(3) The interest on the scrap value for one period is \$100.00 × .06 = \$6.00.

(4) The sum of (2) and (3) is \$122.28 + \$6.00 = \$128.28. This is the periodic charge to depreciation.

In the above example, the \$900.00 represents the present value of the sum to be spread over the life of the asset, and the \$100.00 represents the scrap value. In the following tables, the fifth column always contains the carrying value of the annuity, plus \$100.00. The two tables are given to show the similarity between an annuity in which an investment was made and equal annual rents withdrawn, and the annuity method of depreciation.

TABLE OF REDUCTION OF AN ANNUITY

<i>End of Period</i>	<i>Rents Withdrawn</i>	<i>Credits to Interest</i>	<i>Amortization of Investment</i>	<i>Present Value of Annuity, Plus \$100</i>
				\$1,000.00
1.....	\$ 128.28	\$ 60.00	\$ 68.28	931.72
2.....	128.28	55.90	72.38	859.34
3.....	128.28	51.56	76.72	782.62
4.....	128.28	46.96	81.32	701.50
5.....	128.28	42.08	86.20	615.10
6.....	128.28	36.91	91.37	523.73
7.....	128.28	31.42	96.86	426.87
8.....	128.28	25.61	102.67	324.20
9.....	128.28	19.45	108.83	215.37
10.....	128.29	12.92	115.37	100.00
	<u>\$1,282.81</u>	<u>\$382.81</u>	<u>\$900.00</u>	

TABLE OF REDUCTION OF THE VALUE OF AN ASSET

<i>End of Period</i>	<i>Depreciation Charge</i>	<i>Credits to Interest</i>	<i>Credits to Reserve</i>	<i>Value of Asset</i>
				\$1,000.00
1.....	\$ 128.28	\$ 60.00	\$ 68.28	931.72
2.....	128.28	55.90	72.38	859.34
3.....	128.28	51.56	76.72	782.62
4.....	128.28	46.96	81.32	701.50
5.....	128.28	42.08	86.20	615.10
6.....	128.28	36.91	91.37	523.73
7.....	128.28	31.42	96.86	426.87
8.....	128.28	25.61	102.67	324.20
9.....	128.28	19.45	108.83	215.37
10.....	128.29	12.92	115.37	100.00
	<u>\$1,282.81</u>	<u>\$382.81</u>	<u>\$900.00</u>	

Two objections may be raised to the annuity method. First, it results in the addition of interest to the cost of production, a procedure of more than doubtful propriety. Second, it throws the interest charge into operations under the name of depreciation. Even if interest were a proper element of cost, it would seem that the charge should be clearly stated as interest and should not be confused with depreciation.

Sinking-fund method of depreciation. The theory of the sinking-fund method is that the money set aside in a fund should draw

interest, this interest to be added to the fund at the end of each year. The total accumulation of the fund should be equal to the depreciation charged during the life of the asset. While in theory a fund equal to the total accumulation is set aside, usually in practice no such fund exists.

The procedure under the sinking-fund method is as follows:

1. Find the amount of the total depreciation of the asset by deducting the scrap value from the cost.
2. Divide the figure found in 1 by the amount of an ordinary annuity of 1 at the sinking-fund interest rate, for the number of periods of the life of the asset. This will give the periodic sum to be placed in the sinking fund.
3. To the periodic sum found in 2, add a sum equal to the interest on the sinking fund for the period. This gives the periodic charge to depreciation and the credit to reserve for depreciation.

EXAMPLE

An asset costs \$1,000.00, and has a scrap value of \$100.00 at the end of 10 years. Determine the periodic depreciation charge by the sinking-fund method, on a 6% interest basis.

<i>Formula</i>	<i>Arithmetical Substitution</i>
$\frac{\text{Cost} - \text{Scrap}}{\frac{(1+i)^n - 1}{i}} = \text{Periodic deposit in sinking fund}$	$\frac{1,000 - 100}{\frac{(1.06)^{10} - 1}{.06}} = \68.28

Solution

(1) The difference between the cost and the scrap value is \$1,000.00 - \$100.00 = \$900.00.

(2) The amount of an ordinary annuity of 1 for 10 years at 6% is 13.18079494 (from the table on page 1333). Then, \$900.00 ÷ 13.18079494 = \$68.28.

The formula and solution just shown give only the first periodic charge to depreciation. Each periodic charge is an amount equal to the sum of the first periodic payment and the interest on the accumulated depreciation reserve. Table B, below, shows the periodic charges to depreciation and the credits to the reserve account for each of the 10 years.

It is not necessary to accumulate a sinking fund in order to use the sinking-fund method of depreciation. The depreciation entries are independent of the fund entries. If a sinking fund were accumulated for the above example, the entries would be as shown in Table A.

TABLE A.—ENTRIES TO THE SINKING FUND

<i>Year</i>	<i>Debit to Sinking Fund</i>	<i>Credit to Cash</i>	<i>Credit to Interest</i>	<i>Accumulation of Fund</i>
1	\$ 68.28	\$ 68.28	\$.	\$ 68.28
2	72.38	68.28	4.10	140.66
3	76.72	68.28	8.44	217.38
4	81.32	68.28	13.04	298.70
5	86.20	68.28	17.92	384.90
6	91.37	68.28	23.09	476.27
7	96.86	68.28	28.58	573.13
8	102.67	68.28	34.39	675.80
9	108.83	68.28	40.55	784.63
10	115.37	68.29	47.08	900.00
	<u>\$900.00</u>	<u>\$682.81</u>	<u>\$217.19</u>	

TABLE B.—DEPRECIATION ENTRIES BY THE SINKING-FUND METHOD OF DEPRECIATION

<i>End of Year</i>	<i>Depreciation Charge and Reserve Credit</i>	<i>Accumulated Depreciation Reserve</i>	<i>Asset Value</i>
			\$1,000.00
1	\$ 68.28	\$ 68.28	931.72
2	72.38	140.66	859.34
3	76.72	217.38	782.62
4	81.32	298.70	701.30
5	86.20	384.90	615.10
6	91.37	476.27	523.73
7	96.86	573.13	426.87
8	102.67	675.80	324.20
9	108.83	784.63	215.37
10	115.37	900.00	100.00

The sinking-fund method is sometimes used by public utilities in order to determine what amount must be taken out of income to provide a fund for the replacement of the assets. Having determined this amount, the utility is allowed to charge a rate for its service sufficient to provide for depreciation as well as for the other expenses. The cash provided by the income is put into the fund, and the charges to depreciation are made in accordance with the accumulation of the fund. Thus, as the investment in, or carrying value of, the fixed assets is diminished, the fund is increased, and the capital is kept intact.

Appraisal method of depreciation. This method consists merely of estimating the value of the asset at the end of each period and writing off as depreciation the difference between the balance of the asset account and the appraised value. The appraisal method is likely to result in burdening some periods with heavy charges and relieving other periods, for if the depreciation charges correspond with actual depreciation, the charges will be light during the early years and heavy during the later ones. On the other hand, the burden may be reversed by charging the early periods with large amounts, on the theory that the property loses value rapidly in the early part of its life, because its value is quickly reduced to a secondhand basis. This practice improperly introduces the element of realizable values, when only going-concern values should be considered.

When the appraisal method is used, care should be taken to ignore upward or downward fluctuations in market value.

Composite-life method of depreciation. The composite life of a plant as a whole, sometimes called the average or mean life, may be computed as in the following illustration:

Asset	Cost	Residual Value	Total Depreciation	Estimated Life	Annual Depreciation (Straight-Line)
A	\$20,000.00	\$5,000.00	\$15,000.00	20 years	\$ 750.00
B	12,000.00	2,000.00	10,000.00	10 years	1,000.00
C	8,000.00	2,000.00	6,000.00	8 years	750.00
D	500.00	100.00	400.00	2 years	200.00
			<u>\$31,400.00</u>		<u>\$2,700.00</u>

$\$31,400.00 \div \$2,700.00 = 11\frac{17}{27}$, the composite, or average, life.

This computation indicates that \$31,400.00 depreciation should be provided to cover one exhaustion of the plant as a whole. On the straight-line method, \$2,700.00 depreciation will be provided annually. At this rate it will take $11\frac{17}{27}$ years to provide \$31,400.00 depreciation. Hence $11\frac{17}{27}$ years is the composite life of the plant.

Federal income tax; deduction for depreciation. In computing the Federal income tax, a reasonable allowance is made for the exhaustion, wear, and tear of property used in the trade or business.

In addition to straight-line depreciation, the 1954 Internal Revenue Code permits two methods of accelerated depreciation—the declining-balance method, using a rate double that of the straight-line method, and sum-of-the-digits (explained at page 1352). The two methods of accelerated depreciation may be used only as to: (1) new (not used or second-hand) tangible property acquired after 1953, or (2) property constructed or reconstructed by the taxpayer to the extent of that portion of the basis attributable to work done after

TABLE SHOWING DEPRECIATION RATE FOR VARIOUS ASSETS

(Page from a table contained in the pamphlet "Bulletin 'F'," issued by the Bureau of Internal Revenue.)

MOTOR AND OTHER VEHICLES

	Years		Years
Automobiles:		Trucks:	
Passenger	5	Outside use—	
Salesman	3	Electric	10
Horse-drawn vehicles	8	Gas, light	4
Motorcycles	4	Medium	6
Tractors	6	Heavy	8
Trailers	6	Inside use	15

OFFICE EQUIPMENT

	Average useful life (years)		Average useful life (years)
Adding machines	10	Call system and annunci-	
Addressing and mailing ma-		ators	14
chines	15	Cases:	
Billing machines	8	Book	20
Binders, loose-leaf	20	Display	20
Blue-printing machines ...	15	Chairs:	
Bookkeeping machines ...	8	Bentwood	5
Cabinets and files	15	Heavy	16
Calculators	10	Check perforators	10

	Average useful life (years)		Average useful life (years)
Check writers	8	Lockers	25
Cleaners, electric vacuum . .	6	Lunch-room equipment . . .	15
Clocks:		Mirrors	20
Time	15	Money machines	10
Time-stamping	10	Numbering machines	10
Wall	20	Photographing machines . .	16
Coolers, water	10	Pneumatic-tube systems . .	20
Desks	20	Racks and stands	15
Dictation machines	6	Rugs, carpets, and mats . .	10
Duplicating machines	10	Safes and vaults	50
Fans, electric	10	Scales, counter and mail . .	10
Folding and sealing ma- chines	10	Settees	13
Helmets, rescue	6	Shades, window	10
Hospital equipment	15	Signs, board	10
Lamps, desk and floor	10	Tables	15
Linoleum	8	Typewriters	5
		Wardrobes	20

1953. In order to qualify, the property must have a useful life of at least 3 years.

Declining-balance method. Under the new declining-balance method, double the straight-line rate of depreciation is applied to the unrecovered cost each year without regard to the salvage value. The depreciation deduction starts off high and goes down each year; at the end of useful life there will still be part of the cost unrecovered.

EXAMPLE

A machine costs \$6,000 and has an estimated useful life of 10 years. Straight-line rate is 10 per cent; declining balance rate is double that, or 20 per cent. The first year's deduction is 20 per cent of \$6,000 or \$1,200. The unrecovered balance of the cost is then \$4,800. The second year's deduction is 20 per cent (the rate stays constant) of \$4,800, or \$960, and so on. At the end of 10 years, depreciation deductions total only 89 per cent of the cost.

The last 11 per cent can be recovered in two ways: (1) Abandon the asset as worthless (or for obsolescence or otherwise) or dispose of it for what it will bring, taking a deduction, normally against ordinary income, for the loss; (2) switch to straight-line depreciation at any

ANOTHER TABLE SHOWING DEPRECIATION RATE FOR
VARIOUS ASSETS

(Page from a table compiled from decisions of the courts and the Board of Tax Appeals)

<i>Asset</i>	<i>Useful Life (Yrs)</i>	<i>Rate (%)</i>	<i>Authority</i>
Plumbing	33 $\frac{1}{3}$	3	Union Co., 14 B.T.A. 1310
	20	5	Lord & Bushnell Co., 7 B.T.A. 86
Plank roads	10	10	Lord & Bushnell Co., 7 B.T.A. 86
Plows	5	20	Louis Titus, 2 B.T.A. 754
Power plants . . .	20	5	Art. Metal Const. Co., 4 B.T.A. 493
			Chicago Ry. Equipment Co., B.T.A. 471
	15	6 $\frac{2}{3}$	Frost Manufacturing Co., 13 B.T.A. 802
	14 $\frac{7}{8}$	7	Lassen Lumber & Box Co., 6 B.T.A. 241
	10	10	Atlas Tack Co., 9 B.T.A. 1322
Power transmission lines	15 $\frac{1}{3}$	6 $\frac{1}{2}$	Quito Electric Light & Power Co., 10 B.T.A. 538
	10	10	Lord & Bushnell Co., 7 B.T.A. 86
Rafting gear	2	50	J. S. Hoskins Lumber Co., 3 B.T.A. 846
Railroads	25	4	Great Northern Railway Co., 30 B.T.A. 691
	6 $\frac{2}{3}$	15	Fort Orange Paper Co., 1 B.T.A. 1230
	3	33 $\frac{1}{3}$	Lytle Const. Co., 21 B.T.A. 1423 †
. bridges and trestles	10	10	Richmond Belt Railway Co., 13 B.T.A. 1291
. grading	33 $\frac{1}{3}$	3	Richmond Belt Railway Co., 13 B.T.A. 1291
. rails	20	5	Richmond Belt Railway Co., 13 B.T.A. 1291
. ties	8	12 $\frac{1}{2}$	Richmond Belt Railway Co., 13 B.T.A. 1291
Raisin Stemmers	10	10	Lloyd H. Wilbur, 5 B.T.A. 597
Refrigerators	5	20	Strauss Market, Inc., 2 B.T.A. 1264
Refrigerator cars	20	5	American Refrigerator Transit Co., 31 B.T.A. 465 (No. 96) (nonacquiescence, C.B. June 1935, p. 23)
Sawmill	20	5	Woods Lumber Co., 44 B.T.A. 88
Scales	10	10	Hickory Spinning Co., 2 B.T.A. 439
	4	25	Lord & Bushnell Co., 7 B.T.A. 86
Scows	30	3 $\frac{1}{8}$	David T. Long, 17 B.T.A. 584
			Morris & Cummings Dredging Co., 10 B.T.A. 351
	20	5	Bartley Scow Co., 1 B.T.A. 1165
Sewing machines .	10	10	Pinkus Happ, 7 B.T.A. 865
Signs	20	5	Cooperative Publishing Co., 5 B.T.A. 340
	10	10	Lord & Bushnell Co., 7 B.T.A. 86
	6 $\frac{2}{3}$	15	When Clothing Co., 1 B.T.A. 973

† Construction work only.

time during the useful life and thus recover all of the cost less scrap value.

Rate of depreciation. The rate of depreciation depends in every instance upon the estimated useful life of the property. In Bulletin "F," revised January 1942, the probable useful life of several hundred items is set forth.* The table above is reproduced from this source. Since that date, the courts and Board of Tax Appeals have handed down numerous decisions approving a certain rate for various assets. While the rates given in Bulletin "F" and in the decisions of the courts are entitled to great weight, they may not be used arbitrarily, but are a useful guide or starting-point from which the correct rate may be determined. The question in every case is one of fact to be determined in the light of the experience of the property under consideration and all other pertinent evidence. A page from a table compiled from court and Board decisions is illustrated below.

12. SHORT CUTS IN BUSINESS MATHEMATICS

Adapted from Curtis and Cooper, "Mathematics of Accounting"
New York: Prentice-Hall, Inc.

Addition

Addition of columns. Add each column separately, setting the sums one place to the left each time. After the last column has been added, add the individual sums in regular order—that is, from right to left. (See Example 1.)

To check, repeat the process beginning at the left.

or

Add each column separately, and, as each sum is set one place to the left, add the number carried from the column at the right. The answer is the total of the last column and the outer figures. (See

* The 1954 Code allows a depreciation period of five years for any "emergency facility" or grain storage facility, as defined in the Code (Sec. 168 and 169).

Example 2.) The second method saves a little time but is not checked as in Example 1.

Example 1

$$\begin{array}{r}
 4572 \\
 3986 \\
 2173 \\
 5911 \\
 2765 \\
 4937 \\
 \hline
 24 \\
 32 \\
 40 \\
 20 \\
 \hline
 24344
 \end{array}$$
Example 2

$$\begin{array}{r}
 4572 \\
 3986 \\
 2173 \\
 5911 \\
 2765 \\
 4937 \\
 \hline
 24 \\
 34 \\
 43 \\
 24
 \end{array}$$
Savings accomplished.

1. Time required to readd a column of figures for the purpose of picking up the carrying figure is saved.

2. Saves time in checking for errors. For example, if, in the final summary of additions, there is an error of \$100.00, the hundreds' columns of the subtotals may be verified quickly without the necessity of readding all the columns.

Subtraction

Subtraction by addition. Instead of subtracting in the usual way, add to the subtrahend the number required to make the subtrahend equal to the minuend.

Thus, in the following example, instead of thinking 7 from 16 is 9, think $7 + 9 = 16$. Write the 9. Add 1, the digit carried over, to the 8, making 9. $9 + 8 = 17$. Write 8 and add 1, the digit carried over, to 1, making 2. $2 + 0 = 2$. Write 0. $3 + 5 = 8$. Write 5. Answer: 5,089.

EXAMPLE

Minuend	8276
Subtrahend	3187
Difference	<u>5089</u>

Purpose. The common error in subtraction caused by overlooking the fact that borrowing from the next higher order has taken place is avoided by changing the process of subtraction to that of addition.

Balancing an account. In most cases inspection will tell which side of the account is the greater in amount. Add the larger side, and put the same footing on the smaller side, leaving space for the balance; then add from the top downward, supplying the figures necessary to make the column total equal to the footing previously placed there.

EXAMPLE

<i>Debits</i>	<i>Credits</i>
\$ 1,956.18	\$ 134.26
3,452.75	258.19
289.34	764.83
5,726.31	2,375.94
	Balance, 7,891.36
<u>\$11,424.58</u>	<u>\$11,424.58</u>

Explanation. The balance, \$7,891.36, was found as follows: Inspection showed the debit side to be the larger in amount. It was therefore added, and the footing of the account, \$11,424.58, was placed under both debit and credit columns. The first order of the credits—that is, the cents—adds to 22. Insert 6 to make 28. With 2, the digit carried over, the second order, the dimes, adds to 22. Insert 3 to make 25. The third order, the dollars, with the digit carried over, adds to 23. Insert 1 to make 24. The fourth order, the tens of dollars, with the digit carried over, adds to 23. Insert 9 to make 32. The fifth order, the hundreds of dollars, with the digit carried over, adds to 16. Insert 8 to make 24. The sixth order, the thousands of dollars, with the digit carried over, adds to 4. Insert 7 to make 11.

Multiplication

TABLE OF SHORT CUTS IN MULTIPLICATION

To multiply by		To multiply by
1¼ add 0 and divide by 8		25 add 00 and divide by 4
1½ “ 0 “ “ “ 6		31¼ “ 000 “ “ “ 32
2½ “ 0 “ “ “ 4		33½ “ 00 “ “ “ 3
3½ “ 0 “ “ “ 3		50 “ 00 “ “ “ 2
5 “ 0 “ “ “ 2		66⅔ “ 000 “ “ “ 15
6¼ “ 00 “ “ “ 16		83⅓ “ 000 “ “ “ 12
6⅔ “ 00 “ “ “ 15		125 “ 000 “ “ “ 8
8½ “ 00 “ “ “ 12		166⅔ “ 000 “ “ “ 6
12½ “ 00 “ “ “ 8		250 “ 000 “ “ “ 4
14⅔ “ 00 “ “ “ 7		333⅓ “ 000 “ “ “ 3
16⅔ “ 00 “ “ “ 6		

Using factors as a short cut in multiplication. When factors of the multiplier are used, there are only two multiplications, whereas in the ordinary method there is an addition as well.

EXAMPLE

Multiply 439 by 24.

Solution

Ordinary Method

$$\begin{array}{r} 439 \\ 24 \\ \hline 1756 \\ 878 \\ \hline 10536 \end{array}$$

Shorter Method

$$\begin{array}{r} 439 \quad 24 = 6 \times 4 \\ 6 \\ \hline 2634 \\ 4 \\ \hline 10536 \end{array}$$

Multiplication by 11. Put down the units' digit (right-hand figure) as the units' digit of the product. Then add the tens' digit (second figure) to the units' digit and put down the sum. If it is over 10, put down the right-hand figure and carry 1. Then add the hundreds' digit (third figure) to the tens' digit, adding the 1 if there was a carry-over. If it is over 10, put down the right-hand figure and carry 1, as before. Continue in the same way with each digit to the left. Then put down the first figure and carry 1 if there is a carry-over.

EXAMPLE

Multiply 5,846 by 11.

Solution

Put down 6, the units' digit. Add 4 and 6, put down 0, and carry 1. Add 8 and 4 and 1 carried over, and put down 3 and carry 1. Add 5 and 8 and 1 carried over, and put down 4 and carry 1. Put down 5 plus 1 carried over, 6. The answer is 64306.

Multiplication by 15. Annex a cipher to the multiplicand, and increase the result by one half of the multiplicand.

EXAMPLE

Multiply 8,435 by 15.

Solution

$$\begin{array}{r} 84350 \\ 42175 \\ \hline 126525 \end{array}$$

Multiplication by 75. Annex two ciphers, then divide by 4, and subtract this quotient from the product.

EXAMPLE

Multiply 4,728 by 75.

Solution

$$\begin{array}{r} 472800 \\ 118200 \\ \hline 354600 \end{array}$$

Multiplication of numbers ending with ciphers. Multiply the significant figures and annex as many ciphers as there are final ciphers in both the multiplier and the multiplicand.

EXAMPLE

Multiply 756,000 by 4,200.

Solution

$$\begin{array}{r} 756 \\ 42 \\ \hline 31752 \end{array}$$

Annex five ciphers. Answer: 3,175,200,000.

Multiplication by 9, 99, 999, etc. Multiply by 10, 100, or 1,000, etc., and subtract the original number from the result.

EXAMPLE

Multiply 8,356 by 99.

Solution

$$\begin{array}{r} 835,600 \\ - 8,356 \\ \hline 827,244 \end{array}$$

Answer:

Multiplication by numbers near 100, as 98, 97, 96, etc., and by numbers near 1,000, as 997, 996, etc. This method is of value in finding the net proceeds of some amount less 2%, 3%, etc., and also in many other situations.

Multiply the number by 100 (or 1,000) and subtract the product of the multiplicand and the difference between 100 (or 1,000) and the exact multiplier.

EXAMPLE

Multiply 3,247 by 97.

Solution

Multiply the number by 100, and subtract 3 times the number.

$$324,700 = 3,247 \times 100$$

$$\underline{9,741} = 3,247 \times 3$$

$$314,959 = 3,247 \times 97$$

Multiplication of two numbers, each near 100, 1,000, etc.
Products of numbers in this class may be calculated mentally.

EXAMPLE 1

Multiply 96 by 98.

Explanation. Step 1. Multiply the complements of the two numbers, and, if the product occupies units' place only, prefix a cipher. Result, 08.

Step 2. Subtract the complement of one number from the other number, and write the result at the left of the result in Step 1. The complement of either number subtracted from the other number leaves the same remainder; as, $96 - 2$ or $98 - 4$ each equal 94. Answer: 9,408.

Solution

	<i>Complement</i>
96	4
98	2
<u>9408</u>	

EXAMPLE 2

Multiply 996 by 988.

Solution

	<i>Complement</i>
996	4
988	12
<u>984,048</u>	

Explanation. When numbers near 1,000 are multiplied, ciphers are prefixed to the product of the complements, so that the product occupies three places.

Multiplying by numbers a little larger than 100, as 101, 102, etc. Annex two ciphers to the multiplicand, and to this add the

product of the multiplicand and the units' figure of the multiplier. Annex three ciphers for multipliers over 1,000.

EXAMPLE

Multiply 3,475 by 104.

Solution

$$\begin{array}{r} 347,500 \\ 13,900 \quad (4 \times 3,475) \\ \hline 361,400 \end{array}$$

Multiplication of two numbers, each a little more than 100. To the sum of the numbers (omitting one digit in the hundreds' column), annex two ciphers, and add the product of the supplements (excess over 100).

EXAMPLE

Multiply 112 by 113.

Solution

$$\begin{array}{r} 112 \\ 113 \\ \hline 12500 \quad (\text{sum of numbers, with one digit in the hundreds' column omitted}) \\ 156 \quad (\text{product of supplements, } 12 \times 13) \\ \hline 12656 \end{array}$$

Explanation. In instances similar to the foregoing, a knowledge of the multiplication tables to 20×20 makes mental results possible, and is invaluable in inventory and other extensions.

Mental multiplication by a single method. Instead of using the various methods of rapid multiplication for different multipliers explained in the preceding pages, it is possible to use one method for all two- and three-digit multipliers. The following explanation is adapted from *Mental Multiplication, How to Figure Mentally*, by Charles Lipkin, C.P.A.

Mental multiplication with two-digit multipliers. The multiplying is done downward. In multiplying by the units' digit of the multiplier, put the answer down, but only in one digit, and carry the rest. Thus, in multiplying 6 by 7, answer 42, put down 2 and carry 4. In multiplying by any other digit of the multiplier except the units' digit, do not put the answer down, but carry, except at the end.

EXAMPLES

	439
	× 11
	<u>9</u>
9 × 11 = 99, carry 9	29
9 + (3 × 11) = 42, carry 4	4829
4 + (4 × 11) = 48	<u><u>4829</u></u>
	439
	× 75
	<u>5</u>
9 × 75 = 675, carry 67	25
67 + (3 × 75) = 292, carry 29	32925
29 + (4 × 75) = 329	<u><u>32925</u></u>

In the above examples knowledge of the multiplication tables was assumed. Assuming now that no multiplication table is known above 9×9 , the process is as follows: Multiply downward as above. Set down the partial product's *units'* digit when multiplying by the *units'* figure of the multiplier; always carry the *entire* partial product when multiplying by the *tens'* figure of the two-digit multiplier.

EXAMPLES

	439
	× 11
	<u>9</u>
9 × 1 =	29
9 × 1 = 9, carry 9	829
9 + (3 × 1) = 12, carry 1	4829
1 + (3 × 1) = 4, carry 4	<u><u>4829</u></u>
4 + (4 × 1) = 8	439
4 × 1 = 4	× 75
	<u>5</u>
9 × 5 = 45, carry 4	25
4 + (9 × 7) = 67, carry 67	925
67 + (3 × 5) = 82, carry 8	32925
8 + (3 × 7) = 29, carry 29	<u><u>32925</u></u>
29 + (4 × 5) = 49, carry 4	
4 + (4 × 7) = 32	

Mental multiplication with three-digit multipliers. In multiplying by a number of three digits, consider such multiplier as consisting of two figures: a *tens'* figure of *one* digit (the hundreds' digit of

the multiplier), and a *units'* figure of two digits (the tens' and units' digits of the multiplier); thus, 119 is seen as 1 19, 223 as 2 23, etc.

EXAMPLES

	439
	$\times 119$
	1
$9 \times 19 = 171$, carry 17	41
$17 + (3 \times 19) + 90$ (9 of 439×10) = 164, carry 16	241
$16 + (4 \times 19) + 30$ (3 of 439×10) = 122, carry 12	52241
$12 + 40$ (4 of 439×10) = 52	
	439
	$\times 327$
	3
$9 \times 27 = 243$, carry 24	53
$24 + (3 \times 27) + 270$ (9 of 439×30) = 375, carry 37	533
$37 + (4 \times 27) + 90$ (3 of 439×30) = 235, carry 23	143553
$23 + 120$ (4 of 439×30) = 143	

How to abbreviate decimal multiplication when a given number of decimal places is required. It is a waste of time to carry out decimal multiplication to a denomination smaller than that in which the data are expressed; often it is unnecessary to carry it beyond the third or fourth decimal.

EXAMPLE

Multiply 4.7892 by 3.1765, and obtain the answer correct to four decimal places.

Solution

4.7892	= multiplicand
56713	= multiplier reversed
14.3676	= 4.7892×3 .
.4789 2	= $4.7892 \times .1$
.3352 4 4	= $4.7892 \times .07$
.287 3 8 7	= $4.7892 \times .006$
.23 9 4 8 8	= $4.7892 \times .0005$
15.2128 8 8 8 8	

Explanation. The multiplier, 3.1765, is written in the reverse order, 56713, the units' digit being placed under the lowest order of the multiplicand that is desired in the product—ten thousandths. Multiply by each digit of the reversed multiplier, beginning with that digit of the multiplicand which stands directly above the digit of the multiplier used, taking care to include the digit carried over from the multiplication of the one (or two) rejected digits at the right.

Multiplication by use of a table of multiples. It is not uncommon to have to use the same number many times in making calculations, especially in cost accounting. A saving of time and increased accuracy in the work are achieved if a table of multiples of the number is constructed. Suppose that you have to perform a number of multiplications in which 326,834 is one of the factors. A table of multiples may be constructed with an adding machine by locking the repeat key. Subtotal after each pull of the handle. The subtotals should check with the product column shown below. If the table is prepared by repeated additions, and not with an adding machine, the 10th product should be computed, as it will verify all, unless there are compensating errors in the work.

TABLE OF MULTIPLES

<i>Multiplier</i>	<i>Product</i>
1	326,834
2 (326,834 + 326,834)	653,668
3 (653,668 + 326,834)	980,502
4 (980,502 + 326,834)	1,307,336
5 (1,307,336 + 326,834)	1,634,170
6 (1,634,170 + 326,834)	1,961,004
7 (1,961,004 + 326,834)	2,287,838
8 (2,287,838 + 326,834)	2,614,672
9 (2,614,672 + 326,834)	2,941,506

Verification

$$10 (2,941,506 + 326,834) \quad \dots \quad 3,268,340$$

EXAMPLE

Multiply 326,834 by 5,249.

Solution

$$\begin{array}{rcl}
 2941506 & = & 9 \text{ times } 326,834 \\
 1307336 & = & 4 \text{ times } 326,834 \\
 653668 & = & 2 \text{ times } 326,834 \\
 1634170 & = & 5 \text{ times } 326,834 \\
 \hline
 171551666 & = & \text{product}
 \end{array}$$

HANDY MULTIPLICATION AND DIVISION TABLE

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25
2	4	6	8	10	12	14	16	18	20	22	24	26	28	30	32	34	36	38	40	42	44	46	48	50
3	6	9	12	15	18	21	24	27	30	33	36	39	42	45	48	51	54	57	60	63	66	69	72	75
4	8	12	16	20	24	28	32	36	40	44	48	52	56	60	64	68	72	76	80	84	88	92	96	100
5	10	15	20	25	30	35	40	45	50	55	60	65	70	75	80	85	90	95	100	105	110	115	120	125
6	12	18	24	30	36	42	48	54	60	66	72	78	84	90	96	102	108	114	120	126	132	138	144	150
7	14	21	28	35	42	49	56	63	70	77	84	91	98	105	112	119	126	133	140	147	154	161	168	175
8	16	24	32	40	48	56	64	72	80	88	96	104	112	120	128	136	144	152	160	168	176	184	192	200
9	18	27	36	45	54	63	72	81	90	99	108	117	126	135	144	153	162	171	180	189	198	207	216	225
10	20	30	40	50	60	70	80	90	100	110	120	130	140	150	160	170	180	190	200	210	220	230	240	250
11	22	33	44	55	66	77	88	99	110	121	132	143	154	165	176	187	198	209	220	231	242	253	264	275
12	24	36	48	60	72	84	96	108	120	132	144	156	168	180	192	204	216	228	240	252	264	276	288	300
13	26	39	52	65	78	91	104	117	130	143	156	169	182	195	208	221	234	247	260	273	286	299	312	325
14	28	42	56	70	84	98	112	126	140	154	168	182	196	210	224	238	252	266	280	294	308	322	336	350
15	30	45	60	75	90	105	120	135	150	165	180	195	210	225	240	255	270	285	300	315	330	345	360	375
16	32	48	64	80	96	112	128	144	160	176	192	208	224	240	256	272	288	304	320	336	352	368	384	400
17	34	51	68	85	102	119	136	153	170	187	204	221	238	255	272	289	306	323	340	357	374	391	408	425
18	36	54	72	90	108	126	144	162	180	198	216	234	252	270	288	306	324	342	360	378	396	414	432	450
19	38	57	76	95	114	133	152	171	190	209	228	247	266	285	304	323	342	361	380	399	418	437	456	475
20	40	60	80	100	120	140	160	180	200	220	240	260	280	300	320	340	360	380	400	420	440	460	480	500
21	42	63	84	105	126	147	168	189	210	231	252	273	294	315	336	357	378	399	420	441	462	483	504	525
22	44	66	88	110	132	154	176	198	220	242	264	286	308	330	352	374	396	418	440	462	484	506	528	550
23	46	69	92	115	138	161	184	207	230	253	276	299	322	345	368	391	414	437	460	483	506	529	552	575
24	48	72	96	120	144	168	192	216	240	264	288	312	336	360	384	408	432	456	480	504	528	552	576	600
25	50	75	100	125	150	175	200	225	250	275	300	325	350	375	400	425	450	475	500	525	550	575	600	625
	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25

Multiplication.—A number in the top line multiplied by a number in the column at the extreme left produces the number shown where the top line and the side line meet. *Example.* $17 \times 14 = 238$.

Division.—A number in the table divided by the number at the top of that column produces the number shown in the column at the extreme left. Also, a number in the table divided by the number in the column at the extreme left produces the number shown at the top of that column. *Example.* $266 \div 14 = 19$.

Division

TABLE OF SHORT CUTS IN DIVISION

<i>To divide by</i>			
$1\frac{1}{4}$	multiply by	8	and divide by 10
$1\frac{1}{2}$	"	6	" " 10
$2\frac{1}{2}$	"	4	" " 10
$3\frac{1}{8}$	"	3	" " 10
$3\frac{3}{4}$	"	8	" " 30
$6\frac{1}{4}$	"	16	" " 100
$7\frac{1}{2}$	"	4	" " 30
$8\frac{1}{8}$	"	12	" " 100
$9\frac{1}{11}$	"	11	" " 100
$11\frac{1}{6}$	"	9	" " 100
$12\frac{1}{2}$	"	8	" " 100
$14\frac{2}{7}$	"	7	" " 100
$16\frac{2}{3}$	"	6	" " 100
25	"	4	" " 100
$31\frac{1}{4}$	"	16	" " 500
$33\frac{1}{3}$	"	3	" " 100
75	"	4	" " 300
125	"	8	" " 1,000
175	"	4	" " 700
275	"	4	" " 1,100
375	"	8	" " 3,000
625	"	8	" " 5,000
875	"	8	" " 7,000

Division by use of a table of multiples. If a number of divisions are to be made with the same divisor, it is advantageous to set up a table of multiples of the divisor.

EXAMPLE

Assume that 328 is to be used a number of times as a divisor, and that one of the dividends is 587,954.

TABLE OF MULTIPLES

<i>Multiplier</i>	<i>Product</i>
1	328
2	656
3	984
4	1,312
5	1,640
6	1,968
7	2,296
8	2,624
9	2,952

Explanation. Inspection shows the first digit in the quotient to be 1. The second partial dividend is 2,599. The table of multiples shows the largest product contained therein to be 2,296, opposite 7. The third partial dividend is 3,035, and the table of multiples shows the largest product contained therein to be 2,952, opposite 9. The fourth partial dividend is 834, and the largest product contained therein is 656, opposite 2. The remainder is 178. The fraction $\frac{178}{328}$ may be reduced to $\frac{89}{164}$, or it may be changed to a decimal.

Solution

$$\begin{array}{r}
 328 \overline{) 587954} (1792\frac{89}{164} \\
 \underline{328} \\
 2599 \\
 \underline{2296} \\
 3035 \\
 \underline{2952} \\
 834 \quad 178 = \frac{89}{164} \\
 \underline{656} \\
 178
 \end{array}$$

Division in this manner is rapid, as no time is lost through selection of a quotient so large that when the product is found it exceeds the dividend, necessitating another trial.

Reciprocals in division. The reciprocal of any number is found by dividing 1 by the number. The reciprocal of 5 is $1 \div 5$, or .2, and the reciprocal of 25 is $1 \div 25$, or .04.

The quotient in a division may be found by multiplying the dividend by the reciprocal of the divisor. Hence, in instances in which it is necessary to find what percent each item is of the total of the items, the use of the reciprocal of the divisor will save time and provide a check on these computations.

Procedure: To find what percent each item is of the total of the items:

1. Divide 1 by the total of the items to obtain the reciprocal of the total.

2. Using the result obtained in 1 as a fixed multiplier, multiply each of the individual items, and the respective results obtained will be the percentages that the individual items are of the total sum.

EXAMPLE

Find the percentage that each department's monthly expense is of the total monthly expense.

<i>Department</i>	<i>Expense</i>
A	\$ 600.00
B	500.00
C	1,200.00
D	700.00
E	1,000.00
Total	<u>\$4,000.00</u>

Solution

Divide 1 by 4,000 to obtain the reciprocal, .00025. Multiply the expense of each department by this reciprocal, and the product will be the percentage that the department's expense is of the total expense.

<i>Department</i>	<i>Expense</i>	<i>Reciprocal</i>	<i>Per Cent</i>
A	\$ 600.00	× .00025	= 15 %
B	500.00	× .00025	= 12½%
C	1,200.00	× .00025	= 30 %
D	700.00	× .00025	= 17½%
E	1,000.00	× .00025	= 25 %
Total	<u>\$4,000.00</u>		<u>100 %</u>

Division of decimals. Division of decimals may often be abbreviated, especially when the divisor is given to a greater number of decimal places than are contained in the dividend, and when only three or four decimals are essential in the quotient.

EXAMPLE

Divide 4.39876 by 2.4871934, and obtain the quotient correct to three decimal places.

Solution

<i>Ordinary Method</i>	<i>Abbreviated Method</i>
$ \begin{array}{r} 2.4871934 \overline{) 4.3987600} \quad (1.768 \\ \underline{2 \ 487 \ 1934} \\ 1 \ 911 \ 56660 \\ \underline{1 \ 741 \ 03538} \\ 170 \ 531220 \\ \underline{149 \ 231604} \\ 21 \ 2996160 \\ \underline{19 \ 8975472} \\ 1 \ 4020688 \end{array} $	$ \begin{array}{r} 2.487 \overline{) 4.3987} \quad (1.768 \\ \underline{2 \ 487 \ 2} \\ 1 \ 911 \ 5 \\ \underline{1 \ 741 \ 0} \\ 170 \ 5 \\ \underline{149 \ 2} \\ 21 \ 3 \\ \underline{19 \ 9} \\ 1 \ 4 \end{array} $

Explanation. Observation of the ordinary method shows that the third decimal place in the quotient is not affected by the digit in the third decimal place in the divisor (except through the digits carried).

Since the units' digit of the divisor is contained in the units' digit of the dividend, the first digit in the quotient is in the units' place, and, as three decimal places are required, the quotient will contain four digits. Therefore, the last four digits of the divisor will not affect the quotient, except through the digits carried over.

The first four digits of the divisor, 2.487, are contained once in 4.398. Multiplication of that part of the divisor used, by the quotient digit (including the digit carried over from the one or two following digits—in this case considering the 9 as a unit and adding it to the 1, making 2) gives 24872, and this result deducted from the previous dividend leaves 1911 5 for the new dividend.

Cancel the right-hand digit, 7, of the divisor, and divide 1911 by 248, obtaining the quotient 7. Multiplying the divisor by 7 (and including the carrying digit) gives 1741 0, and subtracting leaves a new dividend of 170 5.

Cancel another digit, 8, of the divisor, and divide by 24. This is contained 6 times in 170. The product (including the digit carried over) is 149 2, and this product subtracted leaves a new dividend of 21 3.

Cancel another digit, 4, of the divisor. Divide 21 by 2, using the carried digit; the result is 8. The new product is 19 9, and this product subtracted from 21 3 leaves a remainder of 1 4.

Fractions

Kinds of fractions. There are two ways of writing fractions. $\frac{3}{4}$ is a common fraction; .75, or 0.75, is a decimal fraction. •

A proper fraction is a fraction that has a numerator smaller than its denominator; for example, $\frac{3}{4}$.

An improper fraction is a fraction that has a numerator greater than its denominator; for example, $\frac{4}{3}$.

A mixed number is a whole number and a fraction; for example, $23\frac{3}{4}$.

Multiplication of any two mixed numbers ending in $\frac{1}{2}$.

1. *When the sum of the whole numbers is an even number.* To the product of the whole numbers, add one half of their sum, and annex $\frac{1}{4}$.

EXAMPLE

Multiply $24\frac{1}{2}$ by $8\frac{1}{2}$.

Solution

$$\begin{array}{r}
 24\frac{1}{2} \\
 8\frac{1}{2} \\
 \hline
 192 \quad (8 \times 24) \\
 16 \quad (\frac{1}{2} \text{ of the sum of } 24 \text{ and } 8) \\
 \hline
 208\frac{1}{4} \quad (\frac{1}{4} \text{ annexed})
 \end{array}$$

2. When the sum of the whole numbers is an odd number. To the product of the whole numbers, add one half of their sum, less 1, and annex $\frac{3}{4}$.

EXAMPLE

Multiply $15\frac{1}{2}$ by $6\frac{1}{2}$.

Solution

$$\begin{array}{r}
 15\frac{1}{2} \\
 6\frac{1}{2} \\
 \hline
 90 \quad (6 \times 15) \\
 10 \quad (\frac{1}{2} \text{ of } 15 + 6 - 1) \\
 \hline
 100\frac{3}{4} \quad (\frac{3}{4} \text{ annexed})
 \end{array}$$

Multiplication of a mixed number by a mixed number.

EXAMPLE

Multiply $524\frac{1}{2}$ by $27\frac{3}{8}$.

Solution

$$\begin{array}{r}
 524\frac{1}{2} \\
 27\frac{3}{8} \\
 \hline
 14148 \quad 6 \quad = \text{common denominator of fractions} \\
 174\frac{3}{8} \quad 4 \\
 13\frac{1}{2} \quad 3 \quad \left. \begin{array}{l} \\ \\ \end{array} \right\} = \text{numerators of changed fractions} \\
 \frac{1}{8} \quad 1 \\
 \hline
 14336\frac{3}{8} \quad \frac{3}{8} \quad = 1\frac{1}{8}
 \end{array}$$

Explanation. Multiply 524 by 27, obtaining the first part of the answer, 14,148. Next, take $\frac{1}{8}$ of 524, obtaining $174\frac{3}{8}$. Then take $\frac{1}{2}$ of 27, obtaining $13\frac{1}{2}$. Finally, take $\frac{1}{8}$ of $\frac{1}{8}$, obtaining $\frac{1}{8}$. Add the four partial products, and the complete product is $14,336\frac{3}{8}$.

How to use aliquot parts. An aliquot part of any number is a part which will be contained in that number without leaving a re-

ALIQUOT PARTS AND DECIMAL EQUIVALENTS

Explanation: If you have to multiply or divide by any of the numbers appearing under "decimal equivalent," you can use their corresponding aliquot parts. For instance, if you have to divide by $14\frac{3}{4}$ (or $.14\frac{3}{4}$), the chart shows its aliquot part to be $\frac{1}{4}$.

Aliquot Parts														Decimal Equivalent
1/2's	3rd's	4th's	5th's	6th's	7th's	8th's	9th's	10th's	12th's	16th's	24th's	32nd's	64th's	
											1/24..	1/32...	1/64...	.015/16
														.031/8
														.041/6
										1/16..				.041/6
									1/12..					.061/4
								1/10...						.0713/16
														.081/6
														.095/8
														.10
														.1015/16
														.111/6
														.121/6
														.121/6
														.141/6
														.141/6
														.155/8
														.162/3
														.171/6
														.183/4
														.20
														.201/6
														.205/6
														.211/6
														.222/3
														.231/6
														.25
														.269/16
														.281/6
														.281/6
														.291/6
														.2911/16
														.2911/16

Aliquot Parts-

1379

ALIQUOT PARTS AND DECIMAL EQUIVALENTS (Cont.)

Aliquot Parts											Decimal Equivalent
1/2's	3rd's	4th's	5th's	6th's	7th's	8th's	9th's	10th's	12th's	16th's	
	2/3...	...	...	...	...	...	...	...	...	...	64th's
		...	...	...	...	...	...	7/10...	...	11/16...	45/64...
			...	...	5/7...	...	...	...	...	...	45/64...
		3/4...	...	...	...	...	...	...	...	...	47/64...
			...	...	...	...	...	...	...	...	49/64...
			...	...	...	...	7/9...	...	...	...	49/64...
			...	...	...	...	...	...	...	...	51/64...
			...	...	...	...	...	...	...	...	51/64...
			...	...	...	...	...	...	...	...	53/64...
			...	...	...	...	...	...	...	...	53/64...
			...	...	...	...	...	...	...	...	55/64...
			...	...	...	...	...	...	...	...	55/64...
			...	...	...	...	...	...	...	...	57/64...
			...	...	...	...	...	...	...	...	57/64...
			...	...	...	...	...	...	...	...	59/64...
			...	...	...	...	...	...	...	...	59/64...
			...	...	...	...	...	...	...	...	61/64...
			...	...	...	...	...	...	...	...	61/64...
			...	...	...	...	...	...	...	...	63/64...
			...	...	...	...	...	...	...	...	63/64...

Note: The fractions in the decimal equivalents can be extended as decimals as far as the work demands.

mainder. Thus, 5, 10, 20, and 50 are aliquot parts of 100; that is, $5 = \frac{1}{20}$ of 100, $10 = \frac{1}{10}$ of 100, etc.

As a means of saving time in multiplication and in division, it is convenient to know the decimal equivalent of a common fraction, or, conversely, to know the common fraction equivalent to a decimal fraction. The table on pages 1378-80 will be useful in this connection.

Multiplication by aliquot parts.

EXAMPLE

Find 16% of 475.34.

Solution

$$\begin{array}{r} 6) \$475.34 \\ \hline \$79.22 \end{array}$$

Explanation. Since .16% equals $\frac{1}{6}$, find $\frac{1}{6}$ of \$475.34.

EXAMPLE

Find the cost of 256 units at $37\frac{1}{2}\text{¢}$ each.

Solution

$$256 \times \frac{3}{8} \times \$1 = \$96$$

Explanation. $37\frac{1}{2}\text{¢}$ is $\frac{3}{8}$ of \$1. Therefore, $256 \times \frac{3}{8} \times \$1 = \$96$.

Division by aliquot parts. It is difficult to divide a number by a mixed number. If the divisor is an aliquot part, the quotient may be found by multiplication, as follows:

EXAMPLE

Divide 4,875 by 16%.

Solution

$$\begin{array}{r} 48.75 \\ 6 \\ \hline 292.50 \end{array}$$

Explanation. Since 16% is $\frac{1}{6}$ of 100, divide 4,875 by $\frac{1}{6}$ of 100, or 100%. This is the same as multiplying by $\frac{6}{100}$. Therefore, divide by 100 by pointing off two decimal places from the right, and multiply the result by 6. The answer is 292.50, or $292\frac{1}{2}$.

EXAMPLE

The production cost of 1,250 units is \$3,170. Find the cost per unit.

Solution

$$\begin{array}{r} .3170 \\ 8 \\ \hline \$2.5360 \end{array}$$

Explanation. 1,250 is $\frac{1}{8}$ of 10,000. Divide \$3,170 by 10,000 by pointing off 4 decimal places from the right; then multiply the result by 8. The cost per unit is found to be \$2.536.

13. EXPEDITING CALCULATIONS WITH PREPARED TABLES

Specially prepared tables. Companies that have to make frequent calculations of various types can have special tables prepared to insure accuracy and speed, or they can purchase prepared tables that meet their needs. Two examples of such tables are given on pages 1383 and 1385.

Prorating of insurance premiums expedited by charts. Prorating of insurance premiums, which occurs through changes in car coverages during the policy period, has been expedited for the State Farm Insurance Companies, Illinois, by the use of calculators prepared by Meilicke Systems, Inc., Chicago, Illinois.

The calculators consist of 180 cards, one for each day of a six-month period. Each card, which is $8 \times 5\frac{1}{4}$ inches, carries the pro-rata unearned premium for a particular period for the amounts of \$1 to \$15, with 5-cent divisions. For instance, suppose the unearned premium is wanted on a policy that has run 4 months 6 days. The card for this period is examined, and the unearned premium under \$12 is noted. Reference to the card reproduced in Figure 96 shows that it is \$3.60. If the premium were \$12.20, the unearned premium would be \$3.66. The earned premium is easily found by subtracting the unearned premium from the full premium.

The cards are kept on a small metal container for easy handling. The cost of these calculators is about 7% of the cost of electrically operating calculating machines. This cost included making 54,000 necessary calculations, for which the accuracy was guaranteed by Meilicke Systems, Inc.

4 NO.

6

	1	2	3	4	5	6	7	8	9	10	11	12	13	14
30	60	90	120	150	180	210	240	270	300	330	360	390	420	
6	02	6	12	18	24	30	36	42	48	54	60	66	72	
10	03	10	15	20	25	30	35	40	45	50	55	60	65	
16	05	16	24	32	40	48	56	64	72	80	88	96	104	
20	06	20	30	40	50	60	70	80	90	100	110	120	130	
26	08	26	38	50	62	74	86	98	110	122	134	146	158	
30	09	30	42	54	66	78	90	102	114	126	138	150	162	
36	11	36	51	66	81	96	111	126	141	156	171	186	201	
40	12	40	56	72	88	104	120	136	152	168	184	200	216	
46	14	46	62	78	94	110	126	142	158	174	190	206	222	
50	15	50	67	83	99	115	131	147	163	179	195	211	227	
56	17	56	74	92	110	128	146	164	182	200	218	236	254	
60	18	60	78	96	114	132	150	168	186	204	222	240	258	
66	20	66	84	102	120	138	156	174	192	210	228	246	264	
70	21	70	87	105	123	141	159	177	195	213	231	249	267	
76	23	76	91	108	126	144	162	180	198	216	234	252	270	
80	24	80	95	112	129	146	164	182	200	218	236	254	272	
86	26	86	101	118	135	152	170	188	206	224	242	260	278	
90	27	90	105	122	139	156	174	192	210	228	246	264	282	
96	29	96	109	126	143	160	178	196	214	232	250	268	286	

1600 450

MEILLICKÉ SYSTEMS, Inc.
 246 N. Clark St., Chicago, Ill.
 Est. Aug 10, 1915—Feb 19, 1929

Figure 96. Calculator for Prorating Insurance Premiums.

[actual size 8" x 5 1/4"]

The user of this system points out these additional advantages: (1) the life of the calculators will be at least as long as the average calculating machine; (2) no maintenance is required; (3) calculators are conveniently kept on the desk of the individuals using them, and occupy less space than the average calculating machine.

Freight-rate calculator with prefigured totals improves calculation efficiency. Freight-rate calculation efficiency increased 50%, auditing efficiency 200%, and labor cost decreased 75% in a trucking company after it had purchased two sets of prefigured freight-charge computations. Each set consists of loose-leaf sheets in a binder, each sheet consisting of two banks of figures, the upper bank showing totals in units from 1 to 100, and the lower bank totals in hundreds from 100 to 10,000. A supplementary row at the bottom shows totals in steps of 10,000 up to 70,000 (see Figure 97, opposite, which shows these calculations for a multiplier of 68). The freight-rate calculator gives immediate and accurate totals with no mental disposition of fractions or shifting of decimals and is simple to operate.

To compute the freight charges for an LCL shipment of 3280 lbs. at 68 cents per 100 lbs., first refer to the figure opposite 32 in the lower bank (\$21.76) and then to the figure opposite 80 in the upper bank (\$.54), the total being the freight charge (\$22.30) for the shipment.

Another use of the calculator is in the determination of freight-charge proration between two or more carriers, as in a joint haul. Thus, "A" Line gets 37% of the rate and "B" Line 63%. Reference to the lower bank would show that "A" gets 25.16 cents of each 68 cents, and "B" 42.84 cents, or a total of 68 cents for the through rate.

The calculator can also be used for computing payroll earnings. Thus, an employee works $39\frac{3}{4}$ (39.75) hours at 68 cents per hour. Reference to 39 in the lower bank gives \$26.52 as his pay for 39 hours' work, and reference to 75 in the upper bank gives 51 cents as his pay for $\frac{3}{4}$ hour, making his total paycheck \$27.03.

Other applications include inventory and billing extensions.

68
168

FREIGHT CHARGES IN CENTS

Lbs.	1	01	11	07	21	14	31	21	41	28	51	36	61	41	71	46	81	56	91	62	Lbs.
	2	01	12	08	22	16	32	22	42	29	52	36	62	42	72	49	82	56	92	63	
	3	02	13	09	23	16	33	23	43	29	53	36	63	43	73	50	83	56	93	64	
	4	03	14	10	24	16	34	23	44	30	54	37	64	44	74	50	84	57	94	64	
	5	03	15	10	25	17	35	24	45	31	55	37	65	44	75	51	85	58	95	65	
	6	04	16	11	26	18	36	24	46	31	56	38	66	45	76	52	86	58	96	65	
	7	05	17	12	27	18	37	25	47	32	57	39	67	46	77	52	87	59	97	66	
	8	06	18	12	28	19	38	26	48	33	58	39	68	46	78	53	88	60	98	67	
	9	06	19	13	29	20	39	27	49	33	59	40	69	47	79	54	89	61	99	67	
	10	07	20	14	30	20	40	27	50	34	60	41	70	48	80	54	90	61	100	68	

Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.
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Figure 97. Freight Rate Calculator.

(68 refers to multiplier on the side shown, and 168 refers to the multiplier on the reverse side.)

Obtainable from Systems, Inc., 4856 North Hoyne Ave., Chicago 25, Ill.

By John LaBonte

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1-64

14. VERIFICATION OF COMPUTATIONS BY CHECK NUMBERS

Adapted from Curtis and Cooper, "Mathematics of Accounting"
New York: Prentice-Hall, Inc.

Check numbers obtained by casting out 9's. A common method of verifying arithmetical computations is by casting out the 9's. This is the simplest of all methods of verification and may be used to good advantage in many cases.

Verification of addition by casting out 9's.

EXAMPLE

8342	8
8967	3
8378	8
9276	6
8431	7
43394—5	32—5

Explanation. The sum of the digits 8,342 is 17 ($8 + 3 + 4 + 2$). Cast out 9 and set down 8. If a number contains a 9, skip it in adding the digits; thus, 8,967, $8 + 6 + 7$ equals 21. Cast out the nines and set down the excess, 3. Find the check number of each line in the same way. Add the check numbers, and cast the nines out of their sum. Find the check number of the sum of the column being verified. The final check number in each case is 5.

Verification of subtraction by casting out 9's.

EXAMPLE

7856	8
2138	5
5718	3

Explanation. 7,856 checks 8, and 2,138 checks 5. $8 - 5 = 3$, and 5,718 checks 3.

Verification of multiplication by casting out 9's.

EXAMPLE

482	5
376	7
181232—8	35—8

Explanation. 482 checks 5, and 376 checks 7. $7 \times 5 = 35$. 35 checks 8, and the product, 181,232, also checks 8.

Verification of division by casting out 9's. Division may be verified by multiplication; that is, the product of the quotient and the divisor should equal the dividend. Apply the same principle in verifying with check numbers.

EXAMPLE

$$\begin{array}{r} 13 \overline{) 76492} \underline{5884} \\ 65 \\ \underline{114} \\ 104 \\ \underline{109} \\ 104 \\ \underline{52} \\ 52 \\ \underline{} \end{array}$$

Explanation. 76,492 checks 1. 13 checks 4. 5,884 checks 7. $4 \times 7 = 28$, and 28 checks 1, which is also the check number of the dividend.

Verification of division where there is a remainder by casting out 9's. The check number of the remainder added to the product of the check number of the quotient and the check number of the divisor should equal the check number of the dividend.

EXAMPLE

$$\begin{array}{r} 32 \overline{) 75892} \underline{2371} \\ 64 \\ \underline{118} \\ 96 \\ \underline{229} \\ 224 \\ \underline{52} \\ 32 \\ \underline{} \end{array}$$

Explanation. Step 1: The remainder, 20, checks 2. The quotient, 2,371, checks 4. The divisor, 32, checks 5. $2 + (4 \times 5) = 22$, and 22 checks 4.

Step 2: The dividend, 75,892, checks 4.

Step 1 and Step 2 should produce the same check number.

Check figure "11" verifies posting as made. The check figure "11" for inventory and cost-record posting verifies every posting immediately. Somewhat like the method of casting out 9's, it can be used for arithmetic processes other than posting.

EXAMPLE

Check the following addition:

951.63	2
615.38	4
2,397.43	9
<u>3,964.44</u>	<u>4</u>

Explanation. Starting with the last digit to the right, add the alternate (odd) figures. Then add the in-between (even) figures. If the former sum is less than the latter, add sufficient multiples of 11 to make it larger. Then subtract the sum of the even from the sum of the odds. If the remainder is 11 or over, subtract the largest multiple of 11 less than the remainder. The result is the check figure. Thus, in 951.63, $3 + 1 + 9 = 13$, and $6 + 5 = 11$, $13 - 11 = 2$, the check figure.

In 615.38, $8 + 5 + 6 = 19$, and $3 + 1 = 4$, $19 - 4 = 15$. Since 15 is larger than 11, 11 is subtracted to give the check figure 4.

In 2,397.43, $3 + 7 + 3 = 13$, and $4 + 9 + 2 = 15$. Here 11 must be added to 13 (giving 24) in order to make the odds larger than the evens, and $24 - 15 = 9$.

The total is similarly checked, and the sum of the check figures less the largest possible multiple of 11 gives the check figure for the column total.

This check figure will catch the common error of transposition of adjacent figures, such as posting 2,317.43 as 2,317.34, which the figure 9 will not catch. The check figure 11, however, will not catch the transposition of alternate figures, such as posting 2,317.43 as 2,713.43. Multiplication, division, and subtraction can be verified with the check figure 11 in a manner similar to that described for the check figure 9.

Another method of using check figures in posting. To use the check figure 11 or other check figures in proving the accuracy of postings from one source to another, determine the check figure for the entry in the ledger (or other record to which the posting is being made), and place that check figure in the check column for the entry in the journal (or other source of the posting), without computing the check figure for the journal entry. If you fail to balance out, determine the check figures for the original data (in this case, the journal entries) and compare with the check figures entered from the ledger sheets. For example, \$43,668.94 is posted from journal to ledger as \$43,686.94. The check figure for the ledger amount (using

the method described in the preceding paragraph) is 0, and is entered opposite \$43,668.94 in the check column of the journal. When the figures do not balance out, the journal entry check figures are determined, whereupon the check figure for \$43,668.94 is found to be 4, while a 0 appears in the check column, thus indicating the source of error.

This method is more rapid than that of determining both check figures in the beginning.

15. TABLES OF WEIGHTS, MEASURES, AND VALUES

LONG MEASURE

United States Standard

12 inches	.....	1 foot
3 feet	.....	1 yard
5½ yards, or 16½ feet	.....	1 rod
320 rods, or 5,280 feet	.....	1 mile
1,760 yards	.....	1 mile
40 rods	.....	1 furlong
8 furlongs	.....	1 statute mile
3 miles	.....	1 league

Metric System

10 millimeters	.....	1 centimeter
10 centimeters	.....	1 decimeter
10 decimeters	.....	1 meter
10 meters	.....	1 dekameter
10 dekameters	.....	1 hektometer
10 hektometers	.....	1 kilometer
10 kilometers	.....	1 myriameter

Comparisons of Long Measures

1 inch	....	25.4001 millimeters	1 centimeter	...	.3937 inch
1 foot	....	.304801 meter	1 meter	.....	39.37 inches
1 yard	....	.914402 meter	1 meter	.....	3.28083 feet
1 rod	....	5.029 meters	1 meter	.....	1.093611 yards
1 mile	....	1.60935 kilometers	1 kilometer	....	.62137 mile

SQUARE MEASURE

United States Standard

144 square inches	1 square foot
9 square feet	1 square yard
30¼ square yards	1 square rod
272¼ square feet	1 square rod
40 square rods	1 rood
4 roods	1 acre
160 square rods	1 acre
640 acres	1 square mile
43,560 square feet	1 acre
4,840 square yards	1 acre

Metric System

100 square millimeters	1 square centimeter
100 square centimeters	1 square decimeter
100 square decimeters	1 square meter
100 square meters	1 square dekameter
100 square dekameters	1 square hektometer
100 square hektometers	1 square kilometer
100 square kilometers	1 square myriameter

Comparisons of Square Measures

1 square inch	6.452 square centimeters
1 square foot	.0929 square meter
1 square yard	.8361 square meter
1 square rod	25.293 square meters
1 acre	.40467 hectare
1 square mile	2.59 square kilometers
1 square millimeter	.00155 square inch
1 square centimeter	.155 square inch
1 square meter	10.764 square feet
1 square meter	1.196 square yards
1 square kilometer	.3861 square mile
1 square kilometer	247.11 acres
1 square dekameter, or 1 are	1,076.41 square feet
100 acres = 1 hectare	2.4711 acres

SOLID OR CUBIC MEASURE (VOLUME)

United States Standard

1,728 cubic inches	1 cubic foot
27 cubic feet	1 cubic yard
128 cubic feet	1 cord of wood
24¼ cubic feet	1 perch of stone
2,150.42 cubic inches	1 standard bushel
231 cubic inches	1 standard gallon
40 cubic feet	1 ton (shipping)

Metric System

1,000 cubic millimeters	1 cubic centimeter
1,000 cubic centimeters	1 cubic decimeter
1,000 cubic decimeters	1 cubic meter
1,000 cubic meters	1 cubic dekameter
1,000 cubic dekameters	1 cubic hektometer
1,000 cubic hektometers	1 cubic kilometer
1,000 cubic kilometers	1 cubic myriameter

Comparisons of Solid or Cubic Measures (Volume)

1 cubic inch	16.3872 cubic centimeters
1 cubic foot	.02832 cubic meter
1 cubic yard	.7646 cubic meter
1 cubic centimeter	.061 cubic inch
1 cubic meter	35.314 cubic feet
1 cubic meter	1.3079 cubic yards
1 cubic decimeter = 1 liter	61.023 cubic inches
1 liter	1.05671 liquid quarts
1 liter	.9081 dry quart
1 hectoliter or decistere	3.5314 cubic feet or 2.8375 bushels
1 stere, kiloliter, or cubic meter ..	1.3079 cubic yards or 28.37 bushels

LIQUID MEASURE (CAPACITY)

United States Standard

4 gills	1 pint
2 pints	1 quart
4 quarts	1 gallon
31½ gallons	1 barrel
2 barrels	1 hogshead
1 gallon	231 cubic inches
7.4805 gallons	1 cubic foot
16 fluid ounces	1 pint
1 fluid ounce	1.805 cubic inches
1 fluid ounce	29.59 cubic centimeters

Metric System

10 milliliters	1 centiliter
10 centiliters	1 deciliter
10 deciliters	1 liter
10 liters	1 dekaliter
10 dekaliters	1 hektoliter
10 hektoliters	1 kiloliter
10 kiloliters	1 myrialiter

DRY MEASURE

United States Standard

2 pints	1 quart
8 quarts	1 peck
4 pecks	1 bushel
2,150.42 cubic inches	1 bushel
1.2445 cubic feet	1 bushel

Metric System

In the metric system the same table is used for both Liquid Measure and Dry Measure.

Comparisons of Liquid and Dry Measure

1 liquid quart	.94636 liter
1 liquid gallon	3.78543 liters
1 dry quart	1.1012 liters
1 peck	8.80982 liters
1 bushel	.35239 hektoliter
1 milliliter	.03381 liquid ounce, or .2705 apothecaries' dram
1 liter = 1 cubic decimeter	61.023 cubic inches
	.03531 cubic foot
	.2642 gallon
	2.202 pounds of water at 62° F.
28.317 liters	1 cubic foot
3.785 liters	1 gallon

AVOIRDUPOIS MEASURE (WEIGHT)

(Used for weighing all ordinary substances except precious metals, jewels, and drugs)

United States Standard

27 $\frac{1}{2}$ grains	1 dram
16 drams	1 ounce
16 ounces	1 pound
25 pounds	1 quarter
4 quarters	1 hundredweight
100 pounds	1 hundredweight
20 hundredweight	1 ton
2,000 pounds	1 short ton
2,240 pounds	1 long ton

Metric System

10 milligrams	1 centigram
10 centigrams	1 decigram
10 decigrams	1 gram
10 grams	1 dekagram
10 dekagrams	1 hektogram
10 hektograms	1 kilogram
10 kilograms	1 myriagram
1,000 kilograms	1 metric ton

TROY MEASURE WEIGHT)

(Used for weighing gold, silver, and jewels)

24 grains	1 pennyweight
20 pennyweights	1 ounce
12 ounces	1 pound

Comparison of Avoirdupois and Troy Measures

1 pound troy	5,760 grains
1 pound avoirdupois	7,000 grains
1 ounce troy	480 grains
1 ounce avoirdupois	437½ grains
1 karat, or carat	3.2 troy grains
24 karats	pure gold

Comparison of Avoirdupois and Troy Measures with Metric Weights

1 grain .....0648 gram	1 gram	15,4324 grains
1 ounce (avoir.) 28.3495 grams		.03527 ounce
1 ounce (troy) ..31.10348 grams		(avoir.)
		.03215 ounce
		(troy)
1 pound (avoir.) .45359 kilogram	1 kilogram ...	2.20462 pounds
1 pound (troy) ..37324 kilogram		(avoir.)
		2.67923 pounds
		(troy)
	1 tonne, or metric ton ..	.9842 ton of 2,240
		pounds, or
		19.68 hundred-
		weight
		1.1023 tons of
		2,000 pounds

1,000 kilograms ...	2,204.6 pounds
1.016 metric tons, or 1,016 kilo- grams	1 ton of 2,240 pounds
.9072 metric ton ..	1 ton of 2,000 pounds

APOTHECARIES' MEASURE (WEIGHT)

(Used for weighing drugs)

20 grains	1 scruple
3 scruples	1 dram
8 drams	1 ounce
12 ounces	1 pound

APOTHECARIES' FLUID MEASURE (CAPACITY)

60 minims	1 fluid dram
8 fluid drams	1 fluid ounce
16 fluid ounces	1 pint
8 pints	1 gallon

Comparisons (Approximate Liquid Measure)

<i>Apothecaries'</i>	<i>Common</i>	<i>Metric</i>
1 minim	1 to 2 drops	0.06 cu. cm.
60 minims, or		
1 fluid dram	1 teaspoonful	3.75 cu. cm.
2 fluid drams	1 dessertspoonful	7.50 cu. cm.
4 fluid drams	1 tablespoonful	15.00 cu. cm.
8 fluid drams	1 fluid ounce	28.39 cu. cm.
2 fluid ounces	1 wineglassful	59.20 cu. cm.
4 fluid ounces	1 teacupful	118.40 cu. cm.
16 fluid ounces	1 pint	473.11 cu. cm.

Note: Drops are not accurate measures, but for practical purposes it may be considered that one minim equals one drop of watery liquids and fixed oils, but two drops of volatile oils and alcoholic liquids, such as tinctures and fluid extracts.

SURVEYORS' LONG MEASURE

7.92 inches	1 link
25 links	1 rod
4 rods, or 100 links	1 chain
80 chains	1 mile

SURVEYORS' SQUARE MEASURE

625 square links	1 square rod
16 square rods	1 square chain
10 square chains	1 acre
640 acres	1 square mile
36 square miles	1 township

MARINERS' MEASURE

6 feet	1 fathom
100 fathoms	1 cable's length as applied to distances or intervals between ships
120 fathoms	1 cable's length as applied to marine wire cable
7½ cable lengths	1 mile
5,280 feet	1 statute mile
6,080 feet	1 nautical mile
1.152¾ statute miles	1 nautical or geographical mile
3 geographical miles	1 league
60 geographical miles, or	
69.16 statute miles	1 degree of longitude on the equator, or 1 degree of meridian
● 360 degrees	1 circumference

Note: A knot is not a measure of distance but a measure of speed. Current usage makes a knot equivalent to a marine mile per hour (properly it is $\frac{1}{120}$ of a marine mile). Hence, when the speed of vessels at sea is being measured, a knot is equal to a nautical mile, or 6,080 feet, or 2,026.66 yards, *per hour*.

CIRCULAR OR ANGULAR MEASURE

60 seconds (60")	1 minute (1')
60 minutes (60')	1 degree (1°)
30 degrees	1 sign
90 degrees	1 right angle or quadrant
360 degrees	1 circumference

Note: One degree at the equator is approximately 60 nautical miles.

COUNTING

12 units or things	1 dozen
12 dozen, or 144 units	1 gross
12 gross	1 great gross.
20 units	1 score

PAPER MEASURE

24 sheets	1 quire
20 quires	1 ream
2 reams	1 bundle
5 bundles	1 bale

Note: Although a ream contains 480 sheets, 500 sheets are usually sold as a ream.

UNITED STATES AND BRITISH WEIGHTS AND MEASURES COMPARED

1 British Imperial bushel	1.03205 United States (Winchester) bushels
1 United States bushel	.96895 British Imperial bushel
1 British quart	1.03205 United States dry quarts
1 United States dry quart	.96895 British quart
1 British quart (or gallon)	1.20094 United States liquid quarts (or gallons)
1 United States liquid quart (or gallon)	.83268 British quart (or gallon)

METRIC SYSTEM EXPLAINED

(For metric tables of weights and measures see page 1389ff.)

The fundamental units of the metric system are the meter—the unit of length, and the kilogram—the unit of mass.

The liter is defined as the volume of a kilogram of water at the temperature of its maximum density, 4° centigrade. All other units are the decimal subdivisions or multiples of these. These three units are simply related. For example, for all practical purposes 1 cubic decimeter equals 1 liter and 1 liter of water weighs 1 kilogram.

The metric tables are formed by combining the words “meter,” “gram,” and “liter” with the six numerical prefixes, as in the following:

<i>Prefixes</i>	<i>Meaning</i>		<i>Units</i>
milli- = one-thousandth	.001		
centi- = one-hundredth	.01		
deci- = one-tenth	.1		“meter” for length
..... Unit = one	1.		“gram” for weight or mass
deka- = ten	10		
hecto = one hundred	100		“liter” for capacity.
kilo- = one thousand	1000		

UNITED STATES MONEY

10 mills	1 cent
10 cents	1 dime
10 dimes	1 dollar
10 dollars	1 eagle

ROMAN NUMERALS

I .....1	IX 9	XVII ..17	LXX... 70	D .....500
II .....2	X .....10	XVIII 18	LXXX	DC ...600
III .....3	XI .....11	XIX .. 19	or XXC 80	DCC ...700
IV .....4	XII .....12	XX ....20	XC ... 90	DCCC .800
V .....5	XIII ...13	XXX .. 30	C ....100	CM ...900
VI .....6	XIV ...14	XL ... 40	CC ... 200	M or
VII .....7	XV ... 15	L .....50	CCC .300	cIc ...1000
VIII ... 8	XVI ...16	LX ....60	CCCC 400	MM ..2000

Note. A dash line over a numeral multiplies the value by 1,000. Thus, $\overline{X}$ = 10,000; $\overline{L}$ = 50,000; $\overline{C}$ = 100,000; $\overline{D}$ = 500,000; $\overline{M}$ = 1,000,000; $\overline{CLIX}$ = 159,000; $\overline{DLIX}$ = 559,000.

GENERAL RULES IN ROMAN NUMERALS

- (1) Repeating a letter repeats its value: XX = 20; CCC = 300.
- (2) A letter placed after one of greater value adds thereto: VIII = 8; DC = 600.
- (3) A letter placed before one of greater value subtracts therefrom: IX = 9; CM = 900.

ARABIC NUMERALS

Trillions	Billions	Millions	Thousands	Hundreds
7,	256,	423,	896,	384

Note: In the United States and France a billion is a thousand millions (1,000,000,000). In Britain and Germany a billion is a million millions (1,000,000,000,000).

FOREIGN WEIGHTS AND MEASURES

Denominations	Where Used	American Equivalents	Denominations	Where Used	American Equivalents
Almude.....	Portugal.....	4,432 gals.	Ch'ih (metric).....	China.....	12.60 inches.
Ardeb.....	Egypt.....	5,6188 bu.	Cho.....	Japan.....	1 meter.
Are.....	Metric.....	0.02471 acre.	Comb.....	England.....	2,451 acres.
Arretal or libra.....	Portugal.....	1.0119 lbs.	Coyan.....	Spain.....	4,1282 bu.
Arroba.....	Argentine Republic.....	25 32 lbs.	Cudra.....	Argentine Republic.....	2,645 5 lbs.
".....	Brazil.....	32 38 lbs.	" (sq.).....	Paraguay.....	42 acres.
".....	Cuba.....	25 36 lbs.	Cubic meter.....	Paraguay.....	94.70 yds.
".....	Paraguay.....	25 36 lbs.	Cwt. (hundredweight).....	Uruguay.....	78. acres.
".....	Venezuela.....	25 34 lbs.	Dessiatine.....	Uruguay.....	1.82 acres.
" (liquid).....	Cuba, Spain, and Venezuela.....	25.40 lbs.	Drachma (new).....	Metric.....	35 3 cu. ft.
Arshine (sq.).....	Russia.....	4 263 gals.	Fanega (dry).....	British.....	1 1/2 lbs.
Barel.....	".....	28 in.	".....	Russia.....	2 6997 acres.
Berkovets.....	Morocco.....	5 44 sq. ft.	".....	Greece.....	15 43 sq. or 1 grm.
Bongkal.....	Argentine Republic and Mexico.....	1 12 lbs.	".....	Guatemala, Spain.....	1 5748 bu.
Bow.....	Malta (customs).....	20.0787 gals.	".....	Chile.....	2 75268 bu.
Bu.....	Russia.....	11.2 gals.	" (double).....	Mexico.....	1 53 bu.
Bushel.....	Fed. Malay States.....	361 128 lbs.	" (single).....	Uruguay.....	2 57716 bu.
Caliso.....	Sumatra.....	832 grains.	" (liquid).....	Uruguay.....	7 776 bu.
Candy.....	Japan.....	7,096.5 sq. metrs.	Peddian.....	Venezuela.....	3 886 bu.
".....	British Empire.....	0 12 inch.	Fraal (raisins).....	Spain.....	3 334 bu.
".....	Malta.....	1 03205 U. S. bu.	Frasco.....	Egypt.....	16 gals.
".....	India (Bombay).....	5 40 gals.	".....	Spain.....	1 04 acres.
".....	India (Madras).....	569 lbs.	Frassla.....	Argentine Republic.....	50 lbs.
Cantar.....	Egypt.....	99 05 lbs.	Fuder.....	Mexico.....	2 5998 liq. qts.
".....	Morocco.....	112 lbs.	Gallon.....	Luxemburg.....	2.5 liq. qts.
".....	Turkey.....	124 45 lbs.	Garnice.....	Zanzibar.....	35 lbs.
Cantaro.....	Malta.....	175 lbs.	Hectare.....	Luxemburg.....	264 18 gals.
Carat, metric.....	World.....	3 086 grains.	Hectoliter: Dry.....	Russia.....	0 9028 lb.
Catty.....	China.....	1 3331 lbs.	" Liquid.....	British Empire.....	1 20094 U. S. gal.
".....	Japan.....	1 32 lbs.	Jarib.....	Poland.....	1 0507 gal.
".....	Java, Malacca.....	1 36 lbs.	Joch.....	Metric.....	15 432 grains.
".....	Siam.....	24 lbs.	Kan.....	".....	2 471 acres.
" (stand).....	Sumatra.....	1 32 lbs.	Kilogram (kilo).....	".....	2 838 bu.
Centaro.....	Central America.....	4 2631 gals.	Kilometer.....	Persia (New).....	26 418 gals.
Centner.....	Brunswick.....	117 5 lbs.	Klafter.....	Austria.....	2 471 acres.
".....	Bremen.....	127 5 lbs.	Koku.....	Hungary.....	1 422 acres.
".....	Denmark, Norway.....	110.23 lbs.	Kwamme.....	Japan.....	1 067 acres.
".....	Prussia.....	113 44 lbs.	Last.....	Metric.....	5 97 feet.
".....	Sweden.....	93 7 lbs.	".....	Austria.....	2 2046 lbs.
".....	Double or metric.....	220 46 lbs.	".....	Japan.....	0 62137 mile
Chetvert.....	Russia.....	5 957 bu.	".....	Belgium, Holland.....	2 074 yds.
					5 119 bu.
					8 2673 lbs.
					85.134 bu.

<i>Denominations</i>	<i>Where Used</i>	<i>American Equivalents</i>	<i>Denominations</i>	<i>Where Used</i>	<i>American Equivalents</i>
Last.....	England.....	82.56 bu.	Pund (lb.).....	Denmark.....	1 102 lbs.
Last.....	Germany.....	2 metric tons.	Quart.....	British Empire.....	1 20004 liq. qt.
".....	Prussia.....	(4,499 + lbs.)	Quarter.....	".....	8 256 bu.
".....	Scotland, Ireland.....	112.29 bu.	Quintal.....	Great Britain.....	101.28 lbs.
League (land).....	Paraguay.....	82.564 bu.	".....	Argentina Republic.....	129.54 lbs.
Li.....	China.....	4,633 acres.	".....	Brazil.....	101.43 lbs.
Libra (lb.).....	Argentina Republic.....	1,800 ft.	".....	Castile, Peru.....	101.47 lbs.
".....	Central America.....	1,012.8 lbs.	".....	Chile.....	101.47 lbs.
".....	Chile.....	1,014 lbs.	".....	Mexico.....	220.46 lbs.
".....	Cuba.....	1,014 lbs.	Rotile.....	".....	6 35 lbs.
".....	Mexico.....	1,014.3 lbs.	Sack (flour).....	Palestine (south).....	260 lbs.
".....	Peru.....	1,014.7 lbs.	Sagene.....	England.....	8.2 bu.
".....	Uruguay.....	1,014.3 lbs.	Salm.....	Russia.....	7 feet.
".....	Venezuela.....	1,014.3 lbs.	Se.....	Malta.....	0.02451 acre.
Libre.....	Metric.....	1,056.7 liq. qts.	Seer.....	Japan.....	2 2-35 lbs.
".....	Metric.....	0.90810 dry qts.	Shaku.....	India.....	11.9303 inches.
Libre (lb.).....	Greece.....	1.1 lbs.	Sho.....	Japan.....	0.937 lbs.
Load (timber).....	Guiana (Dutch).....	1,080 lbs.	Shupund.....	Sweden.....	1.193 inches.
Lumber (std.).....	England.....	59 cu. ft.	Shu.....	British.....	575.64 grs. (troy)
".....	in Europe.....	163 cu. ft. or	Sun.....	China.....	0.25 acre.
".....	Nicaragua.....	1,980 ft. b. m.	Tael (Kuping).....	Japan.....	5 96 bu.
Mangana.....	Costa Rica, Salvador.....	1,745 acres.	Tan.....	Russia.....	2.05 pecks.
Marc.....	Bolivia.....	1,727 acres.	Tchervet.....	Space measure.....	3,9480 bu.
Maud.....	India.....	6,307 lb.	To.....	Denmark.....	40 cu. ft.
Metre.....	Metric.....	82½ lbs.	Tonde (cereals).....	France.....	1 36 acres.
Mi.....	Denmark.....	39.37 inches.	Tonde Land.....	Japan.....	2204.62 lbs.
".....	Denmark.....	4 68 miles.	Tsubo.....	China.....	35 58 sq. ft.
Mills.....	Nicaragua.....	4.61 miles.	Tsun.....	Sweden.....	1.26 inches.
".....	Honduras.....	1,1594 miles.	Tunna (wheat).....	".....	4.5 bu.
Mina (old).....	Greece.....	1,1493 miles.	Tunland.....	Argentina Republic.....	1.22 acres.
Morgen.....	Prussia.....	2,202 lbs.	Vara.....	Costa Rica, Salvador.....	34.0944 inches.
Oke.....	Egypt.....	0.63 acre.	".....	Guatemala.....	32.913 inches.
".....	Greece.....	2,852 lbs.	".....	Honduras.....	32 000 inches.
".....	Turkey.....	2,82 lbs.	".....	Nicaragua.....	32 953 inches.
".....	Borneo and Celebes.....	2,828 lbs.	".....	Chile and Peru.....	33.057 inches.
Pic.....	Egypt.....	22.83 inches.	".....	Cuba.....	32.913 inches.
Pical.....	China.....	135.64 lbs.	".....	Mexico.....	32.992 inches.
".....	Java.....	133½ lbs.	Vedro.....	".....	2 707 gals.
".....	Philippine Islands.....	139.44 lbs.	Verst.....	Poland.....	0.663 mile.
Pie.....	Argentina Republic.....	0.94708 foot.	Vloka.....	Scotland and Ireland.....	41.50 acres.
Pik.....	Spain.....	0.91416 foot.	Wey.....	".....	41.282 bu.
Pood.....	Turkey.....	27.9 inches.			
".....	Russia.....	36 113 lbs.			

The metric card of 200 milligrams is now very generally in use. The word also is used to denote the proportion of alloy in a metal. Thus, pure gold is 24 carats fine.

FOREIGN MONEY

The principal source of this compilation is the United States Government Printing Office Style Manual.

Country	Basic monetary unit ¹			Principal fractional unit ¹	
	Name ²	Abbr- viation	Sym- bol	Name ²	Abbr- viation
Argentina	Peso ³	P	\$	Centavo	Ctvo.
Australia	Pound ⁴	L., st (1) g	£	{ Shilling Penny (pence)	s. d
Austria	Schilling	S		Groschen	
Belgium	Franc	B fr.		Centime	c.
Bolivia	Boliviano	B		Centavo	Ctvo.
Brazil	Cruzeiro ⁵	Cr. \$		Centavo	Ctvo.
British Honduras	Dollar	Dol.	\$	Cent	
Bulgaria	Lev (leva, lew)	L		Stotinka (stotinki)	
Canada ⁶	Dollar	Dol.	\$	Cent	c., ct., cts.
Ceylon. (See In- dia, British.)					
Chile	Peso	P	\$	Centavo	Ctvo.
China	Yuan (yuan, yuans)		\$	Fen (fens, fen)	
Colombia	Peso	P	\$	Centavo	Ctvo.
Costa Rica	Colon (colones)		¢	Centimo	Ctmo.
Cuba	Peso	P	\$	Centavo	Ctvo.
Czechoslovakia	Koruna (koruny, korun)	Kč., cr		Heller (heller), haler (haleru)	Ha.
Danzig	Gulden	G., dg		Pfennig (pfennings, pfennige)	pf.
Denmark	Krone (kroner)	Kr., cr		Øre (øre), øre (øre)	
Dominican Repub- lic	Dollar	Dol	\$	Cent	
Ecuador	Sucre	S/		Centavo	Ctvo.
Egypt	Pound	LE	£E	Piaster	Pi, pias.
El Salvador	Colon (colones)		¢	Centavo	Ctvo.
Finland	Markka, (markkaa), mark (marks)	MK, FMK		Penni (pennia)	Pia.
France	Franc	F., fr		Centime	
Germany	Deutschemark	DM		Pfennig	Pf.
Great Britain ⁷	Pound	L	£	{ Shilling Penny (pence)	s. d.
Greece	Drachma (drachmas, drachmae, drachmai)	Dr., D		Lepton (lepta)	
Guatemala	Quetzal (quetzales)	Q		Centavo	Ctvo.
Haiti	Gourde	Gde, G		Centime	
Honduras	Lempira	L	\$	Centavo	Ctvo.
Hong Kong	Dollar	D., dol	HK\$	Cent	
Hungary	Forint	Ft.		Fillér (fillér, fillérs)	
India	Rupee	R		Anna	
Iran	Rial			Dinar	
Ireland	Pound	L.	£	{ Shilling Penny (pence)	s. d.
Italy	Lira, lire	L		Centesimo (cen- tesimi)	Ctmo.
Japan	Yen (yen)		¥	Sen (sen)	
Liberia	Dollar	Dol			
Malaya, Federa- tion of	Dollar	Mal	\$	Cent	
Mexico	Peso	P	\$	Centavo	Ctvo.
Netherlands	Florin (florins), guilder (gulden)	Fl., G		Cent	
New Zealand	Pound		NZ £	{ Shilling Penny (pence)	s. d.
Nicaragua	Cordoba	C	C\$	Centavo	Ctvo.
Norway	Krone (kroner)	N Kr		Øre (øre), øre (øre)	
Panama	Balboa	B		Centesimo	Ctmo.

FOREIGN MONEY (Cont.)

Country	Basic monetary unit ¹			Principal fractional unit ¹	
	Name ²	Abbreviation	Symbol	Name ²	Abbreviation
Paraguay	Guarani				
Peru	Sol (sols, soles)	S/		Centavo	Ctvo.
Philippines	Peso	P	P	Centavo	Ctvo.
Poland	Zloty (zlotys, zloty, zloté)	Zl		Grosz (groszy, grosze)	
Portugal	Escudo		\$ ⁸	Centavo	Ctvo.
Rumania	Leu (lei), ley (leys)	L		Ban (bani)	
Spain	Peseta	P., Pta		Centimo, céntimo	Ctmo.
Sweden	Krona (kroner)	Kr		Öre (öre)	
Switzerland	Franc	Sw. fr		Centime	
Thailand	Baht (bahts), bat (bat)			Piaster	
Turkey	Lira	TL		Piaster	
U. S. S. R. (Russia)	Ruble	R		Kopeck, kopek	
Union of South Africa	Pound		SA £	Shilling, penny, pence	
Uruguay	Peso	P	\$	Centesimo	Ctmo.
Venezuela	Bolivar (bolivars, bolivares)		\$	Centimo	Ctmo.
Yugoslavia	Dinar (dinars, dinari)	Din		Para	

¹ The conventions for writing sums of money in foreign countries are similar on the whole to that in the United States; i.e., the symbol or abbreviation of the basic unit is placed before the sum and a period, a comma, or simply a space before the fractional part. "DM 1.225.50," for example, means 1,225 deutschemarks 50 pfennigs. For some other conventions, see footnotes below.

² Unless otherwise indicated in parentheses, the plural of these terms are formed regularly (by addition of "s").

³ Gold peso (oro sellado) is abbreviated o/s or o/\$s; but gold coins are not widely in circulation. Official and private accounts are kept in terms of the paper peso (moneda nacional, abbreviated "m/n"), indicated as M\$N; thus: \$632,790, or \$632,790(m/n).

⁴ Sums are written as in Great Britain except that the symbol £, for the pound, is usually preceded by an A.

⁵ The conto is 1,000 cruzeiros. Sums are written: 25.376:125\$320 (read 25,376 contos 125 cruzeiros 320 reis).

⁶ Including Newfoundland, now a Province of Canada.

⁷ Sums of money are written as follows: £5 4s. 6d. or £5:4:6 or £5/4/6.

⁸ The symbol (\$) is used between the escudo and the centavo; the colon (·) used between the conto (= 1,000 centavos) and the escudo, e.g., 125.750:350\$50 (read 125,750 contos 350 escudos 50 centavos).

16. MISCELLANEOUS HANDY TABLES

PRORATION OF TAXES

(Compiled by Walter C. Clark, for the San Francisco Real Estate Yearbook)

The following table is for computing the pro rata of taxes for six months. For example, you are prorating taxes as of October 22, so there is to be charged against the seller of the property 3 months and 22 days. Refer to the table, and you will find 3 months .50, and 22 days .1221, making a total of .6221, which is the amount to be charged against the seller, per \$1.00 of taxes.

MONTHS

1	.1666		4	.6666
2	.3333		5	.8333
3	.50		6	1.000

DAYS

1	.0055		16	.0888
2	.0111		17	.0944
3	.0166		18	.0999
4	.0222		19	.1055
5	.0277		20	.1111
6	.0333		21	.1166
7	.0388		22	.1221
8	.0444		23	.1277
9	.05		24	.1333
10	.0555		25	.1389
11	.0611		26	.1444
12	.0666		27	.15
13	.0722		28	.1555
14	.0777		29	.1611
15	.0833		30	.1666

RENTAL READY RECKONER

(Cushman & Wakefield, Inc., New York)

<i>Rent per Year</i>	<i>Rent per Month</i>	<i>Rent per Day (30 days)</i>	<i>Rent per Day (31 days)</i>	<i>Rent per Year</i>	<i>Rent per Month</i>	<i>Rent per Day (30 days)</i>	<i>Rent per Day (31 days)</i>
\$1	\$.09	.....	.....	1,025	85.42	2.847	2.756
2	.17	.....	.....	1,050	87.50	2.917	2.823
3	.25	.....	.....	1,075	89.59	2.986	2.890
4	.34	.....	.....	1,100	91.67	3.056	2.958
5	.42	.....	.....	1,125	93.75	3.125	3.025
6	.50	.....	.....	1,150	95.84	3.195	3.092
7	.59	.....	.....	1,175	97.92	3.264	3.159
8	.67	.....	.....	1,200	100	3.334	3.226
9	.75	.....	.....	1,225	102.09	3.403	3.293
10	.84	.028	.027	1,250	104.17	3.472	3.36
20	1.67	.056	.054	1,275	106.25	3.541	3.428
25	2.09	.070	.068	1,300	108.34	3.611	3.495
30	2.50	.084	.081	1,325	110.42	3.681	3.562
40	3.34	.111	.108	1,350	112.50	3.75	3.629
50	4.17	.139	.134	1,375	114.59	3.82	3.697
60	5	.166	.161	1,400	116.67	3.889	3.764
70	5.84	.195	.189	1,425	118.75	3.958	3.831
75	6.25	.208	.202	1,450	120.84	4.028	3.898
80	6.67	.222	.215	1,475	122.92	4.098	3.965
90	7.50	.25	.242	1,500	125	4.167	4.033
100	8.34	.278	.269	1,525	127.09	4.236	4.10
125	10.42	.347	.336	1,550	129.17	4.306	4.167
150	12.50	.417	.403	1,575	131.25	4.375	4.234
175	14.59	.486	.470	1,600	133.34	4.445	4.301
200	16.67	.556	.538	1,625	135.42	4.514	4.369
225	18.75	.625	.605	1,650	137.50	4.584	4.436
250	20.84	.695	.672	1,675	139.59	4.653	4.503
275	22.92	.764	.740	1,700	141.67	4.723	4.570
300	25	.834	.807	1,725	143.75	4.792	4.638
325	27.09	.903	.874	1,750	145.84	4.861	4.705
350	29.17	.972	.941	1,775	147.92	4.931	4.772
375	31.25	1.042	1.009	1,800	150	5	4.84
400	33.34	1.112	1.076	1,825	152.09	5.07	4.906
425	35.42	1.181	1.143	1,850	154.17	5.139	4.973
450	37.50	1.25	1.21	1,875	156.25	5.209	5.04
475	39.59	1.32	1.277	1,900	158.34	5.278	5.108
500	41.67	1.389	1.344	1,925	160.42	5.347	5.175
525	43.75	1.458	1.412	1,950	162.50	5.417	5.242
550	45.84	1.528	1.479	1,975	164.59	5.487	5.31
575	47.92	1.598	1.546	2,000	166.67	5.56	5.377
600	50	1.667	1.613	3,000	250	8.334	8.065
625	52.09	1.737	1.68	4,000	333.34	11.111	10.753
650	54.17	1.806	1.748	5,000	416.67	13.889	13.441
675	56.25	1.875	1.815	6,000	500	16.667	16.13
700	58.34	1.945	1.882	7,000	583.34	19.445	18.818
725	60.42	2.01	1.950	8,000	666.67	22.223	21.506
750	62.50	2.084	2.017	9,000	750	25	24.194
775	64.59	2.153	2.084	10,000	833.34	27.778	26.882
800	66.67	2.223	2.151	11,000	916.67	30.556	29.57
825	68.75	2.292	2.218	12,000	1,000	33.34	32.259
850	70.84	2.361	2.286	13,000	1,083.34	36.111	34.947
875	72.92	2.431	2.352	14,000	1,166.67	38.889	37.635
900	75	2.50	2.420	15,000	1,250	41.667	40.323
925	77.09	2.57	2.487	16,000	1,333.34	44.445	43.011
950	79.17	2.639	2.554	17,000	1,416.67	47.223	45.699
975	81.25	2.708	2.621	18,000	1,500	50	48.388
1,000	83.34	2.778	2.689	19,000	1,583.34	52.778	51.076

MONTHLY, SEMIANNUAL, AND ANNUAL PAYMENTS TO PRINCIPAL AND INTEREST PER \$1,000 AT VARYING RATES OF INTEREST

The following table shows the amount that must be repaid to principal and interest per thousand dollars (where payments are made monthly, semiannually, or annually) on loan terms from five to twenty-five years and at interest rates, varying from 5% to 3½%. Suppose you borrow \$5,000 at 4% interest, interest and principal to be paid monthly over a term of 10 years, at which time the loan will be completely amortized. How much will you have to pay per month? Consulting the table, you see that the loan will cost \$10.13 per thousand. Your total cost will be five times this amount, or \$50.65.

Amortization Period in Years	FOR LOANS AMORTIZED MONTHLY						FOR LOANS AMORTIZED SEMIANNUALLY					FOR LOANS AMORTIZED ANNUALLY						
	No. of Payments	At 5% Interest	At 4½% Interest	At 4¼% Interest	At 4% Interest	At 3½% Interest	No. of Payments	At 5% Interest	At 4½% Interest	At 4¼% Interest	At 4% Interest	At 3½% Interest	No. of Payments	At 5% Interest	At 4½% Interest	At 4¼% Interest	At 4% Interest	At 3½% Interest
5.....	60	18.88	18.65	18.53	18.42	18.20	10	114.26	112.79	111.33	109.88	5	230.98	227.80	224.63	221.49		
8.....	96	12.66	12.43	12.31	12.19	11.96	20	64.15	62.65	61.16	59.70	10	129.51	126.38	123.30	120.25		
10.....	120	10.61	10.37	10.25	10.13	9.89	30	47.78	46.20	44.65	43.13	15	96.35	93.12	89.95	86.83		
12.....	144	9.25	9.01	8.88	8.76	8.52	38	41.08	39.43	37.83	36.25	19	82.75	79.41	76.14	72.95		
15.....	180	7.91	7.65	7.53	7.40	7.15	40	39.84	38.18	36.56	34.98	20	80.25	76.88	73.59	70.37		
17.....	204	7.29	7.03	6.90	6.77	6.52	48	36.01	34.29	32.61	30.97	24	72.48	68.99	65.59	62.28		
19.....	228	6.81	6.54	.....	6.27	6.02	50	35.26	33.52	31.83	30.18	25	70.90	67.44	64.02	60.68		
20.....	240	6.60	6.33	6.20	6.06	5.80												
24.....	288	5.97	5.69		5.41	5.14												
25.....	300	5.85	5.56	5.42	5.28	5.01												

ANNUAL, MONTHLY, WEEKLY, AND DAILY SALARIES

ANNUAL	MONTH- LY	WEEK- LY*	DAILY†	ANNUAL	MONTH- LY	WEEK- LY*	DAILY†
	12 mo. to yr.	52 weeks to yr.	6 days to week		12 mo. to yr.	52 weeks to yr.	6 days to week
\$1000.00	\$ 83.33	\$19.23	\$3.20	\$ 2340.00	\$195.00	\$ 45.00	\$ 7.50
1040.00	86.67	20.00	3.33	2392.00	199.33	46.00	7.67
1080.00	90.00	20.77	3.45	2400.00	200.00	46.15	7.69
1092.00	91.00	21.00	3.50	2444.00	203.67	47.00	7.83
1100.00	91.67	21.15	3.52	2496.00	208.00	48.00	8.00
1144.00	95.33	22.00	3.67	2500.00	208.33	48.08	8.01
1196.00	99.67	23.00	3.83	2520.00	210.00	48.46	8.08
1200.00	100.00	23.08	3.85	2548.00	212.33	49.00	8.17
1248.00	104.00	24.00	4.00	2600.00	216.67	50.00	8.33
1300.00	108.33	25.00	4.17	2640.00	220.00	50.77	8.46
1320.00	110.00	25.38	4.23	2700.00	225.00	51.92	8.65
1352.00	112.67	26.00	4.33	2760.00	230.00	53.08	8.85
1380.00	115.00	26.54	4.42	2800.00	233.33	53.85	8.97
1400.00	116.67	26.92	4.49	2860.00	238.33	55.00	9.17
1404.00	117.00	27.00	4.50	2880.00	240.00	55.38	9.23
1440.00	120.00	27.69	4.61	2900.00	241.67	55.77	9.29
1456.00	121.33	28.00	4.67	3000.00	250.00	57.69	9.61
1500.00	125.00	28.85	4.81	3120.00	260.00	60.00	10.00
1508.00	125.67	29.00	4.83	3240.00	270.00	62.31	10.38
1560.00	130.00	30.00	5.00	3360.00	280.00	64.62	10.77
1600.00	133.33	30.77	5.13	3380.00	281.67	65.00	10.83
1612.00	134.33	31.00	5.17	3480.00	290.00	66.92	11.15
1620.00	135.00	31.15	5.19	3500.00	291.67	67.31	11.22
1664.00	138.67	32.00	5.33	3600.00	300.00	69.23	11.54
1680.00	140.00	32.31	5.38	3640.00	303.33	70.00	11.67
1700.00	141.67	32.68	5.45	3900.00	325.00	75.00	12.50
1716.00	143.00	33.00	5.50	4160.00	346.67	80.00	13.33
1740.00	145.00	33.46	5.57	4200.00	350.00	80.77	13.46
1768.00	147.33	34.00	5.67	4420.00	368.33	85.00	14.17
1800.00	150.00	34.61	5.77	4500.00	375.00	86.54	14.42
1820.00	151.67	35.00	5.83	4680.00	390.00	90.00	15.00
1860.00	155.00	35.77	5.96	4800.00	400.00	92.31	15.38
1872.00	156.00	36.00	6.00	4940.00	411.67	95.00	15.83
1900.00	158.33	36.54	6.09	5000.00	416.67	96.15	16.02
1920.00	160.00	36.92	6.15	5100.00	425.00	98.08	16.35
1924.00	160.33	37.00	6.17	5200.00	433.33	100.00	16.67
1976.00	164.67	38.00	6.33	5400.00	450.00	103.85	17.31
1980.00	165.00	38.08	6.35	5500.00	458.33	105.77	17.63
2000.00	166.67	38.46	6.41	5700.00	475.00	109.62	18.27
2028.00	169.00	39.00	6.50	6000.00	500.00	115.38	19.23
2040.00	170.00	39.23	6.54	6300.00	525.00	121.15	20.19
2080.00	173.33	40.00	6.67	6500.00	541.67	125.00	20.83
2100.00	175.00	40.38	6.73	6600.00	550.00	126.92	21.15
2132.00	177.67	41.00	6.83	6900.00	575.00	132.69	22.11
2160.00	180.00	41.54	6.92	7000.00	583.33	134.62	22.44
2184.00	182.00	42.00	7.00	7200.00	600.00	138.46	23.08
2200.00	183.33	42.31	7.05	7500.00	625.00	144.23	24.04
2220.00	185.00	42.69	7.11	8000.00	666.67	153.85	25.64
2236.00	186.33	43.00	7.17	8500.00	708.33	163.46	27.24
2280.00	190.00	43.85	7.31	9000.00	750.00	173.08	28.85
2288.00	190.67	44.00	7.33	9500.00	791.67	182.69	30.45
2300.00	191.67	44.23	7.37	10000.00	833.33	192.31	32.05

* Fifty-two weeks to the year instead of 52½ weeks.

† Weekly rate on the basis of six days to the week.

TIME IN WHICH MONEY DOUBLES ITSELF AT INTEREST

<i>Rate per cent</i>	<i>Simple Interest</i>	<i>Compound Interest</i>
2	50 years	35 years 1 day
2½	40 "	28 " 26 days
3	33 " 4 months	23 " 164 "
3½	28 " 208 days	20 " 54 "
4	25 "	17 " 246 "
4½	22 " 81 days	15 " 273 "
5	20 "	14 " 75 "
6	16 " 8 months	11 " 327 "
7	14 " 104 days	10 " 89 "
8	12 " 6 months	9 " 2 "
9	11 " 40 days	8 " 16 "
10	10 "	7 " 100 "

TABLE SHOWING PRICE OF FRACTIONAL PART
OF A DOZEN

The following table shows the cost of any fractional part of a dozen ranging from 50 cents to \$5.00, in steps of 5 cents each. With proper placement of ciphers and decimals, the table can range from \$5.00 to \$50.00 per dozen, or from 5 cents to 50 cents per dozen. Fractions have been dropped, and the nearest even cent prices are given.

<i>Cost Per Doz.</i>	COST OF ANY FRACTIONAL PART OF A DOZEN											
	NUMBER OF ARTICLES											
	1	2	3	4	5	6	7	8	9	10	11	12
50	4	8	13	17	21	25	29	33	38	42	46	50
55	5	9	14	18	23	28	32	37	41	46	50	55
60	5	10	15	20	25	30	35	40	45	50	55	60
65	5	11	16	22	27	33	38	43	49	54	60	65
70	6	12	18	23	29	35	41	47	53	58	64	70
75	6	13	19	25	31	38	44	50	56	63	69	75
80	7	13	20	27	33	40	47	53	60	67	73	80
85	7	14	21	28	35	43	50	57	64	71	78	85
90	8	15	23	30	38	45	53	60	68	75	83	90
95	8	16	24	32	40	48	55	63	71	79	87	95

<i>Cost Per Doz.</i>	COST OF ANY FRACTIONAL PART OF A DOZEN											
	NUMBER OF ARTICLES											
	1	2	3	4	5	6	7	8	9	10	11	12
100	8	17	25	33	42	50	58	67	75	83	92	100
105	9	18	26	35	44	53	61	70	79	88	96	105
110	9	18	28	37	46	55	64	73	83	92	101	110
115	10	19	29	38	48	58	67	77	86	96	105	115
120	10	20	30	40	50	60	70	80	90	100	110	120
125	10	21	31	42	52	63	73	83	94	104	115	125
130	11	22	33	43	54	65	76	87	98	108	119	130
135	11	23	34	45	56	68	79	90	101	113	124	135
140	12	23	35	47	58	70	82	93	105	117	128	140
145	12	24	36	48	60	73	85	97	109	121	133	145
150	13	25	38	50	63	75	88	100	113	125	138	150
155	13	26	39	52	65	78	90	103	116	129	142	155
160	13	27	40	53	67	80	93	107	120	133	147	160
165	14	28	41	55	69	83	96	110	124	138	151	165
170	14	28	42	57	71	85	99	113	127	142	156	170
175	15	29	44	58	73	88	102	117	131	146	160	175
180	15	30	45	60	75	90	105	120	135	150	165	180
185	15	31	46	62	77	93	108	123	139	154	170	185
190	16	32	48	63	79	95	111	127	143	158	174	190
195	16	33	49	65	81	98	114	130	146	163	179	195
200	17	33	50	67	83	100	117	133	150	167	183	200
205	17	34	51	68	85	103	120	137	154	171	188	205
210	18	35	53	70	88	105	123	140	158	175	193	210
215	18	36	54	72	90	108	125	143	161	179	197	215
220	18	37	55	73	92	110	128	147	165	183	202	220
225	19	38	56	75	94	113	131	150	169	188	206	225
230	19	38	58	77	96	115	134	153	173	192	211	230
235	20	39	59	78	98	118	137	157	176	196	215	235
240	20	40	60	80	100	120	140	160	180	200	220	240
245	20	41	61	82	102	123	143	163	184	204	225	245
250	21	42	63	83	104	125	146	167	188	208	229	250
255	21	43	64	85	106	128	149	170	191	213	234	255
260	22	43	65	87	108	130	152	173	195	217	238	260
265	22	44	66	88	110	133	155	177	199	221	243	265
270	23	45	68	90	113	135	158	180	201	225	248	270

<i>Cost Per Doz.</i>	COST OF ANY FRACTIONAL PART OF A DOZEN											
	NUMBER OF ARTICLES											
	1	2	3	4	5	6	7	8	9	10	11	12
275	23	46	69	92	115	138	160	183	206	229	252	275
280	23	47	70	93	117	140	163	187	210	233	257	280
285	24	48	71	95	119	143	166	190	214	238	261	285
290	24	48	73	97	121	145	169	193	218	242	266	290
295	25	49	74	98	123	148	172	197	221	246	270	295
300	25	50	75	100	125	150	175	200	225	250	275	300
305	25	51	76	102	127	153	178	203	229	254	280	305
310	26	52	78	103	129	155	181	207	233	258	284	310
315	26	53	78	105	131	158	184	210	236	263	289	315
320	27	53	80	107	133	160	187	213	240	267	293	320
325	27	54	81	108	135	163	190	217	244	271	298	325
330	28	55	83	110	138	165	193	220	248	275	303	330
335	28	56	84	112	140	168	195	223	251	279	307	335
340	28	57	85	113	142	170	198	227	255	283	312	340
345	29	58	86	115	144	173	201	230	259	288	316	345
350	29	58	88	117	146	175	204	233	263	292	321	350
355	30	60	89	118	148	178	207	237	266	296	325	355
360	30	60	90	120	150	180	210	240	270	300	330	360
365	30	61	91	122	152	183	213	243	274	304	335	365
370	31	62	93	123	154	185	216	247	278	308	339	370
375	31	63	94	125	156	188	219	250	281	313	344	375
380	32	63	95	127	158	190	222	253	285	317	348	380
385	32	64	96	128	160	193	225	257	289	321	353	385
390	33	65	98	130	163	195	228	260	293	325	358	390
395	33	66	99	132	165	198	230	263	296	329	362	395
400	33	67	100	133	167	200	233	267	300	333	367	400
405	34	68	101	135	169	203	236	270	304	338	371	405
410	34	68	103	137	171	205	239	273	308	342	376	410
415	35	69	104	138	173	208	242	277	311	346	380	415
420	35	70	105	140	175	210	245	280	315	350	385	420
425	35	71	106	142	177	213	248	283	319	354	390	425
430	36	72	108	143	179	215	251	287	323	358	394	430
435	36	73	109	145	181	218	254	290	326	363	399	435
440	37	73	110	147	183	220	257	293	330	367	403	440
445	37	74	111	148	185	223	260	297	334	371	408	445

<i>Cost Per Doz.</i>	COST OF ANY FRACTIONAL PART OF A DOZEN											
	NUMBER OF ARTICLES											
	1	2	3	4	5	6	7	8	9	10	11	12
450	38	75	113	150	188	225	263	300	338	375	413	450
455	38	76	114	152	190	227	265	303	341	379	417	455
460	38	77	115	153	192	230	268	307	345	383	422	460
465	39	78	116	155	194	233	271	310	349	388	426	465
470	39	78	118	157	196	235	274	313	353	392	431	470
475	40	79	119	158	198	238	277	317	356	396	435	475
480	40	80	120	160	200	240	280	320	360	400	440	480
485	40	81	121	162	202	243	283	323	364	404	445	485
490	41	82	123	163	204	245	286	327	368	408	449	490
500	42	83	125	167	208	250	292	333	375	417	458	500

MATHEMATICAL SIGNS AND SYMBOLS

+	...	Plus, the sign of addition.	° ' "	..	Degrees, minutes, seconds. Thus 25° 15'
-	....	Minus, the sign of subtraction.	.		10" represents 25 degrees, 15 minutes, 10 seconds.
×	.....	The sign of multiplication.	" "	..	Feet, inches. Thus 9' 10" = 9 feet 10 inches.
÷	..	The sign of division.	∞	..	Infinity
:	...	Is to	|	..	Perpendicular to.
:	...	As	||	..	Parallel to.
:	...	Is to	%	..	Number; numbered.
∴	..	Because.	°	..	Degree.
∴	..	Therefore.	○	..	Circle.
=	...	Equals, the sign of equality.	∠	..	Angle.
>	..	Greater than.	└	..	Right-angle.
<	..	Less than.	□	..	Square.
√	..	Square Root.	▭	..	Rectangle.
√	..	Cube Root.	Δ	..	Triangle.
	..	Fourth Root. $\sqrt[4]{}$ Fifth Root, etc.	0	..	The cipher, zero.
() || { }	..	Indicate that the figures enclosed are to be taken together	%	..	Per cent
	..	Thus $10 \times (7 + 4)$;	‰	..	Per thousand.
	..	$8 - [9 \div 3]$;	℥	..	Scruple.
	..	$30 \left\{ \frac{7 + 3}{4 - 2} \right\}$	℥	..	Drachm.
	..		℥	..	Ounce.
	..			..	Apothecaries' weight.

COMPARISON OF CENTIGRADE AND FAHRENHEIT TEMPERATURES

To convert from ° F to ° C, subtract 32 from ° F and divide by 1.8.

To convert from ° C to ° F, multiply ° C by 1.8 and add 32.

Water freezes at 0°C and 32°F. Water boils (at sea level) at 100° C and 212° F.

C	F	C	F	C	F	C	F
-40	-40	8	46.4	56	132.8	104	219.2
-39	-38.2	9	48.2	57	134.6	105	221.
-38	-36.4	10	50.	58	136.4	106	222.8
-37	-34.6	11	51.8	59	138.2	107	224.6
-36	-32.8	12	53.6	60	140.	108	226.4
-35	-31.	13	55.4	61	141.8	109	228.2
-34	-29.2	14	57.2	62	143.6	110	230.
-33	-27.4	15	59.	63	145.4	111	231.8
-32	-25.6	16	60.8	64	147.2	112	233.6
-31	-23.8	17	62.6	65	149.	113	235.4
-30	-22.	18	64.4	66	150.8	114	237.2
-29	-20.2	19	66.2	67	152.6	115	239.
-28	-18.4	20	68.	68	154.4	116	240.8
-27	-16.6	21	69.8	69	156.2	117	242.6
-26	-14.8	22	71.6	70	158.	118	244.4
-25	-13	23	73.4	71	159.8	119	246.2
-24	-11.2	24	75.2	72	161.6	120	248.
-23	- 9.4	25	77.	73	163.4	121	249.8
-22	- 7.6	26	78.8	74	165.2	122	251.6
-21	- 5.8	27	80.6	75	167.	123	253.4
-20	- 4.	28	82.4	76	168.8	124	255.2
-19	- 2.2	29	84.2	77	170.6	125	257.
-18	- 0.4	30	86.	78	172.4	126	258.8
-17	+ 1.4	31	87.8	79	174.2	127	260.6
-16	3.2	32	89.6	80	176.	128	262.4
-15	5.	33	91.4	81	177.8	129	264.2
-14	6.8	34	93.2	82	179.6	130	266.
-13	8.6	35	95.	83	181.4	131	267.
-12	10.4	36	96.8	84	183.2	132	269.6
-11	12.2	37	98.6	85	185.	133	271.4
-10	14.	38	100.4	86	186.8	134	273.2
- 9	15.8	39	102.2	87	188.6	135	275.
- 8	17.6	40	104.	88	190.4	136	276.8
- 7	19.4	41	105.8	89	192.2	137	278.6
- 6	21.2	42	107.6	90	194.	138	280.4
- 5	23.	43	109.4	91	195.8	139	282.2
- 4	24.8	44	111.2	92	197.6	140	284.
- 3	26.6	45	113.	93	199.4	141	285.8
- 2	28.4	46	114.8	94	201.2	142	287.6
- 1	30.2	47	116.6	95	203.	143	289.4
0	32.	48	118.4	96	204.8	144	291.2
+ 1	33.8	49	120.2	97	206.6	145	293.
2	35.6	50	122.	98	208.4	146	294.8
3	37.4	51	123.8	99	210.2	147	296.6
4	39.2	52	125.6	100	212.	148	298.4
5	41.	53	127.4	101	213.8	149	300.2
6	42.8	54	129.2	102	215.6		
7	44.6	55	131.	103	217.4		

SQUARES, SQUARE ROOTS, CUBES, AND CUBE ROOTS OF NUMBERS 1-100

No.	Sq.	Cube	Square Root	Cube Root	No.	Sq.	Cube	Square Root	Cube Root	No.	Sq.	Cube	Square Root	Cube Root
1	1.000	1.000	1.000	1.000	35	1225	42875	5.916	3.271	68	4624	314432	8.246	4.081
2	4	8	1.414	1.259	36	1296	46656	6.000	3.301	69	4761	328509	8.306	4.101
3	9	27	1.732	1.442	37	1369	50653	6.082	3.332	70	4900	343000	8.366	4.121
4	16	64	2.000	1.587	38	1444	54872	6.164	3.362	71	5041	357911	8.426	4.140
5	25	125	2.236	1.710	39	1521	59319	6.245	3.391	72	5184	373248	8.485	4.160
6	36	216	2.449	1.817	40	1600	64000	6.324	3.420	73	5329	389017	8.544	4.179
7	49	343	2.645	1.913	41	1681	68921	6.403	3.448	74	5476	405224	8.602	4.198
8	64	512	2.828	2.000	42	1764	74088	6.480	3.476	75	5625	421875	8.660	4.217
9	81	729	3.000	2.080	43	1849	79507	6.557	3.503	76	5776	438976	8.717	4.235
10	100	1000	3.162	2.154	44	1936	85184	6.633	3.530	77	5929	456533	8.775	4.254
11	121	1331	3.316	2.224	45	2025	91125	6.708	3.556	78	6084	474552	8.831	4.272
12	144	1728	3.464	2.289	46	2116	97336	6.782	3.583	79	6241	493039	8.888	4.290
13	169	2197	3.605	2.351	47	2209	103823	6.855	3.608	80	6400	512000	8.944	4.308
14	196	2744	3.741	2.410	48	2304	110592	6.928	3.634	81	6561	531441	9.000	4.326
15	225	3375	3.873	2.466	49	2401	117649	7.000	3.659	82	6724	551368	9.055	4.344
16	256	4096	4.000	2.519	50	2500	125000	7.071	3.684	83	6889	571787	9.110	4.362
17	289	4913	4.123	2.571	51	2601	132651	7.141	3.708	84	7056	592704	9.165	4.379
18	324	5832	4.242	2.620	52	2704	140608	7.211	3.732	85	7225	614125	9.219	4.396
19	361	6859	4.358	2.668	53	2809	148877	7.280	3.756	86	7396	636056	9.273	4.414
20	400	8000	4.472	2.714	54	2916	157464	7.348	3.779	87	7569	658303	9.327	4.431
21	441	9261	4.582	2.758	55	3025	166375	7.416	3.803	88	7744	681472	9.380	4.448
22	484	10648	4.690	2.802	56	3136	175616	7.483	3.825	89	7921	704969	9.434	4.464
23	529	12167	4.795	2.843	57	3249	185193	7.549	3.848	90	8100	729000	9.486	4.481
24	576	13824	4.899	2.884	58	3364	195112	7.615	3.870	91	8281	753571	9.539	4.497
25	625	15625	5.000	2.924	59	3481	205379	7.681	3.893	92	8464	778688	9.591	4.514
26	676	17576	5.099	2.962	60	3600	216000	7.746	3.914	93	8649	804357	9.643	4.530
27	729	19683	5.196	3.000	61	3721	226981	7.810	3.936	94	8836	830584	9.695	4.546
28	784	21952	5.291	3.036	62	3844	238328	7.874	3.957	95	9025	857375	9.746	4.562
29	841	24389	5.385	3.072	63	3969	250047	7.937	3.979	96	9216	884736	9.798	4.578
30	900	27000	5.477	3.107	64	4096	262144	8.000	4.000	97	9409	912673	9.848	4.594
31	961	29791	5.567	3.141	65	4225	274625	8.062	4.020	98	9604	941192	9.899	4.610
32	1024	32768	5.656	3.174	66	4356	287496	8.124	4.041	99	9801	970299	9.944	4.626
33	1089	35937	5.744	3.207	67	4489	300763	8.185	4.061	100	10000	1000000	10.000	4.641
34	1156	39304	5.831	3.239										

PERPETUAL CALENDAR¹

For Ascertaining the Day of the Week for Any Given Date

YEARS

C ^{Year}	1700	1800	1900	2000
0	53 81	37 55 83	00 *	01 29 57 85
1	54 82	38 56 84	1 20 57 85	2 30 58 86
2	55 83	39 57 85	2 31 58 86	3 31 59 87
3	56 84	40 58 86	3 32 59 87	4 32 60 88 *
4	57 85	41 59 87	4 33 60 88 *	5 33 61 89 *
5	58 86	42 60 88	5 34 61 89	6 34 62 90
6	59 87	43 61 89	6 35 62 90	7 35 63 91
7	60 88	44 62 90	7 36 63 91	8 36 64 92 *
8	61 89	45 63 91	8 37 64 92 *	9 37 65 93
9	62 90	46 64 92 *	9 38 65 93	10 38 66 94
0	63 91	47 65 93	10 39 66 94	11 39 67 95
1	64 92	48 66 94	11 40 67 95	12 40 68 96
2	65 93	49 67 95	12 41 68 96	13 41 69 97 *
3	66 94	50 68 96	13 42 69 97	14 42 70 98
4	67 95	51 69 97	14 43 70 98	15 43 71 99
5	68 96	52 70 98	15 44 71 99	16 44 72 *
6	69 97	53 71 99	16 45 72 *	17 45 73
7	70 98	54 72	17 46 73	18 46 74
8	71 99	55 73	18 47 74	19 47 75
9	72 *	56 74	19 48 75	20 48 76 *
0	73	57 75	20 49 76 *	21 49 77
1	74	58 76 *	21 50 77	22 50 78
2	75	59 77	22 51 78	23 51 79
3	76	60 78	23 52 79	24 52 80 *
4	77	61 79	24 53 80 *	25 53 81 *
5	78	62 80	25 54 81 *	26 54 82 *
6	79	63 81	26 55 82 *	27 55 83 *
7	80	64 82	27 56 83 *	28 56 84 *
8	81	65 83	28 57 84 *	29 57 85 *
9	82	66 84	29 58 85 *	30 58 86 *

¹ Devised by Charles W. Gerstenberg.

DAY OF MONTH

J	F	M	A	M	J	J	A	S	O	N	D	Days
1	2	3	4	5	6	7	8	9	10	11	12	M
2	3	4	5	6	7	8	9	10	11	12	1	T
3	4	5	6	7	8	9	10	11	12	13	2	W
4	5	6	7	8	9	10	11	12	13	14	3	T
5	6	7	8	9	10	11	12	13	14	15	4	F
6	7	8	9	10	11	12	13	14	15	16	5	S
7	8	9	10	11	12	13	14	15	16	17	6	S
8	9	10	11	12	13	14	15	16	17	18	7	M
9	10	11	12	13	14	15	16	17	18	19	8	T
10	11	12	13	14	15	16	17	18	19	20	9	W
11	12	13	14	15	16	17	18	19	20	21	10	T
12	13	14	15	16	17	18	19	20	21	22	11	W
13	14	15	16	17	18	19	20	21	22	23	12	T
14	15	16	17	18	19	20	21	22	23	24	13	W
15	16	17	18	19	20	21	22	23	24	25	14	T
16	17	18	19	20	21	22	23	24	25	26	15	W
17	18	19	20	21	22	23	24	25	26	27	16	T
18	19	20	21	22	23	24	25	26	27	28	17	W
19	20	21	22	23	24	25	26	27	28	29	18	T
20	21	22	23	24	25	26	27	28	29	30	19	W
21	22	23	24	25	26	27	28	29	30	31	20	T
22	23	24	25	26	27	28	29	30	31		21	W
23	24	25	26	27	28	29	30	31			22	T
24	25	26	27	28	29	30	31				23	W
25	26	27	28	29	30	31					24	T
26	27	28	29	30	31						25	W
27	28	29	30	31							26	T
28	29	30	31								27	W
29	30	31									28	T
30	31										29	W
31											30	T
											31	W
												F

Directions

- Step 1.** Locate year on this page, and “counter” opposite thereto at extreme left.
- Step 2.** Locate day of month; carry over to day column at extreme right and count down number of days indicated by “counter” in Step 1. For leap years (those in **bold face** type preceding asterisk*), the counter should be increased by one for days after February 29.

Example. What day of the week was June 13, 1938?

Solution:

- Step 1.** The “counter” opposite 38 is observed to be 5.
- Step 2.** The letter opposite the number 13 (on extreme right, under **J** for June) is **W**. Counting down 5, it is found that June 13, 1938, was a Monday.

Example. What day of the week was August 8, 1912 (a leap year)?

Solution:

- Step 1.** Under column headed 1900, find the number 12. Opposite it, on the extreme left, the “counter” is observed to be 0. Since 1912 was a leap year (indicated by **bold face** type), and since August 8 is after February 28, increase the counter by 1. The “counter” is $(0 + 1 = 1)$.
- Step 2.** Under column headed **A** for August locate the day of the month, which in this instance is 8. Follow over to the letter **W** in column headed **Days**; count down 1 (number of counter) to the letter **T** (for Thursday). August 8, 1912, was a Thursday.

AMERICAN EXPERIENCE TABLE OF MORTALITY

Age	No. Living	Deaths Each Year	Death-Rate Per 1,000	Expect. of Life	Age	No. Living	Deaths Each Year	Death-Rate Per 1,000	Expect. of Life	Age	No. Living	Deaths Each Year	Death-Rate Per 1,000	Expect. of Life
10....	100,000	749	7.49	48.72	39....	78,862	756	9.59	28.90	68....	43,133	2,243	52.00	9.47
11....	99,251	746	7.52	48.08	40....	78,106	765	9.79	28.18	69....	40,890	2,321	56.76	8.97
12....	98,505	743	7.54	47.45	41....	77,341	774	10.01	27.45	70....	38,569	2,391	61.99	8.48
13....	97,762	740	7.57	46.80	42....	76,567	785	10.25	26.72	71....	36,178	2,448	67.66	8.00
14....	97,022	737	7.60	46.16	43....	75,782	797	10.52	26.00	72....	33,730	2,487	73.73	7.55
15....	96,285	735	7.63	45.50	44....	74,985	812	10.83	25.27	73....	31,243	2,505	80.18	7.11
16....	95,550	732	7.66	44.85	45....	74,173	828	11.16	24.54	74....	28,738	2,501	87.03	6.68
17....	94,818	729	7.69	44.19	46....	73,345	848	11.56	23.81	75....	26,237	2,476	94.37	6.27
18....	94,089	727	7.73	43.53	47....	72,497	870	12.00	23.08	76....	23,761	2,431	102.31	5.88
19....	93,362	725	7.76	42.87	48....	71,627	896	12.51	22.36	77....	21,330	2,369	111.06	5.49
20....	92,637	723	7.80	42.20	49....	70,731	927	13.11	21.63	78....	18,961	2,291	120.83	5.11
21....	91,914	722	7.85	41.53	50....	69,804	962	13.78	20.91	79....	16,670	2,196	131.73	4.74
22....	91,192	721	7.91	40.85	51....	68,842	1,001	14.54	20.20	80....	14,474	2,091	144.47	4.39
23....	90,471	720	7.96	40.17	52....	67,841	1,044	15.39	19.49	81....	12,383	1,964	158.60	4.05
24....	89,751	719	8.01	39.49	53....	66,797	1,091	16.33	18.79	82....	10,419	1,816	174.30	3.71
25....	89,032	718	8.06	38.81	54....	65,706	1,143	17.40	18.09	83....	8,603	1,648	191.56	3.39
26....	88,314	718	8.13	38.12	55....	64,563	1,199	18.57	17.40	84....	6,955	1,470	211.36	3.08
27....	87,596	718	8.20	37.43	56....	63,364	1,260	19.88	16.72	85....	5,485	1,292	235.55	2.77
28....	86,878	718	8.26	36.73	57....	62,104	1,325	21.33	16.05	86....	4,193	1,114	265.68	2.47
29....	86,160	719	8.34	36.03	58....	60,779	1,394	22.94	15.39	87....	3,079	933	303.02	2.18
30....	85,441	720	8.43	35.33	59....	59,385	1,468	24.72	14.74	88....	2,146	744	346.69	1.91
31....	84,721	721	8.51	34.63	60....	57,917	1,546	26.69	14.10	89....	1,402	555	395.86	1.66
32....	84,000	723	8.61	33.93	61....	56,371	1,628	28.88	13.47	90....	847	385	454.54	1.42
33....	83,277	726	8.72	33.21	62....	54,743	1,713	31.29	12.86	91....	462	246	532.47	1.19
34....	82,551	729	8.83	32.50	63....	53,030	1,800	33.94	12.26	92....	216	137	634.26	.98
35....	81,822	732	8.95	31.78	64....	51,230	1,889	36.87	11.67	93....	79	58	734.18	.80
36....	81,090	737	9.09	31.07	65....	49,341	1,980	40.13	11.10	94....	21	18	857.14	.64
37....	80,353	742	9.23	30.35	66....	47,361	2,070	43.71	10.54	95....	3	3	1000.00	.50
38....	79,611	749	9.41	29.62	67....	45,291	2,158	47.65	10.00					

17. GLOSSARY OF ABBREVIATIONS

In addition to the following list, other lists of abbreviations are given as indicated.

Abbreviations of months and days (page 1430).

Abbreviations of foreign currencies (pages 1400-1401).

General Abbreviations

A

- | | |
|--|--|
| <p>@ at (referring to price)</p> <p>a, A. acre(s)</p> <p>A. . . . Atlantic Reporter</p> <p>A.(2d) . . . Atlantic Reporter
(second series)</p> <p>A-1 first class</p> <p>a.a. . . . always afloat</p> <p>A.A.E. . . . American Association
of Engineers</p> <p>a.a.r. against all risks</p> <p>A.A.S. . . . Fellow of the American Academy</p> <p>A.B.A. American Bankers Association</p> <p>abbr. abbreviated, -ion</p> <p>abr. abridged</p> <p>abt. about</p> <p>a.c. alternate current</p> <p>a/c account</p> <p>A/C account current</p> <p>acc. acceptance; accepted</p> <p>acct. account</p> <p>A.C.A. Associate of the Institute of Chartered Accountants</p> <p>A/cs Pay accounts payable</p> <p>A/cs Rec. accounts receivable</p> <p>A.C.S. American College of Surgeons</p> <p>a/d after date</p> <p>ad advertisement (<i>pl.</i> ads)</p> <p>ad lib., ad libit. at one's pleasure; freely; to the quantity or amount desired</p> | <p>ad loc. . . . to, or at, the place</p> <p>admr., adms., admstr. administrator</p> <p>admrx., admx. administratrix</p> <p>ad. val. . . . according to value
(<i>ad valorem</i>)</p> <p>AEC Atomic Energy Commission</p> <p>A.E.F. American Expeditionary Forces</p> <p>A.E.S. American Electrochemical Society</p> <p>A. & F. . . . August and February</p> <p>affd. aff'd . . . affirmed</p> <p>afft. . . . affidavit</p> <p>AFL-CIO American Federation of Labor—Congress of Industrial Organizations</p> <p>A.G. Adjutant General</p> <p>A.G.F.A. Assistant General Freight Agent</p> <p>agst. . . . against</p> <p>agt. . . . agent; against; agreement</p> <p>a.h. . . . after hatch; ampere-hour(s)</p> <p>A.H.Q. Army headquarters</p> <p>A.I.B. American Institute of Banking</p> <p>A.I.C.E. American Institute of Chemical Engineers</p> <p>A.I.E. American Institute of Engineers</p> <p>A.I.E.E. American Institute of Electrical Engineers</p> <p>A.I.M.E. American Institute</p> |
|--|--|

- of Mining & Metallurgical Engineers
A.J.O.J. April, July, October, January
a.m. before noon (*ante meridian*)
A.M.A. American Medical Association
amp. ampere(s)
amt. amount
a.n. arrival notice (shipping)
A.N.F.M. August, November, February, May
anon. anonymous
ans. answer; answered
a/o account of
A. & O. April and October
A. to O.C. attached to other correspondence
AP Associated Press
A/P additional premium; authority to pay
Apd. assessment paid
app. appeal (legal)
appd. approved
approx. approximately
A/R all risks; against all risks (marine ins.)
ARC American (National) Red Cross
art. article
A/S after sight; account sales; alongside (chartering)
A.S. Academy of Science
a.s. at sight
ASA American Standards Association
A.S.A. American Statistical Association
A.S.C.E. American Society of Civil Engineers
A.S.E. Amalgamated Society of Engineers
A.S.M.E. American Society of Mechanical Engineers
assigt. assignment
assmt. assessment
assn. or ass'n association
asst. assistant
A.S.T. Atlantic standard time
ASTA American Society of Travel Agents, Inc.
A.S.T.M. American Society for Testing Materials
A/T American terms (grain trade)
at. no. atomic number
A. to O.C. attached to other correspondence
ats. at suit of (law)
atty. attorney
at. vol. atomic volume
at. wt. atomic weight
AUS Army of the United States
A.V. Authorized Version
A/V according to value (*ad valorem*)
av., avdp. avoirdupois
av. or age. average
Ave. Avenue
A/W actual weight; all water (transp.)
A.W.G. American wire gauge

B

- b7d, b10d, b15d** buyer 7 days to take up, etc. (stock market)
bal. balance
bar. barometer
b.b. bail bond; bill book; break bulk
bbi. barrel(s)
B/C bill of collection
B/D bank draft; bar draft (grain trade)
Bd. of Rev. Board of Review
bd.ft. board feet
bdl. bundle
B/E bill of exchange; bill of entry

B/F brought forward (book-keeping)
B/G bonded goods
B/H bill of health
b.h.p. brake horsepower
bibliog. . . . bibliography, -er, -ical
biog. biography, -er, -ical
biol. biology, -ical, -ist
bk. bank; book
bkpt. bankrupt
bkt., bsk. basket(s)
B/L bill of lading
bl. bale(s)
Bldg. Building
B.L.E. Brotherhood of Locomotive Engineers
Bldv. Boulevard
b. m. board measure (timber)
b.o. buyer's option; back order
b/o brought over
B.O. branch office
B/P bills payable; bill of parcels
B. Pay. bills payable
b.p.b. bank post bill
B/R bills receivable; builders' risks
B. Rec. bills receivable
Brig. Gen. Brigadier General
Bro. Brother
Bros. Brothers
B/S bill of sale; bill of store
Bs/L bills of lading
B/St bill of sight
b.t. berth terms
b.t.u. British thermal unit(s)
bu. bushel(s)
bul., bull. bulletin
bus. business; bushels
Bus. Mgr. business manager
B/v book value
B.W.G. Birmingham wire gauge
bx box

C

c. cent(s); carat; chapter(s)
c/- case(s)
C.A. Chartered Accountant
CAA Civil Aeronautics Administration
C/A capital account; credit account; current account; commercial agent; close annealed
ca. centare(s)
CAB Civil Aeronautics Board
C a/c current account
c.a.f. cost, assurance, and freight
Cantab. of Cambridge (*Cantabrigiensis*)
cap. capital
caps capital letters
Capt. Captain
cart. cartage
C.A. Chartered accountant
C/B cash book
C.B.D. cash before delivery
C.B.S. OR CBS Columbia Broadcasting System
cc. cubic centimeter
CCC Commodity Credit Corporation
C.C. continuation clause (marine ins.)
ccm. centimeter(s)
c/d carried down (book-keeping)
C/D commercial dock; consular declaration; certificate of deposit
c. & d. collection and delivery
CDE Code (Western Union cable)
cf. compare
c/f carried forward (book-keeping)
c. & f. cost and freight

- c.f.i.** cost, freight, and insurance
c.f.o. cost for orders
cg. . . . centigram(s)
C.G.A. cargo's proportion of general average
cge.pd. carriage paid
cgm. centigram(s)
ch.(s) chapter(s)
C.I. consular invoice
C.I.E. captain's imperfect entry (Customs)
c.i.f. cost, insurance, and freight
c.i.f. & c. cost, insurance, freight, and charges
c.i.f. & e. cost, insurance, freight, and exchange
c.i.f. & i. cost, insurance, freight, and interest
c.i.f.i. & e. cost, insurance, freight, interest, and exchange
c.i.f.L.t. cost, insurance, and freight, London terms
CIR Commissioner of Internal Revenue
civ. civil
ck. cask(s); check
C/L cash letter
cl. centiliter(s)
c.l. carload
c/l craft loss
cld. cleared
C.L.U. Chartered Life Underwriter
c.m. centimeter(s)
cm.pf. cumulative preferred (stocks)
C/N credit note; consignment note; circular note
cn. consolidated (bonds)
C/O cash order; certificate of origin; case oil
Co. company; county
c/o carried over (bookkeeping); in-care of
c.o.d. certificates of deposit (securities)
C.O.D., c.o.d. cash, or collect, on delivery
col. column
Col. Colonel
coll.tr., clt. collateral trust (bonds)
Coll. Collector (internal revenue)
Comm. Committee; Commission
Com'r, Comm. Commissioner
consgt. consignment
Const. Constitution
co-op. co-operative
corp. corporation, corporal
c.o.s. cash on shipment
c-p. candle power
C/P charter party; custom of port (grain trade)
C.P.A. Certified Public Accountant
C.P.D. charterers pay dues
C.R. class rate; current rate; company's risk; carrier's risk
cr. credit; creditor
c/s cases
C/S colliery screened (coal trade)
CSC Civil Service Commission
C.S.T. Central Standard Time
C/T cable transfer; California terms (grain trade)
C.T. Central Time
ct. cent(s)
ctge. cartage
c.t.l. constructive total loss (marine ins.)
c.t.l.o. constructive total loss only (marine ins.)
c. to. s. carting to shipside
cu. cubic

cu. cm. cubic centimeter(s)
cu. ft. cubic feet
cu. in. cubic inch(es)
cu. mi. cubic mile(s)
cum. with; cumulative
cum. pref., cu. pf. cumulative preferred (stocks)
cur. current
c.v. chief value
C.W. commercial weight
c.w.o. cash with order
cwt. hundredweight(s)

D

d. pence
d/a days after acceptance
D/A deposit account; documents against acceptance; discharge afloat
dal. decaliter(s)
d. & w.t.f. daily and weekly till forbidden
D.B. day book; deals and battens (timber trade)
D.B.B. deals, battens, and boards (timber trade)
d.b.h. diameter at breast height
dbk. drawback
db. rts. debenture rights (securities)
d.c. direct current
D/C deviation clause
D/D demand draft; delivered at docks; delivered at destination; dock dues
D/d Days after date
dd. delivered
dd/s delivered sound (grain trade)
deb., debent. debenture
dec. decision
decim. decimeter(s)
def. deferred (securities)
deft. defendant
Dem. Democrat

dep.ctfs. deposit certificates
dept., dpt. department
depr. depreciation
d.f. dead freight
D.F.A. Division Freight Agent
dft. draft
dg. decigram(s)
dia., diam. diameter
dir. director
dis. discount
dist. district
div. dividend; division
D. & J. December and June
dkg. dekagram(s)
dkl. dekaliter(s)
dk. docket
dkm. dekameter(s)
dk. decastere(s)
D/L demand loan
dl. decileter(s)
DL day letter (telegraph)
dl. delivered
d.l.o. dispatch loading only
D.L.O. Dead Letter Office
D/N debit note
D/O delivery order
do. ditto (the same)
dom. dominion
doz. dozen
d.p. direct port
D/P documents against payment
D/R deposit receipt
dr. debit; debtor; drawer
Dr. Doctor
dr. ap. apothecaries' dram(s)
dr. av. dram(s) avoirdupois
D/s days after sight
ds. decistere(s)
D/W dock warrant
d.w. dead weight
d.w.c. dead weight capacity
dwt. pennyweight(s)
d. & w.t.f. daily and weekly till forbidden

D/y delivery
dz. dozen

E

ea. each
E.A.O.N. except as otherwise noted
ed. editor; edition(s); education
E.D.T. Eastern daylight saving time
e.e. errors excepted
eff. effective
e.g. for example, (*exempli gratia*)
elec. electric
Encyc. Encyclopedia
enc. enclose
end. endorse, endorsement
eng. engine; engineer; engraved
Env.-Ext. Envoy Extraordinary
E. & O.E. errors and omissions excepted
e.o. ex officio
e.o.h.p. except as otherwise herein provided
e.o.m. end of month (payments)
equip. equipment
Esq. Esquire
est. estate; estimated
E.S.T. Eastern standard time
estab. established
et al. and others (*et alii*)
etc. and the others; and so forth (*et cetera*)
et seq. and the following (*et sequens*)
et ux and wife (*et uxor*)
et vir and husband
Ex. B.L. exchange bill of lading
ex. cp or x/cp ex coupon

ex d. or ex div. ex dividend
exd. examined
exec. executive
ex int. ex interest
ex n. ex new
exp. express; expenses; export
ex r. ex rights
exr. executor
exrx. executrix
ex ship delivered out of ship

F

f. following (after a numeral)
F., Fahr. Fahrenheit
f.a. free alongside
F. & A. February and August
f.a.a. free of all average (marine ins.)
fac. facsimile
f.a.c. fast as can
F.A.C.P. Fellow of the American College of Physicians
f.a.q. fair average quality; free at quay
f.a.q.s. fair average quality of season
f.a.s. free alongside ship; firsts and seconds (lumber)
F.A.M. or F. and A.M. Free and Accepted Mason
f.b. freight bill
fbm feet board measure
FCA Farm Credit Administration
FCC Federal Communications Commission
f.c. & s. free of capture and seizure (transp.)
f.c.s.r.c.c. free of capture, seizure, riots and civil commotions
f.d. free discharge; free delivery; free dispatch
f. & d. freight and demurrage
FDIC Federal Deposit Insurance Corporation

- ff.** following (after a numeral); folios
f.f.a. free from alongside; free foreign agency
F.G.A. foreign general average (marine ins.)
F.H.A. Federal Housing Administration
f.i.a. full interest admitted
f.i.b. free into bunkers; free into barge
fig.(s) figure(s)
f.i.o. free in and out
f.i.t. free of income tax; free in truck
f.i.w. free in wagon
F.L.N. following landing numbers
fl. oz. fluid ounce(s)
fm. fathom(s)
F.M. frequency modulation
F.M.A.N. February, May; August, November
FMCS Federal Mediation and Conciliation Service
F.O. firm offer; free overside
f.o. for orders; firm offer; full out terms (grain trade)
F.O.B., f.o.b. free on board
f.o.c. free on car; free of charge
f.o.d. free of damage
f.o.f. free on field (air mail)
fol. folio; following
f.o.q. free on quay
f.o.r. free on rail
f.o.r.t. free out rye terms (grain trade)
f.o.s. free on steamer
f.o.t. free on truck
f.o.w. free on wagon; first open water
F.P. floating (or open) policy; fully paid
F.P.A. free of particular average (marine ins.)
F.P.A.A.C. free of particular average, American Conditions (marine ins.)
F.P.A.E.C. free of particular average, English Conditions (marine ins.)
FPC Federal Power Commission
f.p.m. feet per minute
f.p.s. feet per second
F/R freight release
F.R.B. Federal Reserve Board (or Bank)
f.r.o.f. fire risk on freight
F.R.S. Federal Reserve System
frt. freight
FSA Federal Security Agency
ft. foot or feet
f.t. full terms
FTC Federal Trade Commission
F.T.W. free trade wharf
f.v. on the back of the page (*folio verso*)
fwd. forward
f.w.d. fresh water damage
F.X. foreign exchange
F.Y.I. for your information (interoffice use)
- G**
- g** gram (metric)
G/A general average (marine ins.)
G/A con. general average contribution (marine ins.)
G/A dep. general average deposit (marine ins.)
gal. gallon(s)
G.A.R. Grand Army of the Republic
g.f.a. good fair average
G.F.A. General Freight Agent
g. gr. great gross

GHQ General Headquarters
 (Army)
gi. gill(s)
gm. gram(s)
Gov. Governor
govt. government
G.P.A. General Passenger
 Agent
g.p.m. gallons per minute
gr. gram(s); grain; gross
gro. gross
gr. wt. gross weight
G.T.C. good till canceled, or
 countermanded
G.T.M. good this month
G.T.W. good this week, be-
 comes void on Saturday
guar. guaranteed

H

ha. hectare(s)
H.C. held covered (insur-
 ance); House of Commons
hd. head
hdqrs. headquarters
hdwr. hardware
H.F.M. hold for money
hg. hectogram(s)
hhd. hogshead(s)
hist. historic, -ian, -ical
hl. hectoliter(s)
hm. hectometer(s)
Hon. Honorable
H.P. or hp. horsepower
H.P.N. horsepower nominal
hq. headquarters
hr. hour(s)
H.W. high water
H.W.M. high-water mark
H.W.O.S.T. high-water or-
 dinary spring tide
hyp. hypothesis

I

I.B. invoice book; in bond
I.B.I. invoice book, inwards

ibid. in the same place
 (*ibidem*)
I.B.O. invoice book, out-
 wards
ICC Interstate Commerce
 Commission
I.C.&C. invoice cost and
 charges
id. the same (*idem*)
i.e. that is (*id est*)
I.E.E. Institute of Electrical
 Engineers
I.F.T.U. International Fed-
 eration of Trade Unions
IGD Inspector General's De-
 partment
I.H.P. indicated horsepower
I.L.O. International Labor
 Organization
I.L.P. Independent Labour
 Party (Brit.)
imp. gal. imperial gallon(s)
in. inch(es)
Inc. incorporated
incog. incognito
I.N.P. International News
 Photos
I.N.S. International News
 Service
inst. in the present month
 (*instant*)
Inst. Institute, -ion
int. interest
I.O.O.F. Independent Order
 of Odd Fellows
inv. invoice
I.P.A. including particular
 average
I.Q. intelligence quotient
IRC Internal Revenue Code
ital. italics
i.v. invoice value; increased
 value
I.W.W. Industrial Workers
 of the World

J

J. . . . Judge, Justice
J/A . . . joint account
J.A.J.O. . . . January, April, July, October
J. & D. . . . June and December
J. & J. . . . January and July
jnt. stk. . . . joint stock
J.O.J.A. . . . July, October, January, April
jour. . . . journal
J.P. . . . Justice of the Peace
Jr. . . . junior
J.S.D.M. . . . June, September, December, March

K

k. . . . carat; knot
kc. . . . kilocycle(s)
K.C. . . . Knights of Columbus
K.D. . . . knocked down
K.D.C.L. . . . knocked down, in carloads
K.D.L.C.L. . . . knocked down, in less than carloads
kg. or kgm. . . . kilogram(s)
kilo. . . . kilometer(s)
K.K.K. . . . Ku Klux Klan
kl. . . . kiloliter(s)
km. . . . kilometer(s)
kn. . . . kronen
K.P. . . . Knights of Pythias
 **. . . kilovolts
kw. . . . kilowatt(s)
kwi-hr. . . . kilowatt-hour(s)**

L

l. . . . line; liter(s)
L . . . listed (securities)
L/A . . . letter of authority; landing account; Lloyd's agent
lang. . . . language
lat. . . . latitude
lb. . . . pound(s)
lb. ap. . . . apothecaries' pound(s)

l.c. . . . lower case; in the place cited
LC . . . Deferreds (cable messages)
L/C . . . letter of credit
l.c.l. . . . less than carload lot
ldg. . . . loading
ldg. & dely. . . . landing and delivery
lds. . . . loads
lge. . . . large
lg. tn. . . . long ton(s)
L.I.P. . . . life insurance policy
lkg. & bkg. . . . leakage and breakage
LI. & Co.'s . . . Lloyd's and Companies
L.M.C. . . . Lloyd's machinery certificate
l.m.c. . . . low middling clause (cotton trade)
L.M.S.C. . . . let me see correspondence
loc. cit. . . . in the place cited (*loco citato*)
log. . . . logarithm
long. . . . longitude
lr. . . . lire
L.R.M.C. . . . Lloyd's refrigerating machinery certificate
L.S. . . . place of the seal (*locus sigilli*)
l.t. . . . long ton
Ltd. . . . limited (British)
ltge. . . . lighterage
Lt.-V. . . . light vessel
lv. . . . leave
L.W. . . . low water
L.W.M. . . . low-water mark

M

m. . . . married; masculine; meter(s)
M . . . thousand
M. . . . Monsieur (plu. MM); Noon (*meredies*)

m/a my account
Maj. Major
M.A.N.F. May, August, November, February
math. mathematics, -ical
max. maximum
max. cap. maximum capacity
M.B.C. or MBC Mutual Broadcasting Company
M.B.M. thousands (of feet) board measure
m.c. marked capacity (freight cars)
M.C. Master of ceremonies, Member of Congress
M/C metalling clause (marine ins.); marginal credit
m/d months after date
M/D memorandum of deposit
mdse merchandise
M.E. Methodist Episcopal
med. medium; medicine; medical
memo memorandum(s)
m.e.p. mean effective pressure
Messrs. Misters (Messieurs)
mfg. manufacturing
mfr. manufacturer
m. or mgm milligram(s)
Mgr. Monsignor; Monseigneur
Mgr. Manager
M.H. main hatch; Medal of Honor
mi. mile(s)
min. minute(s)
min. B/L minimum bill of lading
M.I.P. Marine insurance policy
misc. miscellaneous
m.i.t. milled in transit
M.J.S.D. March, June, September, December
ml. milliter(s)

Mlle. Mademoiselle
mm. millimeter(s)
MM. Messieurs
Mme. Madam
Mmes. Mesdames
M. & N. May and November
mo. month(s)
M.O. money order
M.O.H. medical officer of health
M.P. Member of Parliament; mounted police; military police
m.p.h. miles per hour
Mr. Mister (not to be written out)
ms.(s) manuscript(s)
M.S. motor ship
M/s months after sight
M. & S. March and September
Msgr. Monsignor; Monseigneur
mst. measurement
M.S.T. Mountain standard time
mt. empty
Mt., mt. mountain
M.T. metric tone
mt.ct.cp. mortgage, certificate coupon (securities)
mtg. mortgage
m.v. market value
M.V. motor vessel

N

N. north
n/a no account (banking)
N/A no advice (banking)
n.a.a not always afloat (shipping)
NACA National Advisory Committee for Aeronautics
N.A.M. National Association of Manufacturers
N.A.S. National Academy of Science

natl. national
naut. nautical
n.b. or N.B. note well (*nota bene*)
N.B.C. or NBC National Broadcasting Company
N/C new charter; new crop
N.C.O. noncommissioned officer
n.c.u.p. no commission until paid
N.C.V. no commercial value
N.D., n.d. no date
n.e. not exceeding
N/E no effects (banking)
NEA Newspaper Enterprise Association
N.E.A. National Education Association; National Editorial Association
N.E.P. New Economic Policy (Russia)
n.e.s. not elsewhere specified
n/f no funds (banking)
N.F.M.A. November, February, May, August
N.G., ng. no good
N.H.P. nominal horsepower
N.L. night letter (telegraph)
NLRB National Labor Relations Board
N.L.T. night letter cable
N.M. night message
n/m no mark
N. & M. November and May
NMB National Mediation Board
NOMA National Office Management Association
No. number
N/O no orders (banking)
N.O.E. not otherwise enumerated
N.O.H.P. not otherwise herein provided
nom. std. nominal standard

non seq. does not follow (*non sequitur*)
N.O.S. not otherwise specified
N.P. no protest (banking)
n/p net proceeds
N.P.L. nonpersonal liability
n.r. no risk; net register
n.r.a.d. no risk after discharge
NS or N.S.F. not sufficient funds (banking)
n.s.p.f. not specially provided for
n.t. net ton; new terms (grain trade)
nv nonvoting (stocks)
nt.wt. net weight

O

o/a on account of
O. & A. October and April
ob. died (*obit*)
O.B./L, ob/l order bill of lading
obs. obsolete
o/c open charter; old charter; old crop; open cover; overcharge
o/d on demand
o.e. omissions excepted
OE Old English
O.J.A.J. October, January, April, July
O/o order of
o.p. out of print
O.P. open, or floating, policy
op. opinion
op. cit. in the work cited (*opere citato*)
o. & r. ocean and rail (transp.)
o.r. owners' risk (transportation)
o.r.b. owner's risk of breakage (transp.)
o.r.c. owner's risk of chafing (transp.)

ORC Officers' Reserve Corps
o.r.d. owner's risk of damage
 (transp.)
o.r.det. owner's risk of deteri-
 oration (transp.)
o.r.f. owner's risk of fire, or
 freezing (transp.)
o.r.l. owner's risk of leakage
 (transp.)
o.r.s. owner's risk of shifting
 (transp.)
o.r.w. owner's risk of becom-
 ing wet (transp.)
o/s out of stock
O/S on sample; on sale or
 return
o.s. & d. over, short, and
 damaged (transp.)
o/t old terms (grain trade);
 on truck
Oxon. of Oxford (*Oxonien-
 sis*)
oz. ounce(s)

P

p. page
p.a. by the year (*per annum*)
P/A particular average; power
 of attorney; private account; 'Pur-
 chasing Agent
P.a.C. put and call (stock
 market)
pam. pamphlet
part. participating (securi-
 ties)
pat. patent
Pat. Off. Patent Office
P/Av. particular average
P.B. permanent bunkers
P.B.X. private branch ex-
 change (telephone)
p.c. per cent; post card
P/C price current; petty
 cash; per cent
P.D. port dues
pd. passed; paid

pdf. preferred
Pi. piaster(s)
p. & i. protection and indem-
 nity
pk. peck(s)
pkg. package
p.l. partial loss
P. & L. profit and loss
plf. or plff. plaintiff
p.m. afternoon (*post meri-
 diem*)
P.M. postmaster; Provost
 Marshall
pm. premium
P/N promissory note
P.O.D. pay on delivery
P.O.R. payable on receipt;
 payable on reorder
p.p. picked ports; on behalf
 of (*per procuracionem*)
P.P. parcel post
pp. pages
ppd. prepaid
p.p.i. policy proof of interest
 (marine ins.)
ppt. prompt loading
pr. pair; price
pref. preface
Pres. President
prin. principal
Prof. Professor
pro tem. for the time being
 (*pro tempore*)
prox. proximate
P.S. postscript
P.S.T. Pacific standard time
P/S public sale
pt. pint(s)
P.T. Pacific time
p.t. private terms (grain
 trade)
p.w. packed weight (transp.)
Pvt. Private (Army)
pwt. pennyweight
P.X. please exchange; Post
 Exchange

Q

Q. question; query
q.d.a. quantity discount agreement
Q.E.D. which was to be proved or demonstrated (*quod erat demonstrandum*)
qlty. quality
QMGO Quartermaster General's Office
qn. quotation
QQ. questions; queries
qr. quarter
qt. quart(s)
q.v. which see (*quod vide*)

R

R/A refer to acceptor
RAR Regular Army Reserve
R/C reconsigned
r. & c. rail and canal (transp.)
r.c. & l. rail, canal, and lake (transp.)
rcd. received
R/D refer to drawer
r.d. running days
r.d.c. running down clause (marine ins.)
re in regard to
R.E. real estate
rcd. received
ref. referee
reg. registered; regulation(s)
rep. report
Rep. Republican
res. residue
retd. returned
Rev. Reverend
rev. A/C revenue account
revd., rev'd reversed
revg., rev'g reversing
rf., rfg. refunding (bonds)
r.f. radio frequency
RFC Reconstruction Finance Corporation

R.F.D. Rural Free Delivery
rfg. refunding
R.I. reinsurance
r. & l. rail and lake (transp.)
r.l. & r. rail, lake, and rail (transp.)
rm. ream (paper); room(s)
r. & o. rail and ocean (transp.)
R.O.G. receipt of goods
r.o.m. run of mine (coal)
ROTC Reserve Officers' Training Corps
rotn. no. rotation number
R.P. return premium
R/p return of post for orders
r.p.m. revolutions per minute
r.p.s. revolutions per second
R.R. railroad
RRB Railroad Retirement Board
R.S.V.P. please reply (*Répondez, s'il vous plait*)
R.V.S.V.P. please reply at once
r. & w. rail and water (transp.)
Rt. right(s) (stock)
Ry. Railway

S

s7d, s10d, s15d seller 7 days to deliver, etc. (stock market)
s/a subject to approval; safe arrival
S.A.E. Society of Automotive Engineers
s.a.n.r. subject to approval no risk (no risk until insurance is confirmed)
S/B statement of billing (transp.)
s.c. small capital letters; same case (legal)
sc., scil. namely, to wit (*scilicet*)

S.C. salvage charges
s. & c. shipper and carrier
s.c. & s. strapped, corded, and sealed (transp.)
s.d. without a day being named (*sine die*)
S/D sea-damaged (grain trade); sight draft
S.D.B.L. sight, draft, bill of lading attached
S.D.M.J. September, December, March, June
sec., secy. secretary
sec.(s) section(s)
SEC Securities and Exchange Commission
Sen. senate; senator
ser. series
S.F. sinking fund
sgd. signed
S. & F.A. shipping and forwarding
sh. share agent
sh.p. shaft horsepower
shpt. shipment
sh. tn. short ton
sic so; thus (to confirm a word that might be questioned)
s.i.t. stopping in transit (transp.)
sk. sack(s)
s.l. salvage loss
S. & M. September and March
S/N shipping note
S.O. seller's option; shipping order; ship's option
S.O.L. Shipowner's liability
S.O.S. distress signal of ship
S.P. supra protest; shore patrol
s.p.a. subject to partial average (marine ins.)
s.p.d. steamer pays dues
sq. ft. square feet
sq. in. square inch(es)
sq. mi. square mile(s)

sq. rd. square rod(s)
sq. yd. square yard(s)
Sr. Senior; Señor
S.S. steamship; screw steamer
SSE south-southeast
SSW south-southwest
sta. station; stamped (securities)
stat. statute(s)
std. standard (timber trade)
stg. sterling
stk. stock
str. steamer
S.S. Steamship
S. to S. station to station
S.U.C.L. set up in carloads (transp.)
S.U.L.C.L. set up in less than carloads (transp.)
supp. supplement
supt. superintendent
s.v. sailing vessel
S.W. shipper's weights; southwest
S.W.G. standard wire gauge
syn. synonymous

T

t. metric ton(s)
T.A. Traffic Agent
t.b. trial balance
T/C until countermanded
T/D time deposit
T.E. trade expenses
tel. telegram; telegraph; telephone
tf. or t.f. till forbidden (advtg.)
T. & G. tongued and grooved (timber trade)
T.G.B. tongued, grooved, and beaded
T/L time loan
t.l.o. total loss only (marine ins.)
tn. ton

TNT trinitrotoluene
T/O transfer order
T/R trust receipt
tr. transpose
trans. transitive; translated;
 transportation
transp. transportation
treas. treasurer
T. R. tons registered (ship-
 ping)
T. T. telegraphic transfer
TVA Tennessee Valley Au-
 thority
TWP township
TWS timed wire service (tele-
 graph)
ty., ter. territory

U

U. University
U/A underwriting account
 (marine ins.)
UGT urgent (cable)
ult. of the last month (*ul-
 timo*)
U.N. United Nations
UNESCO United Nations
 Educational, Social, and Cul-
 tural Organization
univ. university
u.p. under proof
U.P., UP United Press
U/w underwriter

V

v. volt; versus
VA Veterans Administration
V.C. valuation clause
vid. see (*vide*)
viz. namely (*videlicet*)
vol. volume
v.o.p. value as in original
 policy
vs. verse; versus

vt. voting (stock)
v.v. vice versa

W

w. watt (elec.)
W. West
W.A. with average (marine
 ins.)
W.B. water ballast; warehouse
 book; way bill
w.b.s. without benefit of sal-
 vage (marine ins.)
w/d warranted
w.g. weight guaranteed
whsle. wholesale
w.i. when issued (stock exch.)
wk. week
w.l. wave length
W/M weight and/or meas-
 urement
WNW. west-northwest
W.O.L. wharfowners' liability
w.p. without prejudice;
 weather permitting
W.P.A. with particular aver-
 age (marine ins.)
w.p.p. waterproof paper pack-
 ing
W.R. warehouse receipt
w. & r. water and rail (transp.)
w.r.o. war risk only
wt. weight
W.W. ww. with warrants
 (securities)
W/W warehouse warrant

X

x-c. or x-cp. ex coupon
x-d. or x-div. ex dividend
x-i, or x-in. or x-int. ex in-
 terest
x-n. ex new
x-pr. ex privileges
x-rts. ex rights
xw ex warrants

Y

yb. yearbook
 yd. yard
 yr. year

Z

z. zone; zero

Abbreviations of Months and Days

Jan. January
 Feb. February
 Mar. March
 Apr. April
 May May
 June June

July July
 Aug. August
 Sept. September
 Oct. October
 Nov. November
 Dec. December

Sun. or S. Sunday
 Mon. or M. Monday
 Tues. or Tu. Tuesday
 Wed. or W. Wednesday
 Thurs. or Th. Thursday
 Fri. or F. Friday
 Sat. Saturday

Index

A

Abbot, addressing (chart), 654
 A.A.A.A., defined, 243
 A.A.W., defined, 243
 Abbreviations:
 business position in address, 625
 glossary, 1415-1430
 in address, 625
 months and days, 1430
 states, 625
 A.B.C., defined, 243
 A.B.P., defined, 243
 A.C.A., defined, 243
 Acacia Mutual Life Insurance Company,
 use of messenger service, 463
 Accelerated depreciation, 1360
 Acceptance dealers, borrowing from,
 951
 Acceptances:
 bankers':
 discount of, 951
 financing with, 960
 payable:
 analysis, in financial statement, 927
 treatment in balance sheet, 881
 receivable:
 analysis in financial statement, 920
 valuation in balance sheet, 938
 trade:
 analysis in financial statement, 920
 financing with, 959
 Accident:
 and health insurance, group, 779-
 782 (*see also* Temporary dis-
 ability program)
 prevention, 708
 Account executive, defined, 243
 Accountants:
 knowledge of dead accounts receiva-
 ble, liability for, 938
 liability for incorrect statements, 938
 signature to letters, 632
 Accounting:
 accounting system, defined, 834
 accrual, defined, 845
 business control, through, 847
 classes of, 847
 importance of, 847
 in current operations, 847
 in future operations, 847

Accounting (Cont.):

chart of accounts, 833-834 (*see also*
 Accounts: chart of)

data:

bank statements, 836
 bonds, 836
 budgets, 852-854
 checks, 836
 classes of, 835
 corporate securities, 836
 defined, 834
 deposit slips, 836
 financing function, 835
 future operations, 852-854
 internal, 836-840
 invoices, 836
 journals, 835
 ledgers, 835
 material, 838-840
 mortgages, 836
 notes, promissory, 836
 payroll, 836-838
 purchasing, 835, 836
 rejection forms, material, 839, 840
 requisition forms, material, 838-
 840
 sales, 835, 836
 securities, corporate, 836
 standard costs, 852
 statements, bank, 836
 time clock card, 837, 838

definitions:

account, 845
 accounting, 831
 accrual accounting, 845
 adjustment entries, 845
 budgets, 853
 closing entries, 846
 controlling account, 842
 double entry bookkeeping, 846
 posting, 841
 standard costs, 853
 trial balance, 846

department, officers responsible
 (table), 1193

essentials, minimum, 831-847

executive:

explanation of accounting for, 831-
 939
 qualifications of, 832
 selection of, 833

Accounting (*Cont.*):

- knowledge, minimum required, 831
- procedures and methods, 835, 844-845
 - criteria of procedures suitability, 844
 - importance of, 844
 - methods, defined, 845
 - procedures, defined, 835, 844
- punched-card, 400-401
- purposes of, 831
- records, 835, 840-844
 - books of account, 840
 - defined, 835
 - journals, 840-841
 - cash disbursements, 840
 - cash receipts, 840
 - defined, 840
 - forms for, 841
 - general, 840
 - payroll distribution, 841
 - purchase, 841
 - sales, 840
 - specialized, 840
 - subsidiary, 840
 - voucher register, 841
- ledgers, 841-844
 - accounts payable, 842
 - accounts receivable, 842
 - control, 842
 - defined, 841
 - expense, 843
 - fixed assets, 843
 - forms for, 843
 - general, 841
 - inventory, 843
 - specialized, 842
 - stock, 843
 - subsidiary, 842
 - voucher register, 842
- reports, 847-852 (*see also* Reports, accounting)
- requirements, general, 832
- results, use of, 847-854
- structure, 831, 833-835
- system, defined, 834
- terminology, 845-847 (*see* Accounting: definitions)

Accounts:

- balance sheet in form of, 858
- balancing, 1364
- books of, 840 (*see also* Accounting: records)
- capital, division of partnership profits on basis of ratio of, 1137
- chart of:
 - defined, 833
 - establishing, 834

Accounts (*Cont.*):

- chart of (*Cont.*):
 - illustrated, 834
 - need for, 834
- controlling, 842
- defined, 845
- drawing for salesmen, 328-330
- payable (*see* Accounts payable)
- receivable (*see* Accounts receivable)
- Accounts payable:
 - age analysis of, 1075
 - analysis of, 926
 - estimating age of, 927
 - ledger, 842
 - treatment in balance sheet, 881
 - valuation in balance sheet, 938
- Accounts receivable:
 - accounting record, 842
 - affiliated companies, 863
 - age analysis of overdue, 1075
 - as collection reminder, 1046
 - for salesmen, 1078
 - illustrated, 1075
 - memorandum to collector, illustrated, 1076
 - notice to customer, illustrated, 1077
 - age of:
 - ascertaining, 916
 - comparison shown by ratio with percentages, 918
 - analysis of, 914
 - average date of, 1302
 - collected by salesmen, 1084
 - comparison with percentages in the industry, 918
 - daily reports of, 848
 - dead, accountant's liability for knowledge of, 938
 - divisions of, in balance sheet, 862
 - factoring of, 966
 - financing, 964
 - charges for, 965
 - notification and non-notification plan, 965
 - fire insurance, 739
 - inactive, letters to revive, 553-561
 - miscellaneous, treatment in balance sheet, 879
 - overdue:
 - collection letters, 1041-1072 (*see also* Collection letters)
 - ledger systems as indicators, 1079
 - placing with attorneys, 1087
 - suit to collect, 1092
 - treatment in balance sheet, 862
 - valuation in balance sheet, 938
 - visible records of, 396
- Accrual accounting, defined, 845

Accrued interest, 867
 Accrued liabilities, 881
 Acetate, defined, 243
 'Acid-test ratio,' financial analysis by, 932
 Acknowledgment of order, 576
 Across the Board, defined, 243
 Action, sales letters, stimulating, 87-90
 Ad lib, defined, 243
 Adding machines, 399
 Addition:
 balancing an account by, 1364
 by columns, 1362
 short methods, 1362
 subtraction by, 1363
 verification, 1386
 Address:
 abbreviations in, 625
 degrees, use of in, 626
 Esquire, use of in, 627
 forms of, 626-629
 man and woman, 628
 men and women, 627
 persons holding honorary or official positions (chart), 641-660
 professor, 627
 woman in official position, 640
 women, 627
 official's name in, 640
 Addressing machines, 412-414
 Addressograph, 413
 Adjacencies, defined, 243
 Adjourned meetings, stockholders', 1219
 Adjudication of bankrupt, 1103
 Adjustment entries, defined, 845
 Adjustment letters (*see* Complaints, letters answering)
 Adjustments, out-of-court, 1095-1097
 Administration of current profit-sharing plans, 816
 Administrative expenses, in income statement, 892
 Administrative procedures manuals, 454
 Administrator, right to vote stock, 1227
 Admiral, addressing (chart), 653
 Advances, treatment in balance sheet:
 to employees, 879
 to subsidiaries, 877
 Advertising:
 agencies:
 agreement with, 152
 as judges of advertising, 169
 defined, 243
 functions performed by, 146
 investigation of, before choosing, 140-147
 Periodical Publishers' Association, recognition by, 142
 recognition of, 142

Advertising (*Cont.*):
 agencies (*Cont.*):
 service, scope of, 144-147
 working with, 147
 appropriation, fixing, 152-159
 market-survey method, 155
 percentage-of-sales method, 153
 unit-of-sales method, 154
 budget for direct-mail selling, 7
 bulletins, painted, 165
 combined with collection, 1066
 copyrights, 199-210
 costs, what to charge to, 157-159
 council, defined, 243
 defined, 131
 demand, developing, for product, 137
 department:
 duties of, 131-136
 functions, 131
 direct mail, 5-127 (*see also* Direct-mail selling)
 direct, self-question chart, 20
 for new employees, 438
 for salesmen, 293
 forecasting results, 168
 glossary of advertising procedure, 243-271
 media, 159-168
 car cards, 166
 farm papers, 165
 magazines, 160
 newspapers, 161
 outdoor, 165
 premiums, 167
 radio and television, 162-165
 selecting the right, 159
 specialties, 167
 trade papers, 168
 novelties, for direct-mail selling, 16
 outdoor, 165
 pretesting:
 aims of, 169
 consumer-jury method, 183-185
 inquiries method, 176-183
 methods of, 171-185
 sales-area method, 171-176
 procedure, glossary of, 243-271
 radio and television:
 mailing lists built through, 52
 programs, types of successful, 163
 purposes accomplished by, 163
 Research Foundation, defined, 243
 space, mailing lists for direct mail selling built through, 52
 testing, 169-185 (*see* Advertising: pretesting)
 tools for merchandising, 138
 treatment in balance sheet, 878
 who advertises, 136

Advisory committee, profit-sharing plan, 812
 A.F.A., defined, 243
 Affidavit:
 of creditor, 1094
 of use, trade-marks, 189
 Affiliate, defined, 243
 Affiliated companies (*see also* Subsidiary: companies):
 accounts of, 863
 advances to, 877
 corporate liabilities to, 881
 notes receivable, 864
 valuation of investments in, 874
 A.F.M., defined, 243
 A.F.R.A., defined, 243
 Agate line, defined, 244
 Age analysis of accounts receivable (*see* Accounts receivable: age of)
 Agencies:
 advertising, 140-152 (*see also* Advertising: agencies)
 Agricultural Publishers' Association, recognition by, 142
 American Newspaper Publishers' Association, recognition by, 142
 Associated Business Papers, recognition by, 142
 choosing, 140-147
 compensation plans, 148-151
 plus 15, less commissions, 150
 retainer plus commissions, 151
 straight commission, 149
 collection:
 "house," 1087
 placing account with, 1086
 credit, 981-1007 (*see also* Credit: agencies)
 credit interchange, 1000-1002 (*see also* Credit: interchange)
 employment, as source of salesmen, 294
 general mercantile, credit information from, 981-994 (*see also* Credit: rating: reporters; Dun & Bradstreet, Inc.)
 making special investigations, 981, 1003-1007 (*see also* Credit: agencies)
 mercantile, 981-1003 (*see also* Credit: agencies)
 reporting on individuals, 981, 1003-1007 (*see also* Credit: agencies)
 special or trade, credit information from, 998-1003 (*see also* Credit: agencies)

Agency contracts, 353-362
 appointing agent to sell specific products for indefinite period, 356-357
 exclusive, 355-359
 retail dealer for designated territory, 357-359
 general, 353
 Agents:
 corporation, 1166
 defined, 244
 exclusive contracts, 355-359
 for sale of merchandise, contracts appointing, 353-362
 foreign corporation, appointment of, 1263
 insurance:
 legal status of, 686
 opinion concerning policy, 687
 oral waiver of policy provisions, 687
 selection of, 675
 power of directors to employ, compensate, remove, 1166
 power of partner to employ, 1145
 sales, contracts appointing, 353-362 (*see also* Sales contracts)
 unauthorized acts by, ratification of, 1167
 Agreement:
 agency (*see* Agency contracts)
 joint, current profit-sharing, 814
 out-of-court, 1095-1097
 partnership, 1135
 Agricultural Publishers' Association, recognition of advertising agencies, 142
 Ahrend, D. H., Co., Inc., sales letter, 81
 Aided-recall method, defined, 244
 Air-conditioning, in offices, 387-390
 Air mail, 491-494
 Alaska, telegrams to, 460
 Albert Frank-Guenther Law, Inc., 131
 Alderman, addressing (chart), 646
 Aliquot parts:
 and decimal equivalents (table), 1378-1380
 defined, 1377
 division by, 1381
 multiplication by, 1377
 use of, 1377
 Allocation, defined, 244
 Allocation formula for current profit-sharing plans, 815
 Alterations of insured property, effect of, 700
 Amendment to change number of directors, 1159

- American Ambassador, addressing (chart), 648
- American Bandage Corp. of Chicago, The, pre-test offer, 45
- American Brass Company, sales letter, 95
- American Cable and Radio Corporation, international time chart, 468-469
- American Chargé d'Affaires ad Interim, addressing (chart), 649
- American Consul General, addressing (chart), 649
- American Cyanamid Company, Lederle Laboratories Division, use of reply card, 47
- American Druggist, 168
- American Minister, addressing (chart), 648
- American Newspaper Publishers' Association, recognition of advertising agencies by, 142
- Amortization:
defined, 871
table of repayment of principal and interest, 1404
- Amplitude Modulation, defined, 244
- A.N.A., defined, 244
- Analytical credit reports, 985-990
- Anglican, Archdeacon, addressing (chart), 658
- Anglican Bishop, addressing (chart), 658
- Angular measure, 1395
- Animation, defined, 244
- Announcement, defined, 244
- Announcer, defined, 244
- Annual meetings:
directors, 1255-1259
stockholders, 1207-1215
- Annual report, who prepares (table), 1193
- Annuities:
computations, 1321-1345
deferred, 1327 (*see also* Deferred annuities)
defined, 1321
due:
how to calculate amount, 1323
present value, how to calculate, 1326
examples of, 1321
group, 788
installment payments as, 1321
insurance premiums as, 1321
method of depreciation, 1333
ordinary:
and due, 1321
how to calculate amount, 1322
- Annuities (*Cont.*):
ordinary (*Cont.*):
present value, how to calculate, 1325
payment of, 1321
payment to beneficiaries as, 1321
rent as, 1321
stock dividends as, 1321
tables:
amount of 1 per period, 1330-1333
use of, 1322
amounting to 1, 1338-1341
present value of 1 (tables), 1334-1337
use of, 1325
that 1 will buy, 1342-1345
trust funds as, 1321
- A.N.P.A., defined, 244
- Antedating rider, credit insurance, 732
- Antique finish paper, defined, 244
- A.O.G. terms of sale, 1016
- Apostolic Delegate, addressing (chart), 654
- Apothecaries' measure, 1394
- Apparel Trades Book, 995
- Appeal, defined, 244
- Applause mail, defined, 244
- Appliances, office (*see also* Machines, office):
consideration in buying, 398-399
how to determine value of, 398
interoffice communication, 383, 481-485
Keysort, for sorting data, 401-404
loud speaker, 477
maintaining, 416-417
manufacturers, source of new employees, 438
pegboard system, 405
telephone convenience aids, 475-477
- Applicants, letter to disappointed, 584
- Application:
employment:
for salesmen, 295-298
suggested questions for, 441
for bank loan, 969
- Appraisal method, calculating depreciation, 1358
- Appraisal surplus, 899
as capital surplus, 898
- Appreciation surplus, 899
- Apprentices, training, 316
- Aptitude tests for new employees, 300, 442
- Arabic numerals, 1397
- Arbitration:
between representatives of decedent owner and surviving owners, 748

- Arbitration (*Cont.*):
 of disputes, contract provisions for, 342
 submission of partnership claim to, 1144
- Archbishop in the United States, addressing (chart), 654
- Area sampling, defined, 244, 266
- Armstrong Manufacturing Company, sales letter, 86
- Army, Alpha and Beta Tests, 300
- Arrangements, Chapter XI of Bankruptcy Act, 1108
 confirmation of, 1109
 creditors' meeting, 1108
 defined, 1108
 filing petition for, 1108
 termination of, 1109
- A.S.C.A.P., defined, 244
- Ascending letters, defined, 244
- Ash-Bradford, Inc., goodwill letter, 571
- Aspect ratio, defined, 244
- Assets:
 acquired by trustee in bankruptcy, 1104
 current (*see* Current assets)
 "dollar," 932
 fixed (*see* Fixed assets)
 misapplication of, by directors, 1178
 on balance sheet, 858
 comments relating to, 880
 contingent, 880
 "other," 879
 "quick-current," 932
 revaluation, capital surplus from, 899
 sold to corporation by partnership, 1157-1158
 statement of assets, liabilities, and capital investment, 856
 tangible fixed, 867-870
- Assignment for benefit of creditors, 1097-1100
 advisability of, 1097
 as act of bankruptcy, 1100, 1102
 assignee for creditors:
 bond of, 1098
 creditor as, 1099
 duties of, 1098
 personal liability, for obligations created by him, 1099
 qualifications of, 1098
 assignor, form signed by, 1098
 defined, 1097
 filing of creditors' claims, 1098
 form of, 1098
 in bankruptcy, 1100, 1102
 inventory of property in, 1098
 notice of, to creditors, 1098
 participation of creditors in, 1100
- Assignment (*Cont.*):
 property to be included in, 1098
 recording assignments, 1098
 statutory provisions governing, 1098
- Assignment of life insurance, 958
- Assistant:
 power of partner to employ, 1145
 president, duties of, 1189
 secretary, of corporation, duties, 1190
 treasurer, corporation, duties, 1191
- Assistant Secretary to the President, addressing (chart), 644
- Associated Business Papers, recognition of advertising agencies by, 142
- Associate Justice, addressing (chart), 647
- Associate Justice of U. S. Supreme Court, addressing (chart), 641
- Association test, defined, 244
- Atlantic City Pictorial Magazine, use of distribution service, 463
- Attachment, creditor's remedy in collection of claim, 1093
- Attention line, in letters, 635
- Attorney General, addressing (chart), 645
- Attorneys:
 as credit reporters, 1010-1011
 placing accounts with, 1087
 power of partner to employ, 1146
 responsible for stockholders' meeting, 1215
 services, in dealing with embarrassed debtors, 1090
 signature to letters, 632
 when to place accounts with, 1087
- Audible signals, communication by, 476
- Audience composition, defined, 245
- Audience flow, defined, 245
- Audience participation show, defined, 245
- Audience turnover, defined, 245
- Audimeter, defined, 245
- Audition, defined, 245
- Auerbach Company, letter offering credit privilege, 574
- Author's corrections, defined, 245
- Automatic Exchange system:
 intercommunicating equipment, privately owned, 482-485
 Private Automatic Exchange systems of, 482-485
- Automatic telephone answering, 478
- Automatic typewriter, 11, 409
- Automobile insurance:
 collision, 711
 comprehensive damage, 712
 contingent liability, 713

Automobile insurance (Cont.):

- experience rating in, 715
- fire, 712
- fleet, 714
- lightning, 712
- nonownership liability, 713
- omnibus clause in, 714
- property damage liability, 703, 711
- public-liability, 709-718
- self-insurance, 716
- theft, 712
- transportation, 712
- types of coverage, 709

Autotypist method of preparing sales letters, 11**Average date of account:**

- compound account, 1303
- date used in averaging, 1303
- defined, 1301
- one-sided account, 1302

Averages:

- how to compute, 1296-1301
- moving, 1296
- periodic, 1299
- progressive, 1298
- simple, 1296
- weighted, 1299

Avowdupois measure, 1392**B****Back sales rider, credit insurance, 732****Background, defined, 245****Backing up, defined, 245****Bailee's customers' insurance, 743****Bailments:**

- consignments, differentiated from, 338, 348
- sales, differentiated from 338, 348

Balance, defined, 245**Balance sheet:**

- accounts:
 - assigned, 885
 - due to officers, stockholders, employees, 881
 - of subsidiaries, 855
 - payable, 881
 - receivable, 862, 879
- accrued interest, 867
- accrued liabilities, 881
- advances to employees, 879
- advertising, 878
- affiliated companies accounts, 863
- agents' balances, 867
- bills receivable, 864
- bonds, 867
 - long-term, 883
- bonds owned, valuation, 874
- buildings, valuation, 868

Balance sheet (Cont.):

- capital-stock, 1187
- captions above items, 859
- cash items, 862
- certificate of indebtedness, 883
- clarifying, methods of, 859
- combined titles for, 856
- comments, use in, 859, 880
- commissions due, 881
- comparative, 855
- condensed, 854
- consolidated, 855
- containers, valuation in, 869
- contingent assets, 1171
- contingent liabilities, 884
- contract work in progress, 866
- copyrights, 871
- cumulative dividends, 885
- current assets, 861, 867
- current liabilities, 880-882
- current receivables, 863
- customers' accounts in, 863
- debentures, 883
- deferred-payment contracts, 863
- defined, 854
- deposits as securities, 879
- depreciation, 870
- descriptive terms in, meaning, 854
- discounted notes and acceptances, 881
- dividends receivable, 867
- dues, 881
- entitling balance sheet, 857
- explanation of items in, 861-891
- fixed assets, 867-878
- fixed capital, 867-878
- fixed liabilities, 882
- fixed tangible assets, valuation of, 867
- footnotes, 859
- form of, 858
- formulas, valuation in, 873
- franchises, valuation of, 872
- funds, 887
- general, 854
- goodwill, valuation of, 872
- government securities, 862
- improvements in leased property, 872
- in financial report, 847
- in form of account, 858
- indemnification of underwriters, 885
- installment receivables, 863
- intercompany profit in goods, 866
- interest due, 881
- investments, 873-878
- inventories, 865
- items grouped for analysis, 907
- land, valuation of, 868
- lawsuits, 885
- leased property, improvement, 879
- leaseholds, valuation of, 872

Balance sheet (Cont.):

- long-term bonds, 883
- machinery, valuation of, 869
- marketable securities, 862
- minority interests, 885
- mortgages, 883
- mortgages owned, 874
- no-par stock, 888
- notes:
 - and acceptances payable, 881
 - comments and, 859
 - due to officers, stockholders, employees, 881
 - receivable, 864
 - receivable, long-term, 877
 - treatment in, 883
- organization expenses, 879
- "other assets," 879-880
- "other current assets," 867
- "other funds," 876
- "other investment securities," 875
- patents, valuation of, 871
- patterns, valuation of, 869
- prepayments, 878
- processes, valuation of, 873
- pro-forma, 857
- property information not disclosed by, 870
- purchase obligations, 882
- real estate, valuation of, 868
- rent, 878, 881
- rent due, 882
- reserves, 886
- royalties, 878
- running comments in body, 860
- salaries, 881
- schedules, 861
- sections revealing credit strength, 904
- simplification of figures in, 907
- sinking funds, 876
- special deposits, 862
- statement of affairs, differentiated from, 856
- stock subscriptions, 879
- stocks owned, valuation of, 874
- surplus, 889
- suspense items, miscellaneous, 879
- tax disputes, 885
- taxes, 878, 881
- temporary investments, 877
- time deposits, 862
- tools, valuation of, 869
- trade-marks, valuation of, 873
- unamortized expenditures, 878
- various titles for, 856
- wages, 881
- what balance sheet shows, 854

Balancing an account, 1364

Balloons, defined, 245

Ballots:

- for vote on resolution, 1211
- preparation, for stockholders' meetings, 1211
- voting by, 1231

Balopticon, defined, 245

Bank discount:

- calculation of, 1287-1289
- counting number of days, 1287
- defined, 1287
- on interest-bearing paper, 1288
- on non-interest-bearing paper, 1287

Bank loans:

- line of credit, 955
- preparing to apply for, 969
- revolving credit, 956
- types made, 947

Bank statements, accounting data, 836

Bankers' acceptances.

- discount of, 951
- financing with, 960

Bankrupt:

- adjudication of, 1103
- denial of discharge, reasons for, 1106
- discharge of, 1106
- examination of, 1106
- filing of schedules by, 1103

Bankruptcy:

- acts of, 1102
- assignment, as an act of, 1100
- assignment for benefit of creditors, 1100, 1102
- Chapter XI of Bankruptcy Act:
 - "arrangement," defined, 1108
 - confirmation of arrangement, 1109
 - petition, filing of, 1108
 - termination of proceedings, 1109
 - voluntary arrangement, proceedings under, 1108-1109
- Chapter X of Bankruptcy Act:
 - acceptance of reorganization plan, 1111
 - corporate reorganization under, 1109-1111
 - plan of reorganization, 1111
 - petition, filing of, 1110
 - trustee, appointment of, 1110
- Chapter XIII of Bankruptcy Act, 1112
- composition, 1095, 1107
- debtor's act of, 1091, 1100
- fraud, investigation of, 1107
- involuntary petition, creditor's right to interpose answer to, 1102
- law, policy of, 1101
- of partner, 1154
- petition in:
 - voluntary or involuntary, 1101-1108
 - what petition alleges, 1101

- Bankruptcy (Cont.):**
 proceedings, kinds of, 1101
 referee, duties of, 1105
 sales, 1103
 "Statement of Affairs," 1103, 1106, 1112
 statute, purpose of, 1103
 trustee:
 assets acquired by, 1104
 duties of, 1105
 election of, 1103
 Uniform Fraudulent Conveyance Act, 1105
 wage earners' plans, 1112
- Banks:**
 as credit reporters, 1011-1013
 information, availability of, 1011
 information not obtainable from, 1012
 information obtainable from, 1011-1012
 balance sheets submitted to, 881
 borrowing from, 947
 choosing, 948
 industrial, borrowing from, 953
 liability for customer's loss, 724
 liability for forged check, 1023
 loans from, unsecured, 954
 relationships with, 974
 use of ratios, 913
- Barrett Bindery Co., use of humorous direct mail, 41**
- Basic network, defined, 245**
- Basic weight, defined, 245**
- Batter, defined, 245**
- Baugh, Tom, stunt letter, 560**
- Bearers, defined, 245**
- Bed, defined, 245**
- Ben Day process, 231**
 defined, 245
- Beneficiaries, periodic payments to as annuity, 1321**
- Benjamin's, Christmas promotion idea, 43**
- Bernreuter, R. G., personality inventory, 300**
- Best, Alfred M., Company, Inc., publications, 1007**
- Better-letters program, 521-532**
 booklet, 528
 bulletins, 524
 co-operation of staff, 527
 correspondence adviser, 522
 advising staff about, 523
 letter-writing class, 527
 planning, 522
 supervision of correspondence, 526
 use of correspondence manual, 526
- Billboard, defined, 246**
- Billing, defined, 246**
- Billing machines, 399**
- Bills:**
 analysis, in financial statement, 927
 duplicate, as collection reminder, 1044
 of exchange (*see* Drafts or bills of exchange)
 of lading:
 advances against, 959
 defined, 959
 of sale, 352
 receivable, 864
- Binders, defined, 420**
- Bishop in the United States, addressing (chart), 654**
- Bishop's Service, Inc., 1006**
- Bit, defined, 246**
- Bite, defined, 246**
- Blanket policies:**
 credit insurance, 729
 insurance, 693
- Bleeding, defined, 246**
- Blind copy, letters, 637**
- Block, defined, 246**
- Block style, letter, 616**
- Blow-up, defined, 246**
- Blue Cross, 772**
 cost of plans, 778
 hospitalization plans, **underwriting by, 774**
- Blue print, defined, 246**
- Blue Shield:**
 cost of plans, 778
 medical care plans, **underwriting by, 774**
- B.M.B., defined, 246**
- B.M.I., defined, 246**
- Board:**
 of directors (*see* Directors)
 of tax appeals, decisions concerning depreciation, 1361
- Bodoni type, 218**
- Body of letter, 630-631**
- Body type, defined, 246**
- Bogus work, defined, 246**
- Bohrer, A., Inc., direct-mail advertising by, 39**
- Boiler plate, defined, 246**
- Boldface type, defined, 246**
- Bond paper, defined, 246**
- Bonds:**
 accounting data, as external, 836
 coupons, example of annuity, 1321
 defined, 725
 duties relating to, who performs (table), 1193
 for benefit of creditors, executed by assignee, 1098

Bonds (Cont.):

- for writ of attachment, 1093
- insurance:
 - contract, 727
 - court, 727
 - fidelity, 726
 - indemnity, miscellaneous, 727
 - judiciary, 727
 - merchants' protective, 723
 - surety, 726
- loans secured by, 957
- long-term, treatment in balance sheet, 883
- purpose of, 725
- unamortized discount, treatment in balance sheet, 878

Bonds owned.

- treatment in balance sheet, 867
- valuation in balance sheet, 874, 937

Bonus plan:

- compensation for salesmen, 330-332
- sliding-scale, use of point system in, 334

Bonuses, power of directors to pay, 1173**Bookkeeping:**

- double entry, defined, 846
- machines, 399

Booklets:

- for direct-mail selling, 14
- humorous, in direct mail, 40
- letter with requested, 547

Book-of-the-Month Club, promotional activities, 5, 18**Book paper, defined, 246****Books:**

- of account, 840 (*see also* Accounting records)
- postal rates, 503-506

Borrowing, short-term, 939-976 (*see also* Financing working capital)**Box-top offers, 246****Brand name, defined, 246****Bridge, defined, 247****British Prime Minister, addressing (chart), 651****Broadcast spectrum, defined, 247****Broadsides, for direct-mail selling, 13****Broadway Department Store, master customer control system, 58****Brochure, defined, 246****Brochures, for direct-mail selling, 15****Brokers:**

- direct-mail lists, 50
- insurance:
 - legal status of, 686
 - selection of, 675
- sale of merchandise through, 346

Brother, addressing (chart), 655**Bryson, Robert H., telephone sales promotion, 44****Budgeting.**

- duties, officers responsible (table), 1193

insurance premiums, 678**Budgets, 852-854**

- differentiated from standard costs, 852-853

relation to accounting records, 853**Bugs, defined, 247****Buildings, valuation in balance sheet, 868, 938****Bulk mail, 500**

- advantages of, 500
- applications for privilege, 500
- catalogues and books, 505
- form letters, 502
- printed matter, 503-506
- specifications for, 500

Bulk Sales Act, 1158**Bulldog edition, 247****Bulletin F, depreciation rates, 1359****Bulletins.**

- better-letters, 524
- topics discussed in, 524

Bureaus:

- credit, adjustments through, 1096
- credit-interchange, 1000
- employment, 437

Burglary, theft and robbery insurance, 718-725

- defined, 718
- interior robbery, 720
- mercantile open-stock burglary insurance, 719
- mercantile safe-burglary insurance, 721

merchants' protective bonds, 723**messenger-robbery insurance, 720****payroll-robbery insurance, 721****robbery, defined, 718****safe-deposit box insurance, 724****securities insurance, 724****"storekeeper's burglary-and robbery" policy, 723****theft, defined, 718****types, 719****Burnishing, defined, 247****Business:**

- accounting, for the executive, 831-939 (*see also* Accounting)

business interruption insurance, 735**corporation's right to do business in any state, 1261****"doing business" in another state, what constitutes, 1262****errands, by telegraph, 462**

Business (Cont.):

- finances, 939-976 (*see also* Financing working capital)
- insurance, 675-747 (*see also* Insurance; Business life insurance)
- intrastate, distinguished for interstate commerce, 1262
- letters, (*see* Letters; Letter-writing)
- life insurance, (*see* Business life insurance)
- mathematics, (*see* Business mathematics)
- order of, at stockholders' meeting, 1211
- organizations, (*see* Business organizations)
- outside partnership, power of partner to engage in, 1147
- Business letters, (*see* Letters; Letter-writing)**
- Business life insurance, 745-749**
 - defined, 745
 - partnership-liquidation agreement, 747
 - stock-transfer agreement, 747
 - trusts, 746
 - fees of trustee, 747
 - trustee, services of, 746
 - types of organizations interested, 745
 - uses, 745
 - valuation of interests, 747
- Business mathematics, 1267-1389**
 - annuity computations, 1321-1345
 - average date of account, 1301-1305
 - averages, how to compute, 1296-1301
 - bank discount, how to calculate, 1287-1289
 - cash discount savings through, 1289
 - compound interest:
 - computation of, 1309-1321
 - defined, 1271
 - depreciation methods, 1346-1362
 - expediting calculations with prepared tables, 1383-1385
 - interest defined, 1271
 - partial payment on debts, 1284-1286
 - short cuts in, 1362-1382
 - simple interest:
 - computation of, 1271-1284
 - defined, 1271
 - signs and symbols, 1409
 - tables:
 - miscellaneous handy tables, 1402-1414
 - weights measures, and values, 1389-1396
 - trade discounts computations, 1290-1296
 - verifying computations, 1386-1388

Business organizations:

- capital, raising of additional, 1129
- choice of form, 1121
- control of, 1129-1131
- creditors of, extent of liability, 1127
- law governing, 1132
- management of, 1129-1131
- name, choosing, 1133-1134
- organization, method, 1122-1124
- power to do business in any state, 1131
- types of, 1121-1134
 - corporation, 1123
 - general partnership, 1121
 - joint-stock company, 1123
 - joint venture, 1123
 - limited partnership, 1121
 - limited-partnership association, 1123
 - Massachusetts trust, 1123
 - single proprietorship, 1121
 - syndicate, 1123
 - stability of, 1127
- Business Week, 168**
- Buzzers, 476**
- Buyers, sales letters to, 91**
- Buying space, defined, 247**
- Bye-bye, defined, 247**
- By-laws:**
 - action embodied in, 1247
 - amended and adopted by stockholders, 1199
 - and resolutions, 1247
 - defined, 1199, 1247
 - indemnification of directors for suits, 1184
 - number of directors fixed by, 1159

C

- Cabinet Officer, addressing (chart), 642**
- Cabinets, filing, 394-398**
- Cable and radio messages (*see also* Telegrams and cablegrams)**
 - charges for, rules, 465, 467
 - code addresses, 470
 - counting words, rules for, 468-470
 - delivery, report of, 470
 - full-rate, 465
 - international, 464
 - kinds of, 464-467
 - letter telegrams, 465
 - photo service, 466
 - prepaid replies, 471
 - repeated back, 471
 - shore-to-ship and ship-to-shore, 466
 - time difference table, 468-469
- Cablegrams (*see* Telegrams and cablegrams; Cable and radio messages)**

C.a.f. or c. & f., meaning, 372, 373
 Calculating machines, 399
 Calculations, expedited by tables, 1383-1385
 Calculator, freight-rate, 1384-1385
 Calendar:
 for advertising, 16
 perpetual, 1412-1413
 Calendered paper, defined, 247
 "Called" meetings, stockholders, 1207
 Call letters, defined, 247
 Calls on stock subscriptions:
 defined, 1200
 stockholders' failure to respond to, 1200
 Calvert Distillers Corporation, Schwegmann Brothers, et al. v., 360
 Camera light, defined, 247
 Camera lucida, defined, 247
 Campaign series of sales letters, 102
 Canadian Prime Minister, addressing (chart), 651
 Canadian trade-marks, 192
 Canon, addressing (chart), 655
 Capital:
 accounts, division of partnership profits on basis of ratio of, 1137
 distribution on liquidation of partnership, 1157
 expenditures report, 850
 factor in borrowing, 942
 fixed, 867
 interest on, right of partner to receive, 1140
 ratios, 913
 stock (*see* Stock)
 surplus:
 charges against, 900
 defined, 898
 items included in, 898
 reduction in capital stock, 899
 sources of, 898
 treatment in balance sheet, 890
 working (*see* Working capital; Financing working capital)
 Captain, addressing (chart), 652
 Caption, defined, 247
 Carbon copies of letters, distribution of, 637
 Carbon paper, 418-420
 Carboro, defined, 247
 Cardinal, addressing (chart), 654
 Cards:
 business reply, 514
 car, as advertising media, 166
 government postal, 511-512
 introduction on, 586
 precancelled, 508

Cards (*Cont.*):
 printed, as collection reminders, 1044, 1046
 private mailing, 512
 Case, J. I., Company, sales letter, 100
 Cash:
 analysis, in financial statements, 914
 disbursements journal, 840
 discounts, savings through, 1289
 item in balance sheet, 862
 journals, 840
 receipts journal, 840
 reports, 848
 valuation in balance sheet, 938
 Cash indemnity medical care plans, 774
 Cash profit-sharing plans, 817-819
 Caslon type, 216, 222, 223
 Casting off, defined, 247
 Catalogues:
 for direct-mail selling, 15
 letters accompanying, 549
 postal rates, 503-506
 Caterpillar Tractor Co., better-letters booklet by, 528
 Catholic Faith, addressing (chart), 654
 C.B.D. terms of sale, 1015
 C.C.A., defined, 247
 Cellophane envelopes, 18
 Centering control, defined, 247
 Center-spread, defined, 247
 Centigrade, temperatures, compared with Fahrenheit, 1410
 Century type, 218
 Certificates:
 of indebtedness, treatment in balance sheet, 883
 of stock:
 duplicate, issuance of, 1202
 lost, stolen, destroyed, 1202
 Certified checks, 1020
 Chain discounts (*see* Discounts: chain)
 Chains, defined, 248
 Chairman of board of directors, duties, 1188
 Chairman of Board of Governors of Federal Reserve System, addressing (chart), 644
 Chairs, office, 393
 Chamber of Commerce of U. S., 365
 Channel, defined, 248
 Chaplain, addressing (chart), 653
 Chaplain in U. S. Army, addressing (chart), 652
 Character, factor in seeking credit, 943
 Charge accounts, letters suspending, 1040
 Charity, donations to by directors, 1173
 Chart of accounts, 833-834 (*see also* Accounts: chart of).

- Charter:
 amendment to change number of directors, 1159
 number of directors fixed by, 1159
- Charts, prorating of insurance premiums by, 1382
- Chase, defined, 248
- Chattel mortgage:
 conditional sale differentiated from, 349
 effect on fire insurance, 700
 financing installment sales with, 967
 power of partner to give, 1145
- Check-alteration and forgery insurance, 744
- Check numbers, computations verified by, 1386-1388
- Checks:
 after death of drawer, 1022
 as accounting data, 836
 certified, 1020
 differentiated from drafts or bills of exchange, 1031
 disagreement of amount in writing and figures, 1020
 for full settlement of claim, 1023
 forged, payment by bank, 1023
 law relating to, 1019-1024
 marked "insufficient funds," 1022
 period for presentation, 1021
 post-dated, 1019
 unsigned, 1020
- Chief Justice of State Supreme Court, addressing (chart), 647
- Chief Justice of U. S., addressing (chart), 641
- Christmas promotion ideas for direct-mail use, 42-44
- c. i. f., meaning, 628, 744
- c. i. f. & i., meaning, 374
- Circular measure, 1395
- City Attorney, addressing (chart), 646
- Claims:
 check given in full settlement of, 1023
 collection of:
 by suit, 1092-1095
 from embarrassed debtors, 1090
 compromised by directors, 1177
 filing of, in assignment for benefit of creditors, 1098
 in bankruptcy:
 filing proof of, 1104
 time for filing, 1099
 provisions in contracts, 342
 under temporary disability program, 781
- Class A (Class B) rates, defined, 248
- Classroom training of employees, 451
- Clauses in agency contracts, 353-362
 (*see also* Agency contracts)
 manufacturer-retailer contract, 360-361
 retailer fair-trade, between manufacturer and dealer, 360-361
- Clayton Act, 362
- Clear, defined, 248
- Clear-channel station, defined, 248
- Clearing house reports of credit agencies, 999
- Clerk of a Court, addressing (chart), 647
- Clerk, reception and information, 420
- Clippings, mailing lists built through, 54
- Clocks, master, 416
- Cloister type, 217
- Close punctuation, 614
- Closing date or hour, defined, 248
- Closing entries, defined, 846
- Clubbing offer, defined, 248
- Coarse-screen half tone, defined, 248
- Coated paper, defined, 248
- Coaxial cable, defined, 248
- C.O.D.:
 defined, 1015
 mail, 495
 sale, not conditional, 349
- Code addresses, 470
- Coined words:
 defined, 248
 trade marks, 193, 194
- Coinsurance clauses:
 deduction, 729
 defined, 694
 examples of, 695
 in loss adjustment, 730
 liability of company under, 694
 names for, 694
- Collateral:
 bank loans, 947
 kinds of collateral, 948
 note, 958
 revolving credit, 956
 strengthening credit with, 944
- Collection:
 agencies:
 house collection agencies, 1087
 placing account with, 1086
 and credits, 981-1113 (*see also* Credit)
 attorneys, locating competent, 1088
 directories, use of, 1011
 placing account with, 1087
 bill or statement duplicate, as collection reminder, 1044
 by collectors, 1083
 by draft, 1089
 by salesmen, 1084

Collection (Cont.):

- by suit, 1092-1095
- by telephone, 1081
- by telegraph, 1082
- cards, 1044, 1046
- contests, 1010
- debtors, delinquent, classified, 1041
- drafts, collection by, 1089
- embarrassed debtors, 1090-1113 (*see* Debtors: embarrassed)
- envelope, 1046-1049
- letters, 1041-1072 (*see also* Collection letters)
- methods, 1072-1090
- "no commission until paid" plan, 1009
- notes, settlement by, 1088
- officers responsible for (table), 1194
- part payments on open account, 1089
- procedure, 1043, 1072
- reminders, 1044-1049 (*see also* Collection letters: reminders)
- services:
 - credit insurance, 733
 - general mercantile agencies, 996
 - special credit agencies, 999, 1000
 - settlement by note, 1088
 - statutes of limitations in, 1073
 - stickers, 1044, 1045
 - trade agencies, 999
 - visible filing for, 397
- Collection letters, 1041-1072
 - advertising new product, 1066
 - age analysis as collection reminder, 1046
 - appeals, 1051-1055
 - co-operation based on mutual interest, 1052
 - fairness, 1053
 - honor, 1052
 - pride, 1051
 - self-interest, 1054
 - asking for part payment, 1058
 - cards, printed, 1044, 1046
 - combining collections and sales, 1065-1066
 - debtors, delinquent, classified for, 1041
 - demand letters, 1055-1057
 - conciliatory, 1057
 - formal, 1056
 - discounts:
 - educating customers in use of, 1062
 - unearned, requesting check for deduction, 1062
 - early stages of collection, 1049-1051
 - envelopes as collection reminders, 1046-1049
 - essentials of effective letters, 1041

Collection letters (Cont.):

- follow-up, one-word, 1061
- form:
 - delinquent debtors, grouping for, 1068
 - files and manuals, 1067
 - manuals, form-paragraph, 1067
 - rules governing, 1069
 - sequence, eight-letters, 1070-1072
 - timing use of, 1069
 - use of, 1067
- fourth stage of collection, samples, 1055-1057
- how to write, 1041-1061
- late stages of collection, 1055-1061
- manuals, 1067
- middle stages of collection, 1051-1055
- miscellaneous problems handled by, 1061-1067
- notifying debtor to honor draft, 1059
- oversight letter as collection reminder, 1049
- procedure, stages in collection, 1043
- refusing request for longer terms, 1063
- reminders, collection, 1044-1049
- resembling legal document, 1060
- schedule of letters, 1069
- second letters, 1050
- second stage of collection, samples, 1049-1050
- selling through, combination letters, 1065-1066
- sequence, eight-letter, 1070-1072
- signed by officials of company, 1058
- small-account, 1061-1062
- statement with reminder message, 1046, 1047
- stickers, 1044, 1045
- stunt letters, 1059-1061
- suggestions for writing, 1043
- third stage of collection, samples, 1051-1055
- threatening legal action, 1055-1057, 1058, 1059, 1072
- time extensions, 1064-1065
- timely approach of, 1060
- writing, fundamental principles for, 1042
- Collectors:
 - aids for, 1085
 - personal calls by, 1083
- College Officials, addressing (chart), 660
- Collision insurance, auto, 711
- Colonel, addressing (chart) 652
- Color proof, defined, 248
- Column-inch, defined, 248
- Co-maker loans, 944, 947

- Combination plate, defined, 249
Combination rate, defined, 249
Combination service and cash indemnity plans, medical care, 774
Comic strip, defined, 249
"Coming up," defined, 249
Commerce, interstate, distinguished from intrastate business, 1262
Commercial credit reports, 981-1014 (*see also* Credit: reporters' rating)
Commercial finance (*see* Companies: finance company)
Commercial programs, defined, 249
Common-law trust (*see* Massachusetts trust)
Commercial forgery policy, 744
Commercial news service, by telegraph, 461
Commercial paper houses, borrowing from, 951
Commissioners of a city, addressing (chart), 646
Commissions
 compensation plan, 326-328
 due, treatment in balance sheet, 881
 payment of, 353
Committees
 appointed by directors, 1165
 meetings, 1245
Commodore, addressing (chart), 653
Communications, interoffice, 383, 481-485
Companies, insurance (*see* Insurance: companies)
Company manuals, 452
Comparative statement:
 balance sheet, 855
 financial, 906
 forms, sample, 908-911
 income, 891
 need for, 906
Compensation:
 of advertising agency, 148-151
 of directors, how authorized, 1162
 of officers for services, 1197
 of partner, 1147
 of salesmen:
 aims of, 322
 choice of, 323
 methods of, 322-336
 testing, 324-325
 types of, 325-336
 variations and combinations, 335-336
Competency of parties to contract, 337
Competitive stage, in advertising, 249
Complaints, letters answering, 588-600
 about service, 592
 Complaints, letters answering (*Cont.*):
 carrier at fault, 593
 customer at fault, 595
 customer offering to return used product, 600
 granting adjustment and acknowledging error, 591
 how to answer, 588
 nothing wrong, 600
 poor adjustment letter, rewritten, 590
 refusing adjustment, 596
 satisfied customer asking too much, 600
 workable outline for, 589
Complimentary close:
 forms of, 631
 persons holding honorary or official positions (chart), 641-660
 typing, 631
Composite-life method, calculating depreciation, 1358
Composition, defined, 249
Composition in bankruptcy:
 defined, 1095
 offered by debtor, 1095, 1107
 settlement, with embarrassed debtor, 1091
Compound account, average date of, 1303
Compound amount:
 how to calculate, 1309
 of 1 (table), 1313-1316
 use of table, 1309
Compound discount, computation, 1321
Compound interest:
 amount of 1 (table), 1313-1316
 calculation of, 1309-1321
 calculating periods and rate per period, 1309
 present value, how to calculate, 1311
 present value of 1 (table), 1317-1320
Compound present value of interest-bearing debt, 1312
Comprehensive, defined, 249
Comprehensive insurance (*see* Insurance: comprehensive)
Compromise, letter offering, evidence of liability, 608
Comptroller General, addressing (charts), 644
Computations verified by check numbers, 1386-1388
Concurrent agency rider, credit insurance, 732
Conditional sales (*see* Sales: conditional)
Conference:
 between salesmen and credit men, 1009

Conference (Cont.):

- method of training employees, 451
- telephone calls for, 472

Congratulatory letters, 587**Consignment:**

- bailment, distinguished from, 338, 348
- distinguished from conditional sale, 338, 348
- distinguished from sale, 338, 348
- rider, credit insurance, 733

Consolidated balance sheet, 855**Consolidated Edison Company's Medical Care Plan, 775****Consolidation, capital surplus from, 899****Consumer advertising, defined, 249****Consumer goods, defined, 249****Consumer-jury testing advertising, 183-185****Containers, valuation in balance sheet, 869****Contests:**

- collection, 1010
- mailing lists built through, 54

Continental Baking Company, pegboard system, 405-407**Contingency reserves, treatment in balance sheet, 886****Contingent:**

- assets, treatment in balance sheet, 880
- liabilities:

- defined, 884

- insurance:

- automobile, 713

- public, 705

- use and occupancy, 735, 736

- treatment in balance sheets, examples, 880, 884

- working capital, 941

Continuation sheets, 614**Continuity, defined, 249****Continuous tone, defined, 249****Contract bonds, 727****Contract year, defined, 249****Contractor's public liability insurance, 703****Contracts:**

- acceptance, essential in, 336
- agency, *(see Agency contracts)*
- anti-price discrimination, 338
- appointing agents for sale of merchandise, 353-362
- competency of parties, 337
- conditional sales (*see Conditional sales*)
- consideration, essential in, 338
- deferred-payment, in balance sheet, defined, 863
- defined, 336, 602

Contracts (Cont.):

- directors' power to make, 1167
- drunken person, 337
- employing salesmen, 363-365
- "ex dock," defined, 375
- filing of, 347
- f.p.a., defined, 374
- gambling, 338
- infant, 337
- insane persons, 337
- insurance, 681
 - independence of, 689
 - several items in one contract, 689
- legality of subject matter, 337
- letter may constitute, 602
- letter of proposal and acceptance, contract in form of, 343-345
- of sale, differentiated from contracts to sell, 339
- offer, essential in, 336
- oral statement contradicting correspondence concerning, 603
- receivable.
 - pledge of, 968
 - discount of, 966
- resale price maintenance, 359-361
- sale of merchandise, 336-352
- statute of frauds, 339
- Sunday, 338
- supplemental to fire insurance policy, 735
- to sell, differentiated from contracts of sale, 339
- w. a., defined, 374
- with corporation, by directors or officers, 1168

Contributions:

- current profit-sharing plan, 815
- group insurance plans, 760
- profit-sharing plan, 810

Contributory plans.

- group insurance, 760
- pension plans, 763

Controller, corporate duties, 1191**Controlling account, defined, 842****Controlling future operations by accounting, 852-853****Convenience goods, defined, 249****Conversion of stock, capital surplus from, 899****Conversion privilege, effect on cost of insurance, 771****Conversion table, defined, 249****Cooperative advertising, defined, 249****Cooperative program, defined, 249****Coopers, Inc., use of Limericks and cartoons, 39****Copartners, liability for tort of one partner, 1142**

Copy:

- defined, 249
- fitting, by character count, 229-230
- fitting, by word count, 226-229
- leaded 2 points, 224
- preparing for printer, 226
- set solid, 224
- testing, 169-185
- writer defined, 250
- writing (*see* Copywriting for direct-mail selling)

Copyholder, defined, 250**Copyrights, 199-210**

- advertisement, protection of, 199
 - application for, 199
 - artistic works, 199, 202
 - classification of copyrightable material, 199
 - defined, 250
 - deposit of copies, 199
 - dramatic compositions, 199, 201
 - fees, 202-203
 - Great Britain, regulations in, 205
 - in balance sheet, valuation of, 871
 - labels, 204
 - lectures, 199, 201
 - legal protection of ideas in U. S. (tables), 206-210
 - manuscript, unpublished, 203
 - material which may be copyrighted, 199
 - motion pictures, 199, 202
 - musical compositions, 199, 201
 - new edition of copyrighted work, 203
 - notice, rules in regard to, 200
 - photographs, 199, 202
 - photoplays, 199, 202
 - prints, 204
 - procedure, outline of, 199
 - quotations, copyrighted work, 204
 - regulations governing copyrightable material, 200-202
 - terms of, in U. S., 202
- Copywriter, defined, 250**
- Copywriting for direct-mail selling:**
- checking final copy, 31
 - definition of copy, 30
 - principles, 30
 - readability of copy, 31
 - tone of copy, 30

Corporate meetings, 1207-1261 (*see also* Stockholders' meetings: Directors' meetings)

- kinds of, 1207
- preparations for, 1207
- resolutions (*see* Resolutions)
- service organizations, employment of, 1208

Corporation:

- as partner, 1135
- borrowing money for, by directors, 1169
- capital, raising of additional, 1129
- changes in, by directors, 1164
- compared with partnership, taxwise, 1126
- contracts for, directors' power to make, 1167
- contracts with, directors and officers' power to make, 1168
- control, 1130
- court interference with management by directors, 1164
- defined, 1261
- Delaware, 1208
- directors, law relating to, 1159-1184 (*see also* Directors)
- foreign:
 - agents appointed by, 1263
 - defined, 1261
 - "doing business," what constitutes, 1262
 - isolated transactions of, 1262
 - joint-stock company as, 1132
 - office maintained by, 1263
 - penalties incurred by, 1264
 - property owned by, 1263
 - purchases of goods by, 1263
 - qualification for doing business in a state, 1264
 - reports filed by, 1264
 - right to do business in any state, 1261
 - sales of goods by, 1263
 - solicitation of business by, 1262
 - taxes on, 1264
- guaranties in name of, by directors, 1171
- law governing, 1132
- liability to creditors, 1128
- loans:
 - from directors and officers, 1170
 - security for, 1169
 - to directors and officers, 1171
- management, 1130, 1163
- meetings (*see* Corporate meetings)
- minutes (*see* Minutes of meetings)
- mismanagement by directors, 1177
- name:
 - consideration in choosing, 1133
 - similarity of names, 1134
 - written on proxy, 1229
- net worth, defined, 932
- officers, law relating to, 1184-1198 (*see also* Officers of corporation)
- organization, manner of, 1123

Corporation (*Cont.*):

- partnership, changed to, 1157-1158
- power of directors to manage, 1163
- power to do business in any state, 1131
- property:
 - directors' power to lease, 1172
 - directors' power to purchase and sell, 1171
 - gifts of, by directors, 1173
 - leasing, by directors, 1172
 - mortgaging, by directors, 1170
 - purchasing, by directors, 1171
 - selling, by directors, 1171
- recovery of illegal dividends declared by, 1176
- reorganization, under Bankruptcy Act, 1109-1111
- resolutions (*see* Resolutions)
- securities, as accounting data, 836
- security for loans to, 1169
- stability of, 1127
- stockholders (*see* Stockholders)
- taxation, 1125
- unauthorized acts in behalf of, ratification, 1167
- voting of stock owned by, 1227
- Corporation Counsel, addressing (chart), 646
- Correct usage of words, 661-670
- Correspondence (*see also* Letters; Letter-writing)
 - adviser, choosing, 522
 - sales training by, 320, 321
 - supervisor, telling staff about, 523
- Cost-plus credit reports, 994
- Costs:
 - departmental, summary reports, 851
 - direct-mail selling (*see* Direct-mail selling)
 - factory, reports, 851
 - group accident and sickness insurance, 781
 - group health insurance, 778
 - group life insurance, 771
 - labor, analysis, 851
 - pension plans, 792-802
 - standard, 852-853
 - temporary disability program, 781
- Cottrell's Clothing Store, stunt letter, 558
- Counsel (*see also* Attorneys)
 - employed by directors, 1176
 - power of partner to employ, 1146
- Counter cabinets, 394
- Counting (table), 1395
- Coupon bonds, loans secured by, 958
- Court:
 - bonds, 727

Court (*Cont.*):

- interference with directors' management of corporation, 1164
- of equity, application to by partner, 1151
- Court Officials, addressing (chart), 647
- Cover, defined, 250
- Cover stock, defined, 250
- Coverage map, defined, 250
- Coverage plans, group life insurance, 769-770
 - effect on cost, 771
- Cownie Furs, Inc., promotion idea, 42
- Crash finish, defined, 250
- Cream plan, defined, 250
- Credit, 981-1113 (*see also* Collections)
 - agencies:
 - adjustment through bureaus, 1096
 - Bishop's Service, Inc., 1006
 - Dun & Bradstreet's, Inc., 981-998 (*see also* Dun & Bradstreet, Inc.)
 - general mercantile, 981-998 (*see also* Mercantile agencies)
 - Hill's Reports, Inc., 1006
 - Hooper-Holmes Bureau, Inc., 1003
 - making special investigations, 981, 1003-1007
 - National Association of Credit Men, 1000-1002, 1041
 - Proudfoot's Commercial Agency, Inc., 1005
 - published services of, 981, 1003-1007
 - Best, Alfred M., Company, Inc., 1007
 - Fitch Publishing Company, Inc., 1007
 - Moody's Investment Service, Inc., 1007
 - Standard and Poor's Corporation, 1007
 - reporting on individuals, 981, 1003-1007
 - distinguished from mercantile, 1003
- Retail Credit Company, 1004
- special or trade, 998-1003
 - confined to a single industry, 998
 - credit interchange, service of, 1000 (*see also* Credit: interchange)
 - credit recommendations, 999
 - mutual, 998
 - privately operated, 998
 - ratings, 999
 - reports, 999
 - services of, 999

Credit (*Cont.*):agencies (*Cont.*):special or trade (*Cont.*):

tracers, 999

weekly bulletins, 999

analysis (*see also* Financial statements)

fixed assets in, 905

prepaid expenses in, 905

attorneys, as credit reporters, 1010

banks, as credit reporters, 1011-1013
bills of exchange or drafts, law relating to, 1031-1034

Bishop's Service, Inc., 1006

checks, law relating to, 1019-1024

collections (*see* Collections)

conferences between salesmen and credit men, 1009

current information published by Federal Reserve banks, 918

drafts or bills of exchange, law relating to, 1031-1034

Dun & Bradstreet, 981-998 (*see also* Dun & Bradstreet, Inc.)

estimating ability of applicant for, 928

financial statements, use in credit work, 901

Hill's Reports, Inc., 1006

Hooper-Holmes Bureau, Inc., 1003

information, sources, 981-1014

insurance (*see* Credit insurance)

interchange, 1000-1003

bureaus, 1000

inquiry, how handled, 1001

reports, 1000-1002

trade-group, 1002

use of, 1000

letters, 1034-1041 (*see also* Credit letters)

line of, 955

National Association of Credit Men, 1000-1002, 1041

notes, law relating to, 1024-1031

officer responsible (table), 1194

personal interview, 1013-1014

special needs for, 1013-1014

value of, 1013

power of partner to purchase on, 1146

privilege, letter offering, 573

protection of, by business life insurance, 745

Proudfoot's Commercial Agency, Inc., 1005

qualifications for, 942-945

ratings, 1069

Dun & Bradstreet (*see* Dun & Bradstreet, Inc.)Credit (*Cont.*):ratings (*Cont.*):

special agencies, 999

trade agencies, 999

recommendation services by special agencies, 999

refusal to grant, notice of, 1010

reporters:

attorneys as, 1010-1011

banks as, 1011-1013

salesmen, 1007-1010

Dun & Bradstreet (*see* Dun & Bradstreet, Inc.)

special agencies, 999

trade agencies, 999

reports (*see* Credit: ratings)

representatives, traveling, 1014

Retail Credit Company, 1004

salesmen, as credit reporters, 1007-1010

strength:

current ratio as indicator of, 929

determined by ratios, 912

section of balance sheet revealing, 904, 905

terms of, 1014-1019 (*see also* Terms of sale, mercantile)

trade-group interchange, 1002

traveling credit representatives, 1014

visible filing in department, 397

Credit insurance:

blanket policy, 729

collection service under, 733

cost of, how to reduce, 733-734

coverage, limit of, 730

deductions, 729

endorsements on policy, 731-733

forms of policies, 728

limit of coverage, 730

loss adjustments, 730

example of, 731

loss due to insolvency, 728

losses covered, 728

nature of, 727

need for, 727

riders attached to policies, 731-733

antedating rider, 732

back sales rider, 732

concurrent agency rider, 732

consignment rider, 733

excluded or included sales rider, 732

freight rider, 732

inferior rating rider, 732

interim adjustment rider, 733

specially purchased and/or processed merchandise rider, 732

risks insurable, 728

underwriting basis of, 729

Credit Interchange Bureaus of N.A.C.M.,
998, 1000-1002

Credit letters:

- asking customers for information,
1034-1036
- credit refused and merchandise de-
livered, 1040
- granting credit, 1037
- referring unacceptable accounts to
Credit Bureau, 1039
- refusing credit, 1038-1040
- reply to credit inquiries:
favorable, 1041
unfavorable, 1041
- reply to customer refusing credit in-
formation, 1035
- suspending charge privilege before
credit period expires, 1040
- to customer's credit references, 1036
- to husband of applicant, 1037
- to new customer requesting credit,
1034
- to old customers, 1035
- to undesirable applicants, 1039
- writing, 1034-1041

Creditors:

- as assignees, 1099
- assignment for benefit of, 1097-1100
(*see also* Assignment for
benefit of creditors)
- claims on beneficiaries of life insur-
ance, 691
- committee of, to deal with debtors,
1096
- dealing with embarrassed debtors,
1090-1113 (*see also* Debtors:
embarrassed)
- directors' liability to, 1180
- disagreement of, 1097
- garnishment, remedy in collection of
claim, 1094
- injunction, remedy in collection of
claim, 1094
- liability of owners to, 1128
- meeting, under Chapter XI of Bank-
ruptcy Act, 1108
- new, liability of outgoing partner to,
1152
- notice of assignment for benefit of,
1098
- of partnership, liability of partner to,
1140
- petition for appointment of receiver,
1102
- proofs of claims, filed by, 1104
- right to interpose answer in involun-
tary bankruptcy, 1102
- stockholders' liabilities to, 1128, 1201
- trade, source of loans, 946

Criticism, letters requesting, 567

Crowell Publishing Company, The,
territory information from,
281

Cropping, defined, 250

Cube roots of numbers 1-1000 (table),
1411

Cubic measure, 1390

CU, defined, 250

Cue, defined, 250

Cue sheet, defined, 250

Cumulative voting (*see* Voting: cumu-
lative)

Current assets:

- analysis in financial statements, 914
 - distribution of, 931
 - in balance sheet, 861-867
 - ratio of current liabilities to, 928
 - receivables, treatment in balance
sheet, 863
- Current liabilities.
- defined, 880
 - importance of, 928
 - in balance sheet, treatment of, 880-
882
 - indication of credit strength, 929
 - items included in, 880-882
 - ratio of current assets to, 928

Current needs for capital, financing,
939-976 (*see* Financing work-
ing capital)

Curtis Publishing Company, territory
information from, 281

Cushion working capital, 941

Cushman & Wakefield, Inc., Rental
Ready Reckoner from, 1403

Custodian of records (table), 1194

Customers:

- as source of mailing lists, 49, 53
- complaints, letters answering, 588-
601 (*see also* Complaints, let-
ters answering)
- deposits, treatment in balance sheet,
882, 883

Cut, defined, 250

Cutoff, telephone aid, 476

Cut-out, defined, 250

Cyclone insurance, 741

Cylinder press, defined, 250

D

Damages, liquidated, 342

Data, accounting (*see* Accounting:
data)

Date of account, average, 1302

Dates, in body of letter, 631

Davenport, Russell, 821

Davidson Bros. Co., Inc., Christmas promotion idea, 43
 Davis, Frank E., Fish Company, sales letters, 64
 Davison Paxon Co., congratulatory letter, 566
 Days, abbreviations, 1430
 Dead metal, defined, 250
 Dealer imprint, defined, 251
 Dealer inquiry service, telegraph, 464
 Dealers:
 sales letters to, 91
 training, 317
 Dean, addressing (chart), 659
 Death:
 of drawer of check, effect of, 1022
 of partner, effect on partnership, 1153
 of registered stockholder, 1227
 Debentures, in balance sheet, 883
 Debtors:
 classification of delinquent, 1041
 embarrassed:
 arrangement proceedings under Chapter XI of Bankruptcy Act, 1108
 arrest of, 1093
 assignment for benefit of creditors, 1097-1100
 attachment proceedings against, 1093
 bankruptcy proceedings, 1101-1108
 composition with, 1091
 dealings with, 1090-1113
 failure, causes of, 1091
 garnishment, 1094, 1112
 injunction against, 1094
 insolvency of, 1090
 liquidation, 1101-1108
 methods of dealing with, 1092
 receivership, equity, 1093, 1100
 rehabilitation of, 1091
 relations with creditors, 1091
 reorganization under Chapter X of Bankruptcy Act, 1109-1111
 (*see also* Bankruptcy)
 rights after recovery of judgment, 1094
 supplementary proceedings, 1094
 wage earners, dealing with embarrassed, 1112
 grouping, collection procedure, 1069
 Debts:
 bad, testing reserve for, 921
 extension or modification of secured and unsecured debts, 1109-1111
 long-term, maturing during year, treatment in balance sheet, 882

Debts (*Cont.*):
 matured long-term unpaid debts, treatment in balance sheet, 882
 notes accepted for, 1024
 outlawed, letter extending or reviving, 610
 partial payment on, 1284-1286
 partnership, power of partner to collect, 1145
 refunded, treatment in balance sheet, 882
 subordination of, 944
 Decalcomania, defined, 251
 Decimals:
 aliquot part equivalents (table), 1378-1380
 multiplication, 1370
 Deckle-edge, defined, 251
 Declining balance method, calculating depreciation, 1359
 Deductible principle, insurance, 680
 Deductions in income statements, depreciation, 1358
 Deferred annuities:
 amount, how to calculate, 328
 defined, 1327
 due, calculating present value, 1329
 ordinary, calculating present value, 1328
 Deferred cable and radio messages, 465
 Deferred charges:
 defined, 878
 prepayments among, 878
 treatment in balance sheet, 878
 Deferred credits:
 items included in, 884
 treatment in balance sheet, 884
 Deferred distribution, profit-sharing plans, 803
 Definition, defined, 251
 Delaware corporation, maintained by service company, 1208
 Delbridge Company, Interest Computer, 1282
 Delete, defined, 251
 Delivery, report of telegraphic, 470
 Demand collection letters, 1055-1057
 Demonstration equipment for salesmen, 306
 Denoyer-Geppert Company, combination statement and letter, 1046, 1047
 Departmental manuals, 452
 Department of Agriculture, letter-appraisal chart of, 528, 529
 Depositors' forgery policy, 744
 Deposits, treatment in balance sheet, 883
 time, 862

Depreciation:

- calculating, factors in, 1346
- emergency facility, 1360
- entries by sinking-fund method of, 1357
- Federal income tax, deduction for, 1358
- fund, contributions as annuity, 1321
- methods, 1346-1358
 - annuity, 1353
 - formula, 1354
 - appraisal, 1358
 - composite-life, 1358
 - declining balance, 1359
 - diminishing-rates-on-cost, 1352
 - fixed - percentage - of - diminishing-value, 1350
 - reducing-charge, 1349
 - sinking-fund, 1355
 - straight-line, 1346
 - sum-of-digits, 1352
 - unit-production, 1348
 - working-hours, 1347
- rate under Federal income tax law, 1359-1361
- reserves, treatment in balance sheet, 886
- treatment in balance sheet, 870
- Depressions, need for working capital, 941
- Depth of columns, defined, 251
- Derivative stockholder action, defined, 1206
- Designs as trade-marks, 196
- Desk-fax, 462
- Desks, office, 392-393
- Dewey Decimal Classification*, 456
- Dictating machines, 424
- Dictation, business letters, 541
- Dictionary:
 - of correct usage, 661-670
 - words, use as trade-marks, 193, 194
- Dictograph inter-office communication, 483
- Die-cut, defined, 251
- Diminishing-rates-on-cost method, calculating depreciation, 1352
- Direct advertising, defined, 251
- Direct half tone, defined, 251
- Direct-mail advertising, defined, 251 (*see also* Direct-mail selling)
- Direct-mail ideas, 36-49
 - empty gift boxes, 42
 - for Christmas, 42, 43
 - humorous booklets, 40
 - humorous series, 41
 - informal memos, 42
 - Limericks, 39
 - mailing lists (*see* Mailing lists)

Direct-mail ideas (*Cont.*):

- montage of newspaper headlines, 41
- novelty campaign, 36
- one-week blotters, 38
- pre-test offer, 45
- product efficiency as campaign theme, 37
- Promotional Preview, 36
- reply cards, 47
- teaser message on envelopes, 46
- that increase telephone sales, 44
- Direct-mail selling:
 - advertising.
 - form of, 9
 - novelties, 16
 - preparing, 19
 - testing, 23-30
 - theme, 8
 - timing, 8
 - booklets, 14
 - broad-sides, 13
 - brochures, 15
 - campaign plan, 6
 - catalogues, 15
 - copywriting for (*see* Copywriting for direct-mail selling)
 - cost, 32-36
 - effect of repeat sales on, 35
 - finding, 32
 - items that affect, 32
 - per order, 33
 - reduction, 34, 35
 - envelopes, 18
 - folders, 13
 - house organs, 15
 - ideas for campaigns, 36-49 (*see also* Direct-mail ideas)
 - leaflets, 12
 - letterheads, 19
 - letters, 10-12
 - novelties, 16
 - planning,
 - advertising budget, 7
 - steps in, 6
 - post cards and mailing cards, 12
 - premiums, 16
 - printer's cooperation, 34
 - products suitable for, 5
 - quota for a mailing, 34
 - recording tests of, 27
 - reply forms, 17
 - self-mailers, 14
 - testimonials, 21
 - use of facts, 7
 - wear-out plan, 6
- Directories, as mailing-list source, 51
- Directors:
 - agents employed, compensated, removed by, 1166

Directors (*Cont.*):

- board of, filling vacancies in, 1161
- claims compromised by, 1177
- committees appointed by, 1165
- compensation, how authorized, 1162
- compensation of agents and servants by, 1166
- counsel employed by, 1176
- court interference with corporation management by, 1164
- dissenting, opposition noted in minutes of meeting, 1249
- dividends:
 - declaration of, 1174
 - formalities of declaring, 1175
 - revocation of, 1175
- duties, 1159-1184
- "dummy," 1164
- election of, 1233-1236
- failure to elect, results of, 1236
- law relating to, 1159-1184
- law suits, indemnification for, 1183
- liability of:
 - for acts beyond corporate powers, 1179
 - for acts of codirectors, 1182
 - for borrowing money for corporation, 1169
 - for failure to attend meetings, 1178
 - for fraudulent statements and acts, 1180
 - for illegal dividends, 1176
 - for misapplication of assets, 1178
 - for neglect of duty, 1177
 - for negligence, 1177
 - for preferring one creditor over others, 1180
 - for preferring self over other creditors, 1180
 - for secret profits, 1179
 - for ultra vires acts, 1179
 - for various acts, 1181
 - to corporation, 1180
 - to creditors and stockholders, 1180
 - under Federal laws, 1182
- meetings, 1238-1245 (*see also* Directors' meetings)
- nominations of, 1212
- notice of removal, 1160
- number required by corporation, 1159
- powers of, 1163-1177
 - delegation of, 1164
 - resolution to effect, 1165
 - limitation on, to change corporation, 1164
 - to borrow, for corporation, 1169, 1170
 - to borrow, from corporation, 1171
 - to elect officers, 1173

Directors (*Cont.*):

- powers of (*Cont.*):
 - to employ, compensate, remove agents and servants, 1166
 - to give away property of corporation, 1173
 - to issue stock, 1173
 - to lease property of corporation, 1172
 - to make contracts for corporation, 1167
 - to make contracts with corporation, 1168
 - to make donations to charity, 1173
 - to make endowments, 1173
 - to make guaranties in corporate name, 1171
 - to make loans from corporation, 1171
 - to make loans to corporation, 1170
 - to mortgage property of corporation, 1170
 - to pay bonuses, 1173
 - to purchase property of corporation, 1171
 - to remove agents and servants, 1166
 - to remove officers, 1173
 - to sell property of corporation, 1171
- qualifications of, 1159
- ratification of unauthorized acts, 1167
- reimbursement for law suits, 1183
- removal, 1160
- resignation, 1161
- stockholders' consent to mortgage property, 1170
- stockholders' power to elect, 1200
- suits against by stockholders, 1206
- suits prosecuted and defended by, 1176
- term of office, 1159
- vacancies among, how filled, 1161
- Directors' meetings, 1238-1245
 - agenda, 1216
 - calling, 1239
 - conduct of, 1244
 - data to be presented at, 1216
 - failure to attend, liability of directors, 1178
 - minutes of:
 - annual, form, 1255-1257
 - preparations for recording, 1217
 - typewritten, 1251, 1252
 - necessity for holding, 1238
 - notice of, 1216
 - contents, 1243
 - form, 1242
 - necessity for, 1238

- Directors' meetings (*Cont.*):
 order of business, 1216
 payment of fees, arrangements for, 1217
 place of, in notice, 1243
 preparation for, 1215
 purpose of, in notice, 1243
 quorum, 1244
 regular, notices of, 1240
 rescission of previous action, 1245
 special, notices of, 1240
 Sundays and holidays, procedure when meetings fall on, 1239
 time of, in notice, 1243
 vote necessary to authorize action, 1244
- Direct printing (multigraph), 408
- Direct process, defined, 251
- Direct-view receiver, defined, 251
- Disability insurance, 781 (*see* Temporary disability program)
- Disc, defined, 251
- Disc jockey, defined, 251
- Discharge of employees, 446
- Discount:
 advantages of, 1062
 and interest, bank loans, 955
 bank, how to calculate, 1287-1289
 cash, savings through, 1289
 chain, 1290
 computing net price, 1293
 decimal equivalents of, 1291, 1293
 defined, 1290
 how to compute, 1290
 collection letters educating customers in use of, 1062
 compound, how to compute, 1321
 group defined, 255
 houses, borrowing from, 951
 of contracts receivable, 966
 on stock, in balance sheet, 888
 trade, 1290-1296 (*see* Discount: chain)
 unamortized bond, treatment in balance sheet, 878
 unearned, taking of, 1062
- Discount Corporation of New York, 952
- Discussions, recorded in minutes of meetings, 1248
- Dishonored draft, 959
- Display, defined, 251
- Disputes:
 provisions in contracts for arbitration, 342
 tax treatment in balance sheet, 885
- Dissension among partners, 1143
- Dissolution of partnership (*see* Partnership: dissolution)
- Dissolve, defined, 252
- Distribution, census of, by United States Census Bureau, 281
- Distribution, under profit-sharing plans, 811, 818
- District Attorney, addressing (chart), 646
- Ditto duplication, 407-408
- Dividends:
 capital surplus as source, 899
 cumulative, in arrears, treatment in balance sheet, 885
 declared by directors, 1174
 deduction from surplus, 901
 formalities of declaration, 1175
 illegal, liability of directors for, 1176
 on pledged stock, 958
 payments, officer responsible for (table), 1194
 revocation, by directors, 1175
 taxation and choice of organization, 1125
 treatment in balance sheet:
 declared, 882
 receivable, 867
 unclaimed, 882
- Division:
 and multiplication table, 1372
 by aliquot parts, 1381
 by table of multiples, 1373
 of decimals, 1375
 reciprocals in, 1374
 short cuts in (table), 1373
 verification of, 1387
- D. O. C. method of field training, 321
- "Docket," for directors' meeting, 1216
- Documents and records, officer responsible (table), 1194
- Dolly, defined, 252
- Donahue Sales Corporation, Promotional Preview, 36
- Donated surplus as source of capital surplus, 898
- Donations:
 by directors of corporation, 1173
 capital surplus from, 899
- Doors, office, 383-384
- Dormant partner, liability of, 1141
- Double-decker, defined, 252
- Double entry bookkeeping, defined, 846
- Double-leaded, defined, 252
- Double-page spread, defined, 252
- Double post cards, 512
- Double truck, defined, 252
- "Down-and-under," defined, 252
- Drafts or bills of exchange:
 acceptance, necessity of presenting for, 1032
 collection by, 1089

Drafts or bills of exchange (*Cont.*):
collection letter notifying debtor to honor, 1059
defined, 1031
differentiated from checks, 1031
differentiated from notes, 1032
dishonored for non-acceptance or non-payment, 1033
draft accompanying letter of advice, 1090
foreign, differentiated from inland bill of exchange, 1033
forged bill of exchange, 1034
inland bill of exchange, defined, 1033
laws relating to, 1031-1034
payment, necessity of presenting for, 1033
use in inventory loans, 959
Drawing accounts for salesmen, 328-330
Drop-out half tone, defined, 252
Drunken persons, as parties to contract, 337
Dry-brush drawing, defined, 252
Dry-measure, 1392
Dubbing, defined, 252
Dubbing in, defined, 252
Duberstein, Samuel C., 1090
Dues, treatment in balance sheet, 881
Dummy:
defined, 252
directors, 1164
trial, of advertising piece, 19
Dun & Bradstreet, Inc.:
cost-plus reports, 994
credit ratings, 983-985 (*see also* Credit: ratings)
limitations of, 985
symbols for, 983, 984
uses of, 983-985
ratio tables, 919
Reference Book, 982
reports, 985-994 (*see also* Credit: ratings)
analytical, 985-990
illustrations of, 987-989, 991-993
key accounts, 994
specialized, 990, 991-992
synopsis, 990, 993
services, 994-998
building trades, 998
business economics, 996
business library, 998
consulting reports, 997
continuous reporting, 997
Credit Clearing House, 995
Dun's Review and Modern Industry, 995

Dun & Bradstreet, Inc. (*Cont.*):
services (*Cont.*):
foreign trade, 996
International Markets, 996
letters of introduction, 997
marketing services, 994
mercantile claims, 996
municipal service, 997
service consultants, 997
Duo tone, defined, 252
Duplicate certificates, 1202
Duplicate plates, defined, 252
Duplicating equipment:
automatic typewriter, 409
Hectograph, 407-408
Gelatin method, 407-408
Mimeograph, 407
Multigraph, 408
Multilith, 408
offset printing, 408
photo-copy machines, 409-411 (*see* Photo-copy equipment)
Portagraph machine, 411
stencils, 407

E

Earned surplus:
distinguished from capital surplus, 898
in balance sheet, 890
Ears of newspaper, defined, 252
Earthquake insurance, 741
Eastern Air Lines, Inc., use of informal memos in direct mail, 42
Eastman Kodak Company, wage-dividend plan, 820
Economic factor in making loans, 943
Education, accident prevention, 708
Edward Stern & Company, Inc., use of reply cards, 47
Election, minutes showing:
of directors, 1254
of officers, 1256
Electric spectacles, defined, 252
Electric typewriters, 412
Electrical transcription, defined, 252
Electrotype, defined, 252
Elevators:
in office buildings, 382
public-liability insurance, 703
Eligibility for benefits:
current profit-sharing plan, 816
group insurance, 759
pension plans, 793
profit-sharing plans:
current, 815
deferred, 809
Em, defined, 252

- Embarrassed debtors, dealing with,
1090-1113 (*see also* Debtors:
embarrassed)
- Emergency facilities, depreciation, 1360
- Emotions, sales letters appealing to, 69-78
- Employee benefit plans:
Blue Cross, 772
Blue Shield, 774, 778
characteristics, 756
defined, 755
group accident and health insurance, 779-782 (*see* Temporary disability program)
group insurance, 757-764 (*see also* Group health insurance; Group life insurance; Temporary disability program)
hospitalization plans, 771-779 (*see* Hospitalization plans)
medical care plans, 771-779 (*see* Medical care plans)
objectives, 755
pension plans, 782-802 (*see also* Pension plans)
profit-sharing plans, 802-825
current (*see* Profit-sharing plans, current)
deferred (*see* Profit-sharing plans, deferred benefits)
objectives, 755
- Employees:
accounts and notes due to, treatment in balance sheet, 881
attitude survey, results of, 756
benefits (*see* Employee benefit plans)
business life insurance, 745
census, for group insurance, 761
desires of, 756
discharge of, 446
education in accident-prevention, 708
eligibility (*see* Eligibility for benefits)
manuals (*see* Manuals)
new:
hiring, 436-448
introduction of, 444
performance, record of, 447
physical condition, effect on group insurance, 771
reference forms, 445, 446
selection procedure, for hiring, 438-442
"selling" on insurance plan, 762
"selling" on pension plan, 802
sources of, 436-438
suggestions by, Scanlon plan, 822
training, 315-322, 448-456 (*see also* Training employees)
- Employers:
form sent to, for reference, 445
liability insurance, 709
defined, 703
purchase of workmen's compensation insurance by, 706
- Enameled paper, defined, 252
- Enclosure marks, 636
- Endicott Johnson Corporation's Medical Care Program, 775
- Endorsements:
attached to insurance policies, 690
of loan, 944
to fire-insurance policies, 701
- Endowments, power of directors to make, 1173
- English finish, defined, 252
- Engraving, defined, 253
- Enumerations in letter, 631
- Envelopes, 509-511, 514
addressing by hand, 639
air-mail, 492
for direct-mail selling, 18
use of multigraph slugs, 35
teaser message on, 46
mailing notation on, 639
message, as collection reminder, 1046-1049
personal notation on, 638
quality and size, 622
typing address on, 638
- E.O.M. terms of sale, 1017
- Equated date of account, 1301
- Equipment:
for salesmen, 303-315 (*see also* Salesmen: equipping)
interoffice communication, 477
net loss on, in income statement, 900
office appliances (*see* Appliances, office; Business machines)
- Equity:
court of, application of partner to, 1151
receiverships, 1093, 1100
- Equivalent weight of paper, defined, 253
- Equivalents, decimal, of chain discounts, 1294
- Errand service, telegraph, 462
- Ethical Advertising, defined, 253
- "ex dock," defined, 375
- "ex factory," defined, 365
- "ex mill," defined, 365
- "ex mine," defined, 365
- "ex plantation," defined, 365
- "ex warehouse," defined, 365
- Exact interest:
defined, 1275
short method of calculating, 1281

Excess loss insurance, 694
 Exchange of stock, capital surplus from, 899
 Excluded or included sales rider, credit insurance, 732
 Exclusive agency contracts, 355-359
 appointing exclusive retail dealer for designated territory, 357-359
 defined, 355
 duration of agency, 356-357
 provisions of, 355-357
 Execution, in collection of claim by suit, 1094
 Execution of negotiable instruments by partner, 1144, 1147
 Executive Committee meetings, 1245
 Executives:
 income tax, profit-sharing plan, deferred benefits, 807
 sales letters to, 92-95
 Executone intercommunication, 482
 Executor's right to vote stock, 1227
 Expenditures:
 capital, report of, 850
 unamortized, treatment in balance sheet, 878
 Expense ledger, 843
 Expenses:
 general and administrative, in income statement, 892
 operating, in income statement, 896
 salesman's report, 310, 311
 Experience rating
 automobile insurance, 715
 effect on cost of group insurance, 771
 effect on cost of temporary disability program, 782
 plan, purchasing insurance, 680
 Experienced salesmen, training, 316
 Explosion insurance, 735
 Extended covers, defined, 253
 Extension of time for payment of debt, 1091, 1095-1097
 Extraordinary meetings, 1207

F

Face, defined, 253
 Facing text matter, defined, 253
 Facsimile broadcasting, defined, 253
 Factoring of accounts receivable, 966
 Factors:
 as short cut in multiplication, 1365
 lender of funds, 950
 lien, 963
 who uses, 950
 Factory cost reports, 851
 Factory Management and Maintenance, 168

Fade, defined, 253
 Fading, defined, 253
 area, defined, 253
 Fahrenheit temperatures, compared with centigrade, 1410
 "Fair trade" acts:
 Anti-Trust Act, 359
 contract under state laws, form, 360
 Miller-Tydings Act, 359
 resale price-maintenance agreements, 359
 Supreme Court decision regarding, 360
 False financial statements, 934-937
 False statement laws, 934-937
 compared with larceny laws, 936
 larceny, prosecution under, 934
 liability of accountant under, 938
 persons liable under, 936
 prosecution under federal mail-fraud statute, 937
 states having uniform law, 935
 tests, before prosecuting under, 937
 Family of type, defined, 253
 F & F Laboratories, use of messenger distribution service, 464
 Fanfare, defined, 253
 Farm papers, as advertising media, 165
 Farmers, sales letters to, 99-100
 f a s., meaning, 371
 Fawcett Publications, promotional activity, 9
 F C C., defined, 253
 Federal:
 bankruptcy laws, 1100
 equity receivership proceedings, 1093, 1100
 income tax (*see* Income tax)
 laws, directors' liabilities under, 1182
 mail-fraud statute, 937
 Federal Reserve banks:
 borrowing from, 953
 publication of current credit information by, 918
 Federal Reserve Board, 864
 Federal Trade Commission, 359, 362
 Fees, payment of, at directors' meetings, 1217
 FHA loans, 953
 Fidelity bonds, 726
 Fiduciaries' liability insurance, 705
 Field intensity:
 contour map, defined, 253
 measurement, defined, 253
 Field warehousing, 961
 15 and 2, defined, 253
 Figures:
 reduction to ratios, in credit analysis, 912

Figures (Cont.):

simplification, in financial statement, 907

Files (see also Filing):

corporate meeting, 1208

destruction of, 433

Filing:

alphabetical, 429

cabinets, 394

centralized system, 428-433

chronological, 430

equipment, counter cabinets, 394

geographical, 430

numerical, 429

of contracts, 347

of creditors' claims, 1098

out-file, 430

subject, 429

supervision of, officer responsible (table), 1194

systems, 429

tickler system, correspondence wanted in future, 431-433 (*see also* Tickler system)

visible-filing equipment, 395-397 (*see also* Visible filing equipment)

Fill-in, defined, 253**Film rush, defined, 253****Film transmission, defined, 254****Finance committee meetings, 1245****Finance company:**

applying to, for loan, 976

borrowing from, 948

charges by, 950

choosing, 950

insurance premium, advanced by, 679

relationship with, 975

types of loans, 949

who uses, 949

Financial:

position, statement of, 856

reports, 847

statements, 854-936 (*see also* Financial statements)

Financial statements:

analysis of, 901-934

acceptances payable, 927

accounts payable, 926

accounts receivable, 914-918

bills, 927

cash items, 914

comparative data, 906, 912

comparative statement, form of, 908-911

current assets, 914

current liabilities, 925

fixed assets, 905

inventories, 921-924

Financial statements (Cont.):

analysis of (Cont.):

notes payable, 927

notes receivable, 919

prepaid expenses, 905

procedure, 906

ratios, use of, 913

sales volume as factor, 932

simplification of figures, 907

trade acceptances, 920

working capital, 914-934

balance sheets, 854 (*see also* Balance sheet)

comparative, 906

construction of, 854-901

credit work, use in, 904

factor in borrowing, 943

false, 934-938 (*see also* False statement laws)

form of:

long, 970-973

approved by National Association of Credit Men, 902-903

how obtained, 901

income, 891-898

marketable securities, 924

rearrangement of data in, 907

surplus, 898-901

Financing:

accounting data, 835

hospitalization plans, 775-778

medical care plans, 775-778

working capital, 939-976 (*see also* Financing working capital)

Financing working capital, 939-976

acceptance dealers, 951

accounts receivable as security, 964

advances against bills of lading, 859

applying for bank loan, 969

applying for finance company loan, 976

assignment of life insurance, 958

bank loans, types of, 947

bankers' acceptances, 960

collateral, 944

discount and interest on bank loans, 955

discount houses, 951

discount of notes or contracts receivable, 966

endorsement and guarantee, 944

factoring accounts receivable, 966

factors liens, 963

FHA loans, 953

field warehousing, 961

financial statement form, 970-973

government institutions, 952

installment financing of income-producing equipment, 968

Financing working capital (Cont.):

- installment sales, 966
 - recourse arrangements, 967
 - interview by loan officer, 974
 - inventory loans, 958
 - liens on fixed assets, 968
 - line of credit, 955
 - loan agreements, 945
 - loan arrangements, 954-973
 - loans secured by stocks and bonds, 957
 - pledge of notes or contracts receivable, 968
 - presenting request for loan, 969
 - qualifications for credit, 942-945
 - relationship with bank, 974
 - relationship with finance company, 975
 - requests for loans, how to present, 973-976
 - revolving credit, 956
 - sale of contracts receivable, 966
 - sources of loans, 945-954
 - acceptance dealers, 951
 - commercial banks, 947
 - commercial finance companies, 949
 - commercial paper house, 951
 - factors, 950
 - Federal Reserve banks, 952
 - industrial banks, 953
 - Morris Plan banks, 953
 - personal finance companies, 954
 - short-term, 946
 - small loans companies, 954
 - trade creditors, 945
 - subordination of debts, 943
 - to officers and stockholders, 944
 - term loans, 957
 - trade acceptances, 959
 - trust receipts, 962
 - unsecured bank loans, 954
 - warehouse receipts, 961
- Fire insurance policy:**
- allied coverages, 735-739
 - alterations of insured property, 700
 - automobile, 712
 - business interruption, 735
 - chattel mortgages, 700
 - claims, actual loss, 698
 - direct loss by fire, 697
 - endorsements, 701
 - explosion, damage from, 700, 735
 - fallen buildings, 700
 - hazard, increase of, 700
 - liability of insurance company, 699-702
 - lightning, 700-735
 - meaning of clauses in, 697-699
 - "other insurance" clause, 688

Fire insurance policy (Cont.):

- personal contract, 699
 - property not covered, 701
 - protection afforded by, 696
 - risks excluded in, 699
 - sprinkler-leakage, 739
 - standard, insuring clause, 696
 - supplemental contract, 735
 - term rates, 678
 - unoccupied buildings, 700
 - value of property destroyed, actual
 - cash, 698
- Firm order, defined, 254**
- First-class mail:**
- details about, 488
 - forwarding, 497
 - items mailed as, 487
 - remailing, 498
 - return of, 499
- Fitch Publishing Company, Inc., 1007**
- Fixed assets:**
- amortization of, 871-873
 - defined, 867
 - in balance sheet, 867
 - in credit analysis, 905
 - intangible, 870-873
 - defined, 870
 - ledger, 843
 - liens on, as security for loan, 968
 - not subject to amortization, 872-873
 - report, 850
 - tangible, 867-870
 - defined, 867
 - how valued, 867
 - valuation of, 871-873
- Fixed capital, (see Fixed assets)**
- Fixed liabilities, in balance sheet, 882-884**
- Fixed-percentage-of-diminishing-value method calculation of depreciation, 1350**
- Fixtures, valuation in balance sheet, 938**
- Flat-bed, defined, 254**
- Flat-bed process, for sales letters, 10**
- Flat proofs, defined, 254**
- Flat rate, defined, 254**
- Fleet Admiral, addressing (chart), 653**
- "Fleet" insurance, automobile, 714**
- Floater insurance policies, 696**
- Floor coverings, office, 384**
- F.M., defined, 254**
- f.o.b., defined, 366-369, 370**
- Folders for direct-mail selling, 13**
- Following, next to, reading matter, defined, 254**
- "Follow style," defined, 254**
- Follow-up letters, 102-120**
- Font, defined, 254**

Foote & Jenks:

- novelty direct-mail campaign, 36
- use of reply card, 47

Foreign:

- advertising, defined, 254
- cable and radio messages, 465
- corporation, 1261-1265 (*see also* Corporation: foreign)
- countries, trade-marks, 191
- money (table), 1400-1401
- trade, definitions, 365-375
- words, trade marks, 193, 195

Foreign Ambassador in the United States, addressing (chart), 650

Foreign Diplomatic Representative with a Personal Title, addressing (chart), 650

Foreign minister in the United States, addressing (chart), 650

Foreign-language advertising, defined, 254

Foreign officials and representatives, addressing (chart), 650

Foremen, training, 449

Forgery

- bill of exchange, 1034
- check, payment by bank, 1023
- insurance, 744
- signature on note, 1029

Form, defined, 254

Format, defined, 254

Form letters (*see also* Collection letters; Goodwill letters; Letters; Letter writing; Mail; Sales letters):

- acknowledgments, 576-583
- collection, 1041-1060
- complaints answered, 588-600
- credit, 1034-1041
- direct-mail selling, 10-12
- goodwill, 561-587
- inquiries answered, 546-552
- mailing, 501-502
- sales, 58-127

Forms:

- agency contracts, 353-362 (*see also* Agency contracts)
- application for employment blank, 440
- for salesmen, 295-298
- balance sheet, 858
- close, defined, 254
- collection reminders, 1044-1049
- comparative financial statement, 908-911
- control of, central, 436
- correspondence wanted in future, 432
- economy in use and printing of, 434-436

Forms (*Cont.*):

- employment contracts, salesmen, 363-365 (*see also* Contracts employing salesmen)
- filed material, requisition for, 431
- financial statement, 902-903
- follow-up of new employees, 444
- form-paragraph manuals, for collection letters, 1067
- income statement, 892
- journal, 841
- ledger, 843
- minutes of meetings, 1251, 1252
 - annual directors' meeting, 1255-1257
 - annual stockholders' meeting, 1253-1255
- notice of directors' meeting, 1216, 1242
- notice of stockholders' meeting, 1209
- ordering, 435
- pegboard, 405-407
- proxies, 1210, 1228
- rejection, 839, 840
- reply, in direct-mail selling, 17
- requisition, 838-840
- salesmen's, 307, 308-311, 314
- transcription department, 426
- waiver of notice of meeting, 1219, 1242

Formulas:

- and processes in balance sheet, valuation of, 873
- annuities:
 - amount of annuity due, 1324
 - amount of ordinary, 1322, 1323
 - present value of ordinary, 1326
 - present value of annuity due, 1327
- depreciation, annuity method, 1354
- interest:
 - compound amount, 1311
 - compound present value, 1312

Foundry proof, defined, 254

Foundry type, 215

4 A's, defined, 254

Four-color process, defined, 254

Fourth-class or parcel post mail:

- details about, 490
- forwarding, 497
- items mailed as, 487
- return of, 500

f p a., defined, 374

Fractional part of dozen, cost of (table), 1406-1409

Fractions, kinds of, 1376

Franchises, in balance sheet, valuation of, 872

Fraud (*see also* Forgery):

- accountants' liability for, 938

Fraud (Cont.):
 directors' liability for, 1180
 in bankruptcy, investigation of, 1107
 notes obtained by, 1026
 statute of, 339
Free lance, defined, 254
Freight:
 freight-rate calculator, 1384, 1385
 rider, credit insurance, 732
Frequency, defined, 255
Frequency modulation, defined, 255
Frisco Frolic Company, insurance loss, 677
F.T.C., defined, 255
Full block style, letter, 615
Full position, defined, 255
Full showing, defined, 255
Fuller Brush Company, The, selling equipment of, 305
Full-rate cable and radio messages, 465
"Funded debt," treatment in balance sheet, 882
Funding pension plans (*see* Pension plans: funding)
Funds, treatment in balance sheet, 887
Furniture, defined, 255
Furniture valuation, 938
Futura type, 219
Future operations, controls for, 852

G

Galley proof, defined, 255
Gambling contracts, illegality of, 337
Gang, defined, 255
Garage public-liability insurance, 1267
Garage-keeper's insurance, 716
Garamond type, 217
Garment-contractor's insurance, 742
Garnishment by creditor:
 defined, 1094
 of wages, 1112
Gas bills, treatment in balance sheet, 881
Gelatin duplication, 407-408
General, addressing (chart), 652
General balance sheet, meaning, 854
General cover insurance contract, 693
General expenses, in income statement, 892
General manager, duties, 1192
General meetings, stockholders, 1207
General Motors Sales Corporation, accident safety report, 709
General of the Army, addressing (chart), 652
General partnership (*see* Partnership)
General proprietorship, liability, 1128
Geographical names, trade-marks, 194, 195

Ghost, defined, 255
Ghosted view, defined, 255
Gift orders, by telegraph, 463
Girder type, 220
Glossaries:
 abbreviations:
 general, 1415-1430
 months and days, 1430
 advertising procedure, 243-271
Goodwill:
 asset of partnership, 1158
 building, through letters, 561-600 (*see also* Goodwill letters)
 business life insurance to cover, 745
 disposal of, authority of partners, 1144
 in balance sheet, valuation of, 872
 infringement of, in selecting business name, 1134
Goodwill letters.
 acknowledgment of order, 576
 acknowledgments, 576-583
 criticisms of suggestions, 569
 errors, 591
 incomplete orders, 579
 inquiries, 581
 letter received in absence of addressee, 583
 orders:
 goods out of stock, 579
 impossible to fill, 580
 shipments to be delayed, 579
 remittances, 580
 testimonials, 582
 adjustments, 588-600 (*see also* Complaints, letters answering)
 apologies, 569
 appreciation (*see* Goodwill letters: "thank you")
 checking up on customer satisfaction, 574
 complaints answered, 588-600 (*see also* Complaints, letters answering)
 complying with requests, 582
 congratulatory, 566, 587
 friendly service, 564
 how to write, 561
 in time of emergency, 570
 model letter, 571
 invitation to special events, 565
 invitation to use other departments, 576
 letters of introduction, 584-586
 offering credit privilege, 573
 refusal of requests, 581
 requesting suggestions and criticisms, 567
 seasonal greetings, 564

Goodwill letters (*Cont.*):

- sympathy, 566
- "thank you," 586
 - for initial purchase, 573
 - for large orders, 563
 - for patronage, 562
 - for prompt payment, 563
 - for recommendation, 563
- to customers who offer return of used product, 600
- to disappointed applicants, 584
- to established customers, 562-572
- to new customers, 572-576, 578
- welcoming back old patron, 570

Government:

- institutions, loans by, 952
- officials, addressing (chart), 645
- postal cards, 508, 511-514
- securities, treatment in balance sheet, 862

Governor of State, addressing (chart), 645

Grady, James F., letter-appraisal chart, 528

Grain, defined, 255

Great Britain, copyrights in, 205

Green Brothers, letter, 5, 76

Gross profit on sales, in income statement, 896

Gross receipts, in income statements, 895

Group accident and sickness insurance, 779-782 (*see also* Temporary disability program)

Group annuity plans, 788

Group discount, defined, 255

Group health insurance.

- cost factors that affect plan, 778
- hospitalization plans (*see* Hospitalization plans)
- medical care plans, 774 (*see* Medical care plans)

nature of, 771

underwriting:

- hospitalization plans, 774
- medical care plans, 774

Group insurance:

- accident and sickness, 779-782 (*see also* Temporary disability program)

advantages to employer, 758

administration of plan, 761

application for, by new employee, 763

contributory plans, 760

financial burden on employee, 761

eligibility of employees for, 759

employer's application, 762

health (*see* Group health insurance)life (*see* Group life insurance)Group insurance (*Cont.*):

nature of, 757

new employee:

- application by, 763
- eligibility of, 763

noncontributory plans, 760

placing the contract, 761

selecting an insurer, 761

selling the employee, 762

by insurer, 763

by key personnel, 763

contributory plan, 764

media for, 762

new employee, 764

personal solicitation, 762

taxes:

employee's, 764

employer's, 764

Group life insurance, 764-771 (*see also* Group insurance)

amount of coverage, 769

length-of-service plan, 769

level amounts, 769

occupational plan, 770

salary or wage basis, 769

cost, factors of, 771

level premium plan, 767

limited payment, 767

paid-up insurance, table, 768

termination cash values, table, 768

vesting of values, 769

whole life, 767

paid-up plan, 765

accumulated amounts of insurance (table), 766

"money-purchase" units, 765

stated value units, 765

termination of employment, 767

term life insurance plan, 764

types of plans, 764

Group permanent pension plans, 789

Guarantee of loan, 944

Guaranteed obligations, treatment in balance sheet, 884

Guaranties, deposits as, treatment in balance sheet, 879

Guaranty, in sales letters, 82

Guardian, right to vote stock, 1227

Gutter, defined, 255

H

Hairline, defined, 255

Half showing, defined, 255

Half tones, 231

defined, 255

Hand composition, defined, 256

Hand lettering, defined, 256

Hand setting of type, 215

Hand tooling, defined, 256
 Hanging paragraph style, letter, 620
 Haphazard sampling, defined, 256, 266
 Haskin Optical Company, checkup letter from, 558
 Head, defined, 256
 Head-on position, defined, 256
 Health Insurance Plan of Greater New York (HIP), 774
 chart of features, 776-777
 Hearst Magazines, Inc., territory information from, 281
 Hectograph duplication, 407-408
 Hedging business life insurance with sinking fund, 746
 High Commissioner, addressing (chart), 649
 Hill's Reports, Inc., 1006
 HIP, 774
 "Hold," defined, 256
 Hold feature, telephone aid, 476
 Hooperating, defined, 256
 Hooper-Holmes Bureau, Inc., 1003
 Hooven method, sales letters, 11
 Hospital expense insurance policy, 775
 Hospitalization plans, 772
 benefits, effect on cost, 775
 Blue Cross, 772, 774
 cash indemnity plans, 772
 comparison of, 773
 chart, 773
 cost, 772
 dependents' participation, 775
 financing, 775-778
 nature of, 772
 service plans, 772
 underwriting, 774
 Hotel Management, 168
 House collection agencies, 1087
 House organs:
 defined, 256, 454
 direct-mail selling, 15
 Hudson Motor Car Company, use of messenger distribution service, 463

I

Iconoscope, defined, 256
 Ideas, how to protect legally (table), 206-210
 Identification, defined, 256
 Identification line, 636
 Illegal dividends, directors' liability for, 1176
 Illustrations, kinds of, 231
 Illustravox Sound Slide Film Projector as a sales aid, 312, 313
 Impose, defined, 256

Improvements and betterments insurance, 738
 Improvements in leased property, treatment in balance sheet, 872
 Inactive accounts, letters to revive, 553-561
 check-up letter, 558
 determining reasons for not buying, 555
 how to write, 553
 old customers, 554
 series, 553
 stunt letters, 558-561
 Inch, defined, 256
 Income:
 limit on, for participation in employee benefit plans, 760
 net, in statement of surplus, 901
 statement (*see* Income statement)
 tax (*see* Income tax)
 Income statement:
 accounting report, 850
 administrative expenses in, 892
 clarifying, methods of, 893
 cost of goods sold, 895
 divisions of, 892
 form of, 892
 general expenses in, 892
 heading of, 891
 how constructed, 891-898
 items, grouping of, 892
 items requiring special clarification, 894
 losses, treatment in, 897
 nonoperating charges, 897
 nonoperating income, 896
 operating expenses, 895
 operating income in, 896
 profits, treatment in, 897
 sales, various designations for, 895
 titles for, 891
 total income in, 897
 trading income, 896
 Income tax:
 deduction for depreciation, 1358
 pension plan, 784
 effect of IRC Sec. 23(p), 793
 exemption of trust, 785
 qualification under Sec. 165(a), 785
 profit-sharing plan, deferred:
 advantages to corporation, 806
 advantages to executive, 807
 employee's tax, 805
 employer's tax, 805
 illustration of advantages, 805
 qualification under IRC Sec. 165(a), 802, 809
 recovery of, 900

- Income tax (Cont.):**
 unsettled dispute, treatment in balance sheet, 885
- Indebtedness, certificate of, treatment in balance sheet, 883**
- Indemnity:**
 bonds, miscellaneous, 727
 right of partner to receive, 1140
- Indented style, letter, 618**
- Indexing minutes of meetings, 1258**
- Indicia, metered, 506**
- Individual:**
 location, defined, 256
 policy plans, 789
 proprietorship form of organization:
 organizing, 1122
 taxation, 1124
- Industrial banks, borrowing from, 953**
- Industrial goods, defined, 256**
- Industrial Marketing, territory information from, 281**
- Infant:**
 as partner, 1135
 defined, 337
 note executed by, 1025
 rights of, on partnership dissolution, 1135
- Inferior rating rider, credit insurance policy, 732**
- Information:**
 clerk, qualifications of, 421
 letter answering request for, 548
- Inglis Vocabulary Test, 300**
- Inherited audience, defined, 256**
- Initials as trade-marks, 194, 196**
- Injunction, creditor's remedy in collection of claim, 1094**
- Inquiries:**
 answering by letter, 546-561
 from retailer, 551
 giving further information, 548
 how to answer, 546
 refusing requests, 551
 request for booklet, 547
 request for more information, 548
 sending representative with samples, 551
 method of testing advertising, 176-183
- Insane persons, as parties to agreement, 337**
- Insanity, as ground for dissolving partnership, 1135**
- Insertion order, defined, 256**
- Inserts, defined, 256**
- Inside address, letters, 623-629**
 to persons holding honorary or official positions (chart), 641-660
- Insolvency, of debtor, 1090**
 defined, for credit insurance, 728
- Inspectors:**
 election of directors conducted by, 1234
 of proxies, 1228
- Installation of employee benefit plans:**
 cash profit-sharing plans, 817
 Scanlon plan, 822
- Installment.**
 financing income-producing equipment, 968
 payments, as annuities, 1321
 receivables in balance sheet, 863
 sales:
 financing, 966
 sale or discount of notes or contracts, 966
- Instruction manuals, 452-454**
- Instruments:**
 executed in partner's name, 1148
 negotiable (*see* Negotiable instruments)
 under seal, power of partner to execute, 1147-1148
 used in inventory loans, 959
- Insurance (*see also* Life insurance; Annuities)**
 accounts-receivable, fire, 739
 adaptability of, 690
 agents (*see* Agents: insurance)
 "all-risk" contracts, 743
 automobile, 709-718 (*see also* Automobile insurance)
 bailee's customer's insurance, 743
 bonds, 725-727 (*see also* Bonds: insurance)
 brokers (*see* Agents: insurance)
 burglary, theft, and robbery, 718-725 (*see also* Burglary, theft and robbery insurance)
 business, 675-747
 life, 745-749 (*see also* Business life insurance)
 check-alteration, 744
 cleaners, 743
 coinsurance clauses, 694 (*see also* Coinsurance clauses)
 companies:
 choosing for business insurance, 680-682
 claims handled by, 781
 hospitalization plans, underwriting, 774
 liabilities of, 689, 699-702
 medical care plans, underwriting, 774
 mutual, 681

Insurance (Cont.):**companies (Cont.):**

private, 707
stock, 680

comprehensive:

automobile damage, 712
liability, 705
liability and property damage, 705, 718

contingent use-and-occupancy, 736**commercial forgery, 744****costs:**

budgeting premiums, 678
choosing the agent or broker, 675
choosing the company, 680
deductible principle, application of, 680
purchasing proper policy, 675
reading of policy, 676-678
reduction of, 675-685
improvements reducing risk, 679
through frequent appraisals, 679

credit, 727-734 (see also Credit insurance)**cyclone, 741****depositors' forgery, 744****dyers, 743****earthquake, 741****employer's liability, 709****excess loss, 694****explosion, 735****fire, 696-702 (see also Fire insurance policy)****fleet, automobile, 714****floater policies, 696, 741-743****forgery, 744****garage-keeper's, 716****garment-contractor's, 742****general cover contract, 693****group (see Group insurance)****improvements and betterments, 739****interruption, 735****jeweler's block, 743****laundry, 743****leasehold, 737****liability (see Liability insurance) 1255****life (see Life insurance)****mercantile****open-stock burglary insurance, 719****safe-burglary insurance, 721****merchants' protective bonds, 723****messenger robbery, 721****miscellaneous coverages, 735-744****officer responsible (table), 1194****parcel-post, 742****partial self-insurance workmen's compensation, 708****plate-glass, 741****Insurance (Cont.):****policies:**

ambiguities, effect of, 685

assignment, 688

blanket, 693

endorsements attached to, 1255

failure to read, cost of, 677

fire (*see* Fire insurance policy)

importance of form, 692

importance of reading, 676

independent contract, 689

indirect losses provision, 705

law governing, 685-691 (*see also* Law of insurance)

long-term, purchase of, 678

oral waiver of provisions by agent, 687

purchasing proper forms of, 675

renewed, 689

reporting, 693

specific, requirements of, 692

types of, 691-696

violation, effect of, 686

"wagering policy," 690

power plant, 739**premiums:**

advance by finance company, 679

as annuities, 1321

budgeting, 678

discounts allowed on, 722

on several items of property, 689

prorating by charts, 1382-1383

private, differentiated from self-insurance, 1245**profits and commissions, 736****property:**

blanket policies, 693

coinsurance clauses, 694

defined, 692

excess loss, 694

forms of, 692

general cover contract, 693

items insured under one contract, 689

leasehold, 737

rent, 736

reporting policy, 693

specific policies, requirements, 692

territorial limits on, 688

property-damage liability (see Property-damage liability insurance)**public-liability (see Public-liability insurance)****purchasing under experience rating plan, 680****rain, 743****registered-mail, 742****rent, 736****riot, and riot attending strike, 735**

Insurance (Cont.):

- robbery (*see* Burglary, theft, and robbery insurance)
- salesmen's samples, 743
- securities, 724
- self-insurance, 683, 707, 708 (*see also* Self-insurance)
- sprinkler-leakage, 739
- state fund, workmen's compensation, 706
- stores, 742
- strike, riot attending, 735
- teams, public liability, 703
- tear gas systems, discounts allowed for, 722
- territorial limits on property policies, 688
- theater public liability, 703
- title, 743
- tornado, 741
- transportation, 741
- treatment in balance sheet, 879
- types most important, 682
- use and occupancy, 735, 736
- warehouse, 743
- watchman, discount for, 722
- windstorm, 741
- workmen's compensation, 703, 706-709
- "Insurance Buying Practices," 682
- insured mail, 495
- insured pension plans, 787-790, 792
- insurer for group insurance:
 - proposals from, 761
 - selection of, 761
- Intangible fixed assets:
 - balance sheet treatment of, 871-873
 - defined, 870
 - place in credit analysis, 905
- Intaglio printing, 257
- Intelligence tests for new employees, 300, 442
- Interest:
 - compound, 1309-1321 (*see also* Compound interest)
 - defined, 1271
 - exact:
 - defined, 1275
 - short method of calculating, 1281
 - table of various rates, 1282
 - legal and contract rate, 1271
 - on loans, right of partner to receive, 1140
 - ordinary:
 - cancellation method, 1279
 - defined, 1275
 - short methods, calculating, 1276
 - interchange of principal and number of days, 1278

Interest (Cont.):

- ordinary (Cont.):
 - short methods (Cont.):
 - one-day or product method, 1278
 - rate other than 6%, 1279
 - sixty-day method, 1276
 - payable on note, 1025
 - pension trust fund, 801
 - periodic, 1283
 - prepaid, treatment in balance sheet, 878
 - rules for computing, on partial payments, 1284-1286
 - simple, how to calculate, 1271-1284
 - tables, use of, in computing, 1282
 - time in which money doubles itself (table), 1406
 - treatment in balance sheet:
 - accrued, 867
 - matured interest payable, 882
 - payable, 881
 - unpresented coupons, 882
- Interest-bearing paper:
 - calculating bank discount on, 1288
 - proceeds on, 1288
- Interest tests for new employees, 443
- Interference, defined, 257
- Interim adjustment rider, credit insurance, 733
- Internal Revenue Code (*see* Income tax)
- International communications, 464-471, 473
- International Harvester Company, 857
- International telegraph service, 465
- International telephone service, 473
- Interoffice communications, 383, 481-485
- Interstate commerce, meaning of, 1262
- Intertype Corporation, tables of, 230
- Interviews:
 - opening, 306
 - personal, for credit men, 1013-1014
 - personal, for salesmen, 298
 - staging, by salesmen, 305
- Intrastate business, meaning of, 1265
- Introduction letters, 584-586
- Introduction of persons holding honorary or official positions (chart), 641-660
- Inventories:
 - analysis of in financial statement, 921
 - determining quality from ratio of sales to, 922
 - excessive, possible explanation of, 924
 - nature of, in financial statement, 922
 - of property, in assignment for benefit of creditors, 1098
 - tested by merchandise turnover, 922
 - treatment in balance sheet, 865
 - valuation in balance sheet, 865

Inventories (Cont.):

financing:

- bill of lading, 959
- bankers' acceptances, 960
- factors lien, 963
- trade acceptances, 959
- trust receipts, 962
- warehouse receipts, 961

ledger, 843

loans, 958

ratios, 913

reports, 849

Investments:

- division of partnership profits on basis of ratio of, 1137

of profit-sharing fund, 812

officer responsible (table), 1195

treatment in balance sheet:

- in affiliated companies, 875
- in company's own stock, 876
- in controlled subsidiary, 875
- "other" investment securities, 875
- permanent, 874
- real property, 875
- temporary, 877

Invitations to special events, letters, 565**Invoices, accounting data, 836****Island position, defined, 257****J****Jantzen Knitting Mills, letter-writing class formed by, 527****Jewelers' block insurance, 743****"Job Instruction Training," 321****Job ticket, defined, 257****Joint venture (see also Syndicate):**

- control, 1130
- management, 1130
- organization, manner of, 1123
- power to do business in any state, 1131
- stability of, 1127
- taxation, 1125

Joint-stock company:

- control, 1131
- law governing, 1132
- liability to creditors, 1128
- management, 1131
- organization, manner of, 1123
- power to do business in any state, 1132
- stability of, 1127

Joske Brothers Company, reminder statement for overdue account, 1048**Journals:**

- data, 835
- records, 840-841 (see also Accounting: records: journals)

Judge of a Court, addressing (chart), 647**Judgment:**

- chart, for selecting salesmen, 299
- confession of, partnerships, 1144
- rights after recovery of, 1094
- sampling, defined, 257, 266

Judiciary bonds, 727**Junior officers, addressing (chart), 653****Justification of type, defined, 257****K****Kabel type, 220****"Keep standing," defined, 257****Kennelly-Heavyside layer, defined, 257****Kennerly type, 216****Key plate, defined, 257****Key station, defined, 257****Keying an advertisement, defined, 257****Keysort, for sorting data, 401-404****Kinescope, defined, 257****Kinescope recording, defined, 257****Kits, equipment, 312-313, 314****Known-probability sampling, defined, 257, 266****Kodachrome, defined, 257****Kraft, defined, 257****L****Labels, copyright on, 204****Labor cost analyses, 851****Labor unions, negotiating pension plans, 795, 796****Laid paper, defined, 257****Land valuation in balance sheet, 868, 938****Lanham Act, defined, 257****Landlord's public-liability insurance, 703****Lanham Trade-Mark Act, 185****Lanston Monotype Machine Company, tables provided by, 230****Larceny laws:**

- and false statement laws, 936
- false financial statements prosecuted under, 934

Law:

- business letters, 601-610 (see also Libelous letters)

business organizations, 1132

checks, law relating to, 1019-1024 (see also Checks)

contracts (see Contracts)

copyrights (see Copyrights)

directors, 1159-1184 (see also Directors)

drafts or bills of exchange, 1031-1034 (see also Drafts or bills of exchange)

Law (Cont.):

- false-statement, 934-937 (*see* False statement laws)
- insurance (*see* Law of Insurance)
- larceny (*see* Larceny laws)
- negotiable instruments, 1019-1034 (*see also* Checks; Drafts or bills of exchange; Notes)
- notes, 1024-1031 (*see also* Notes)
- officers of corporation, 1184-1198
- suits (*see* Lawsuits)

Law of insurance:

- agents (*see* Agents: insurance)
- ambiguities, 685
- assignment of policy, 688
- brokers, status of, 686
- conflicts in policy provisions, 685
- entirety of contract, 689
- fire insurance:
 - policy, a personal contract, 699
 - unoccupied buildings, 700
- insurable interest, 689
- life, protection of beneficiaries, 691
- negligence, definition, 702
- opinion of agent, effect of, 687
- oral waiver of policy provisions by agent, effect, 687
- "other insurance" clause, 688
- property insurance, limits on, 688
- renewed contracts, 689
- violation of policy, effect of, 686
- warranties and representations, 687
- workmen's compensation, 703, 706-709

Lawsuits:

- between partners, 1150
- collection by, 1092-1095
- defended by directors, 1176
- expenses, directors' reimbursement, 1183
- for libel, pecuniary loss shown in, 605
- prosecuted by directors, 1176
- prosecution for false financial statements, 934-938
- stockholders' derivative action, 1206
- to collect account, 1092
- treatment in balance sheet, 885

Layout, defined, 257**I.c., defined, 257****Leaders, defined, 257****Leading, defined, 257****in printing and typography, 224****Leaflets, for direct-mail selling, 12****Lease:**

- conditional sale distinguished from, 348
- deposits, treatment in balance sheet, 879

Lease (Cont.):

- insurance, 737
- of corporate property, 1172
- officers responsible (table), 1195
- treatment in balance sheet, 878
- valuation of, 872

Lectures, copyright on, 199, 201**Ledger papers, defined, 258****Ledgers:**

- customer ledger card, illustrated, 1080
- data, 835
- punched ledger cards, 1079
- records, 841-844 (*see also* Accounting: records: ledgers)
- vertical visible ledger cards, 1079

Lefax, Inc., decimal equivalents of chain discounts, 1294**Legal actions (*see* Lawsuits)****Legal document, collection letter resembling, 1060****Legend, defined, 258****Length-of-service plan, group life insurance, 770****Letterheads:**

- for direct-mail selling, 19
- illustrations, 612, 613
- importance of, 611
- sales value of, 611

Letterpress printing, defined, 258**Letter telegrams, 465****Letters (*see also* Letter-writing; Mail)**

- appraisal chart, 529
- appreciative, 572
- as memoranda satisfying statute of frauds, 603
- better, program for, 521-532
- booklet, better-letters, 528
- chart, letter appraisal, 529
- collection, 1041-1061 (*see also* Collection letters)
- complaint, answering 588-600 (*see also* Complaints, letters answering)

contract:

- letter may constitute, 602
- oral statements may contradict terms of, 603

contracts in form of, 343-345**correspondence, rates, 501****credit, 1034-1041 (*see also* Credit letters)****customer relations, improving, 521****direct-mail selling, 10-12****evidence against recipient, 609****evidence of admission against writer, 608-611****follow-up, 102-120****form letters, 501, 502****four-page, for direct mail, 11**

Letters (*Cont.*):

- goodwill, 561-600 (*see also* Goodwill letters)
 - inactive accounts, reviving, 553-561 (*see also* Inactive accounts, letters to revive)
 - inquiries, 546-551 (*see also* Inquiries)
 - legal aspects of, 601-610
 - libelous, 604-608 (*see also* Libelous letters)
 - of advice, draft accompanying, 1090
 - reference, in regard to salesmen, 298, 301-303
 - refusing requests, 551
 - routine letter, rewritten, 532
 - sales combined with collection, 1065-1066
 - sales (*see* Sales letters)
 - staff cooperation for better, 527
 - stunt letters, 558
- Letter-writing (*see also* Letters; Mail)
- adapting to readers, 543
 - illustrations, 544-546
 - addressing (*see* Address)
 - attention line, 635
 - better-letters program, 521-532 (*see also* Better-letters program)
 - block style (illustration), 616
 - body of, 630-633
 - class in, 527
 - closing the letter, 540
 - continuation sheets, 614
 - complimentary close, 631-632
 - current, supervising, 526
 - date line:
 - how to type, 623
 - where to type, 622
 - dictation, correct procedure, 541
 - enclosure mark, 636
 - full block style (illustration), 615
 - hanging paragraph style (illustration), 620
 - identification line, 636
 - indented style (illustration), 618
 - layout of:
 - illustrations, 615-621
 - sales value of, 611
 - setup of letter, 614
 - letterheads (*see* Letterheads)
 - mailing notation, 637
 - manual, compiling correspondence, 526
 - official style, 619
 - opening the letter, 538
 - positive approach, 538
 - personal, notation, 637
 - personalizing for direct-mail selling, 11
 - plan to improve, 522

Letter-writing (*Cont.*):

- postscript, 637
 - punctuation, 614
 - salutation, 629-630
 - second page, heading on, 614
 - semi-block style, 617
 - setup of, 614
 - illustrations, 615-621
 - signature, 632-634
 - simplified style, 621
 - spacing instructions, illustration, 530-531
 - stationery, 611
 - stilted phraseology, 533-536
 - structural parts, 622-639
 - subject line, 635
 - tone and spirit of, 532-546
 - words to avoid using, 537
- Level amount plan, group life insurance, 769
- Level premium life insurance plan, 767
- Liabilities:
- accrued, 881
 - contingent, 884
 - insurance for, 705, 713, 735
 - treatment in balance sheet, 880
 - current:
 - in analysis of working capital, 925
 - ratio of current assets to, 928
 - treatment in balance sheet, 880-882 (*see also* Current liabilities)
 - fixed:
 - defined, 882
 - treatment in balance sheet, 882-884
 - letter as evidence of, 608
 - of assignee, 1099
 - of bank for forged check, 1023
 - of directors, 1176-1183 (*see also* Directors: liability of)
 - of infant as partner, 1135
 - of officers, 1182, 1184-1198
 - of partners (*see* Partners: liability)
 - on balance sheet, 858
 - reserves listed among, 886
 - reserves representing, 882
 - stockholders', 1200, 1201
- Liability insurance, 702-705 (*see also* Public liability insurance; Property-damage liability insurance)
- as type of insurance, 692
 - comprehensive, 705
 - contingent public, 705
 - employer's, 703
 - fiduciaries', 705
 - garage-keeper's, 716
 - limit of liability, 705
 - policies, standard provisions, 704

Liability insurance (Cont.):

purpose of, 702

types of, 702-704

Libel, defined, 604

Libelous letters, 604-608

kinds of statements in, 606

when actionable, 605

when privileged, 606

examples of, 607

loss of privilege, 607

Libraries, company, 455

Liens:

factors, 963

fixed assets, security for loan, 968

Lieutenant, addressing (chart), 652

Lieutenant Governor, addressing (chart), 645

Life insurance:

assignment for loan, 958

beneficiaries, protection from claims of creditors, 691

business, 745-749 (*see also* Business life insurance)

group (*see* Group life insurance)

"Million-Dollar Round Table," analysis, of membership, 291

Life paid-up insurance plan, 767

Lighting, in offices, 384-387

Lightning insurance, automobile, 712

Limited partnership:

association, 1122

controls, 1130

liability to creditors, 1128

management, 1130

organization, manner of, 1122

taxation, 1125

Limited payment life insurance plan, 767

Limited time station, defined, 258

Linage, defined, 258

Lincoln Extension Institute, Inc., wage-dividend plan, 820

Line:

cuts, 231

defined, 258

drawing, defined, 258

plate, defined, 258

Line of credit, 955

Linotype composition, 215

defined, 258

Lip-synchronization, defined, 258

Liquid measure, 1391

Liquidation (*see also* Bankruptcy)

bankruptcy, 1101-1108

of business on voluntary dissolution, 1156

of partnership, differentiated from dissolution, 1155

List brokers, 51

Lists, mailing (*see* Mailing lists)

Lithographic printing, 211, 258

defined, 258

Live, defined, 258

Loan officer, interview by, 974

Loans:

accounts receivable, 964

agreements, restrictive, 945

arrangements, 954-973

unsecured bank loans, 954

commodity, 958

corporate, directors' rights to make, 1170-1171

due date, how to calculate, 1272

factors affecting, 942

factors lien, 963

interest on, right of partner to receive, 1140

inventory, 958

line of credit, 955

officers responsible (table), 1195

presenting requests for, 969, 973-976

revolving credit, 956

secured:

life insurance, 958

pledge of notes or contracts receivable, 968

pledge of stocks and bonds, 957

trust receipts, 962

warehouse receipts, 961

short-term, 939-976 (*see* Financing working capital)

term, 957

unsecured, 954

Local advertising, defined, 258

Local-channel station, defined, 258

Lockers, in offices, 382

Locking up, defined, 258

Log, defined, 258

Logotype, defined, 258

Long-distance telephone calls, 471-474

Long measure, 1389

Long-term debts, in balance sheet, 883

Long-term insurance policies, purchase of, 678

Looseleaf visible binders, 395

Lord Chief Justice, addressing (chart), 651

Loss adjustments, credit:

insurance, 730

example, 731

Losses:

partnership, division of, 1136

in absence of express agreement, 1139

treatment in income statement, 897

Loud speaker equipment, 477

Lower case, defined, 258

Lumped order, 1017

M

Machine-finished paper, defined, 258

Machine setting of type, 215

Machinery:

net loss on, in surplus statement, 900

valuation in balance sheet, 869, 938

Machines, office (*see also* Appliances, office)

calculating, 399

dictating machine equipment, 414-415

duplicating, 407-411 (*see also* Duplicating equipment)

maintaining, 416-417

photo-copy, 409-411

proof, 401

punched-card accounting equipment, 400-401

time recorders, 415

Magazines, as advertising media, 160

Mail:

air mail, 491-494

books, 503-506

bulk, 500 (*see also* Bulk mail)

cards, 508, 511-514

catalogues, 503-506

change of address, notice, 498

classification of, 487-491

C.O.D., 495, 497

department, 421-423

envelopes, 509-511, 514

first-class, 487, 488, 497, 498, 499

form letters, 501, 502

fourth-class, 490, 497, 499, 500

forwarding of, 497

insured, 495

letters, 501-502

manuscripts, 488

metered, 506-507

money orders, 514

parcel post, 490, 497, 499, 500

permit imprints, 507-508

postal rates (*see* Postal rates)

precancelled stamps, 508-509

printed matter, 503-506

proofs, 488

records, manifold mail, 494

registered, 494-500

indemnity, limit of, 494

value, declaration of, 494

remailing of first-class, 498

return of, 499

second-class, 487, 489, 497, 499

selling by, 5-127 (*see also* Direct-mail selling)

special delivery, 492, 496-497

special handling, 496-497

stamps, 508, 509

third-class, 489, 497, 498, 499, 500-503

Mail-order advertising, defined, 259

Mailable items, 487-488

Mailing lists:

brokers, 50

built through salesmen, 53

checking new names, 55

clippings, built through, 54

contests, built through, 54

exchange of, 50

how to get and build, 49-58

keeping up to date, 56, 57

master control system of, 58

personal, keeping up to date, 57

rental of, 50

selection of, 7

sources of, 49-51

customers and prospects, 53

directories, 51

firm's customers, 49

membership lists, 52

membership lists of organizations, 52

public records, 52

radio advertising, 52

space advertising, 52

Mailing notations, 637

on envelope, 639

Mailings Incorporated, sales letter, 125

Maintenance of office machines, 416-418

Major, addressing (chart), 652

"Majority," in relation to quorum, 1223

Make good, defined, 259

Make-ready, defined, 259

Make-up of page, defined, 259

Management:

of partnership affairs, 1143

office, 381-515 (*see also* Office management)

sales, 273-375 (*see also* Sales management)

Managers:

general, duties, 1192

sales, training, 317

Manifold mailing records, 494

Manley, Marian C., *The Special Library Profession and What It Offers*, 455

Manuals:

company, 452

employees:

departmental, 452

procedures, 453

for training salesmen, 318

form-letter, 1067

form-paragraph, for writing collection letters, 1067

loose-leaf credit and collection correspondence, 1067

management:

administrative procedures, 454

- Manuals (Cont.):**
 management (*Cont.*):
 organization, 454
 policy, 453
Manufacturer's public-liability insurance, defined, 703
Manuscripts:
 postal rates, 488
 unpublished, copyright on, 203
Mariners' measure, 1395
Marketable securities, examination of, in financial analysis, 924
Marketing, defined, 259
Markup:
 and selling price, computation, 1305-1309
 percentage on cost and selling price distinguished, 1305
 profit based on selling price, 1307
 table of percentage on cost, 1308
Married woman:
 address, form, 628
 as partner, 1135
Martindale-Hubbell Law Directory, 51
Maryland Casualty Company, sales letter, 124
Massachusetts trust:
 control, 1131
 law governing, 1132
 liability to creditors, 1128
 management, 1131
 organization, manner of, 1123
 power to do business in any state, 1132
 stability of, 1127
Mat shot, defined, 259
Material control reports, 851
Mathematical signs and symbols, 1409
Mathematics (*see* Business mathematics)
Matrix, defined, 259
Matter, defined, 259
Matured long-term debts, treatment in balance sheet, 882
May Brothers, stunt letter to inactive patrons, 559
Mayor of a city, addressing (chart), 645
M.C., defined, 259
McDade, C. A., & Sons, use of montages in direct-mail, 41
McQuarrie test for mechanical ability, 300
Measure (*see also* Weights):
 angular, 1395
 apothecaries', 1394
 avoirdupois, 1392
 circular or angular, 1395
 cubic, 1390
 dry, 1392
Measure (Cont.):
 foreign weights and (table), 1398-1399
 liquid, 1391
 long measure, 1389
 mariner's, 1395
 metric system, explained, 1396
 paper, 1396
 solid or cubic measure, 1390
 square measure, 1390
 surveyor's, 1394
 United States and British weights and measures compared, 1396
Measuring of type, 221
Medical care plans, 774
 Blue Shield, 774, 778
 comparison of (chart), 776-777
 dependents' participation, 775
 financing, 775
 Health Insurance Plan of Greater New York, 774
 underwriting, 774
Medical examinations of new employees, 444
Medium, defined, 259
Meetings:
 annual corporate, 1208
 committee, 1245
 corporate (*see* Corporate meetings)
 directors', 1238-1245 (*see also* Directors' meetings)
 executive committee, 1245
 finance committee, 1245
 sales-training, 319-320
 stockholders', 1217-1238 (*see also* Stockholders' meetings)
Megacycle, defined, 259
Meilicke Systems, Inc., 1383
Member of Community, addressing (chart), 656
Member of the British Cabinet, addressing (chart), 651
Men, sales letters to, 95
Mental multiplications, 1368, 1369
Mercantile agencies, 981-1003 (*see also* Credit: agencies)
 credit ratings, limitation in use of, 985
 distinguished from agencies reporting on individuals, 1003
 distinguished from special investigations agencies, 1003
 Dun & Bradstreet, ratings and reports from, 981-994 (*see also* Dun & Bradstreet, Inc.)
 general, 981
 credit information from, 981-994 (*see also*, Credit: ratings)
 information from, 981-1003

Mercantile agencies (*Cont.*):

- kinds of, 981
- mutual, 998
- National Association of Credit Men, 1000-1002, 1041
- privately operated, 998
- reports from, 985-994, 999
- special, 981, 998-1003
- trade, 981, 998-1003
- Mercantile credit terms, 1014-1019 (*see also* Terms of sale, mercantile credit)
- Mercantile open-stock burglary insurance, 719
- Mercantile safe-burglary insurance, 721
- Merchandise:
 - contracts for sale of, 338-352 (*see also* Sales contracts)
 - forms, 343-352
 - provisions of, 340-342
 - pledged as collateral, 958
 - in financial statement, 922
 - specially purchased and/or processed rider, credit insurance policy, 732
 - surveys, conducted by telegraph companies, 464
 - turnover, formula for calculating, 922
 - slowness of, explanation, 924
 - test, difficulties in applying, 925
 - valuation in financial statement, 921
- Merchants:
 - protective bonds, 723
 - rule for computing interest, 1286
 - compared with United States rule, 1287
- Mergenthaler Linotype Company, tables provided by, 230
- Merger, capital surplus from, 899
- Merrimack Mutual Fire Insurance Company, promotional activity, 9
- Messenger:
 - calls, telephone, 472
 - distribution service, telegraph, 463-464
 - service, 423, 463-464
- Metered mail, 506-507
- Methodist Bishop, addressing (chart), 658
- Metric system:
 - avoirdupois measure, 1393
 - dry measure, 1392
 - explained, 1396
 - liquid measure, 1391
 - long measure, 1389
 - square measure, 1390
- Mexico, telegrams to, 460
- Microfilm:
 - for destruction of records, 433

Microfilm (*Cont.*):

- photographic duplication by, 411-412, 433
- Microphone, defined, 259
- Miller-Tydings Act, 359
- Milline rate, defined, 259
- Million-Dollar Round Table, analysis of membership of, 291
- Mimeograph, stencil duplication by, 407
- Minor:
 - note executed by, 1025
 - voting power of, 1227
- Minority interests, treatment in balance sheet, 885
- Minutes of meetings:
 - annual directors' meeting, form, 1255-1257
 - annual stockholders' meeting, form, 1253-1255
 - arrangement of, 1250
 - as prima-facie evidence, 1246
 - directors' meetings, preparation, 1217
 - discussions, recording, 1248
 - dissenting directors' opposition noted in, 1249
 - errors in, correction of, 1257
 - examples of, 1251-1257
 - indexing, 1258
 - keeping, 1245-1261
 - minute books, arrangement of, 1260
 - motions, recording in, 1249
 - necessity for keeping, 1245
 - resolutions book, 1261
 - resolutions, recording in, 1249
 - revising, 1258
 - typewriting, rules for, 1250
 - typewritten sample of, 1251, 1252
 - votes, recording in, 1249
- Mismanagement, liability of officer for, 1198
- Mobile telephone service, 478
- Modern Brewery Age, 168
- Modern type, defined, 259
- Modulation, defined, 259
- Moiré, defined, 259
- M.O.M. terms of sale, 1017
- Money:
 - borrowing for corporation by directors, 1169
 - for partnership, power of partner to borrow, 1145
 - foreign (table), 1400-1401
 - United States, 1397
- Money orders, payment of, 514
- "Money-purchase" units, paid-up insurance, 765
- Monitor, defined, 259
- Monotype composition, defined, 260
- Monsignor, addressing (chart), 655

Montgomery Ward & Co., notice of annual meeting and detachable proxy, 1210
 Month preceding, defined, 260
 Months, abbreviations, 1430
 Moody's Investment Service, Inc., 1007
 Morris Plan banks, borrowing from, 953
 Morse tie-lines, 461-462
 Mortality:
 American experience table, 1414
 pension plans, 801
 Mortgages:
 accounting data, as external, 836
 chattel:
 borrowing on, 966
 power of partner to give, 1145
 in balance sheet, treatment of, 883
 owned, 874
 payable, 938
 on corporate property, by directors, 1170
 Mortise, defined, 260
 Mother Superior of a Sisterhood (Catholic or Protestant) addressing (chart), 656
 Motion pictures:
 as equipment for salesmen, 307
 copyright on, 199, 202
 use in training salesmen, 318, 319
 Motions:
 and resolutions, 1247
 defined, 1247
 Moving averages, 1296
 Multigraph, 10, 408
 Multilith duplication, 10, 408
 Multiples, table of, 1371
 Multiplication:
 and division table, 1372
 by aliquot parts, 1381
 by table of multiples, 1371
 by various numbers, 1365-1368
 decimal, 1370
 factors as short cut in, 1365
 mental, 1368, 1369
 mixed numbers, 1377
 of mixed numbers ending in $\frac{1}{2}$, 1376
 short cuts in (table), 1364
 verification of, 1386
 Musical compositions, copyright on, 199, 201
 Mutual Broadcasting System, 126, 127
 Mutual insurance companies, 681

N

Names:

 for mailing list, how to get, 49-51
 personal, as trade-marks, 193, 195
 similarity of corporate, 1134

Narrative form of income statement, 892
 National advertising, defined, 260
 National Association of Credit Men:
 attorneys, collection, aid in locating, 1088
 collection agency, 1088
 survey, "Insurance Buying Practices," 682
 National Association of Retail Drug-gists, 360
 National Bankruptcy Act (*see* Bankruptcy)
 National brand, defined, 260
 National Cash Register Company, promotional activity, 9
 National Council of American Importers, Inc., 365
 National Foreign Trade Council, Inc., 365
 National Oil Products Company, use of messenger distribution service, 464
 National Plan, defined, 260
 National Research Bureau chart of direct-mail advertising tests, 26
 Nation's Business, 168
 Natural fold, defined, 260
 n.c.u.p., defined, 1009
 Necessity certificate for depreciation, 1360
 Negative words, use of in collection letters, 1043
 Negligence:
 defined, 702
 liability of directors for, 1177
 Negotiable instruments:
 law governing, 1019-1034
 checks, 1019-1023 (*see also* Checks)
 drafts or bills of exchange, 1031-1034 (*see also* Drafts or bills of exchange)
 notes, 1024-1031 (*see also* Notes)
 power of partner to issue, 1144
 Net income:
 in financial statements, 897
 in statement of surplus, 901
 Net loss:
 in income statement, 897, 900
 in statement of surplus, 901
 Net operating revenue, 897
 Net profit:
 in income statements, 901
 ratios, 913
 Net sales and billings, in income statements, 893, 894
 Net working capital, defined, 904
 Net worth:
 defined, 932

Net worth (*Cont.*):
 represented in capital surplus, 898
 reserves representing, 887
 Network, defined, 260
 New Jersey, automobile survey conducted in, 715
 New York false-statement laws, 937
 News service, commercial, by telegraph, 461
 Next to reading matter, defined, 260
 Nielson food-drug service, defined, 260
 Nielson Radio Index, defined, 260
 Night rates, long-distance telephone calls, 471
 "No commission until paid" plan, 1009
 Noise reduction in offices, 390
 Noncontributory plans:
 group insurance, 760
 pension plans, 763
 Non-interest-bearing paper:
 calculating discount on, 1287
 calculating proceeds on, 1287
 Nonoperating charges, in income statements, 897
 Nonoperating income, items included in, 896
 Nonownership automobile-liability insurance, 713
 Nonsurgical expense plan, 775
 No-par stock:
 premiums on, 899
 valuation in balance sheet, 888
 Note brokers:
 borrowing from, 951
 sale of notes through, 928
 Notes:
 accepted for old debt, 1024
 accompanying conditional sales contract, 348
 accounting data, 836
 alteration of, effect, 1028
 blank, effect of signing, 1029
 borrowing on, 954
 classification, in financial statement, 927
 collections by, 1088
 drafts or bills of exchange differentiated from, 1032
 executed by minors, 1025
 forgery of signature, 1029
 interest on, 1025
 law relating to, 1024-1031
 lost, purchase of, 1027
 non-payment, failure to give timely notice, 1030
 obtained fraudulently, 1026
 payable, treatment in balance sheet, 883
 and acceptances, 881

Notes (*Cont.*):
 payable (*Cont.*):
 due to officers, stockholders, employees, 881
 payment, failure to make timely demand for, 1029
 purchase of lost or stolen, 1027
 receivable:
 analysis of, 919
 discounting to raise funds, 966
 pledges of, 968
 sale or discount of, 966
 treatment in balance sheet, 864
 discounted, 884
 long-term, 877
 valuation, 938
 refusal of partner to issue, 1145
 settlement of past-due account by, 1088
 stolen, purchase of, 1027
 Sunday, executed on, 1024
 Notice:
 of assignment, to creditors, 1098
 of copyright, 200-201
 of registration, trade-marks, 188
 Notices of meetings:
 and detachable proxy, 1210
 directors', 1240-1243
 stockholders':
 contents of, 1220
 length of notice, 1219
 necessary for notice, 1218
 officer responsible (table), 1195
 waiver of notice, 1219
 Notification plan of accounts receivable financing, 965
 Novelties:
 advertising, 16
 as equipment for salesmen, 305
 use of, in direct-mail campaign, 36
 N. R., defined, 260
 Numbers:
 Arabic, 1397
 as trade-marks, 194, 196
 Roman, 1397
 Nunn-Busch Shoe Company, promotional activity, 18

O

Occupational plan, group life insurance, 770
 Office:
 maintained by foreign corporation, 1263
 manager, qualifications, 381-382
 Office management:
 appliances, 398-420 (*see also* Appliances, office)

Office management (Cont.):

- clerk, information, 420-421
 - employees:
 - hiring new, 436-448 (*see also* Employees)
 - training, 448-456
 - equipment, 392-420
 - depreciation, 1359
 - files, 394-398 (*see also* Files; Filing) filing:
 - centralized system, 428
 - types of systems, 429
 - for efficiency, 382-392
 - forms, use and printing of, 434-436
 - functions, 381
 - information service and clerk, 420-421
 - layout of office, 390-392
 - libraries, company, 455
 - machines, 398-420 (*see also* Machines, office)
 - mail department, 421-423
 - mail, efficient handling of, 485-515 (*see also* Mail)
 - maintenance of office, 391-392
 - messenger service, 423, 463-464
 - postal guide for handling mail, 485-515 (*see also* Mail)
 - procedure, smooth functioning of, 420-433
 - physical factors in, 382
 - publications, company, 452-455
 - reception service and clerk, 420-421
 - supplies, office, 423
 - telegrams and international communications, 456-471 (*see also* Telegrams and cablegrams)
 - telephone service, 471-480 (*see also* Telephone service)
 - transcription department centralized, 424-425
 - typists, daily supply folios for, 427
- Officers of corporation:**
- accounts and notes due to, treatment in balance sheet, 881
 - acts of, binding on corporation, 1187
 - business life insurance to protect services of, 745
 - choosing of, 1185
 - compensation for services, 1197
 - contracts with corporation, 1168
 - criminal liability, 1198
 - debts due, subordination of, 944
 - duties, 1184-1198
 - table of, 1193-1197
 - election by directors, 1173
 - failure to elect, effect of, 1185
 - law relating to, 1184-1198

Officers of corporation (Cont.):

- liabilities, 1184-1198
 - for mismanagement, 1198
 - for various acts, 1182
 - loans from corporation, 1171, 1198
 - loans to corporation, 1170, 1198
 - number required, 1184-1198
 - powers, 1184-1198
 - qualifications of, 1184
 - removal, 1173, 1186
 - required, 1184
 - resignation, 1186
 - term of office, 1185
- Officers of the Armed Forces, addressing (chart):**
- Army, 652
 - Navy, 653
- Official style, letter, 619**
- Offset, defined, 260**
- Offset printing (Multilith), 10, 408**
- Off-screen announcer, defined, 260**
- Oil and Gas Journal, 168**
- Old age benefits tax, 1125**
- Old English, defined, 260**
- Old style type, defined, 260**
- 100-intensity showing, defined, 261**
- One-time rate, defined, 261**
- One-way screen, defined, 261**
- Open punctuation, 614**
- Open-stock burglary insurance, mercantile, 719**
- Operating expenses:**
- difference between gross profit on sales and, 896
 - treatment in income statement, 896
- Operating income, treatment in income statement, 896**
- Operating reports, 847**
- Operator 25 service, telegraph, 464**
- Opticals, defined, 261**
- Order of business:**
- directors' meeting, 1216
 - stockholders' meetings, 1211
- Order-of-merit method, defined, 261**
- Originate, defined, 261**
- Ordinary interest (*see* Interest: ordinary)**
- Organization expenses, treatment in balance sheet, 879**
- Organization manuals, 454**
- O S., defined, 261**
- "Other insurance" clause in policy, 688**
- Outdoor advertising, 165**
- Out-of-court agreement:**
- defined, 1095
 - how to start, 1095
- Output contracts:**
- and requirements contracts, 345-346
 - defined, 345

Outside messenger insurance, 721
 Overdue accounts:
 age analysis of, 1075
 follow-up from aging records, 1076
 ledger systems as indicators, 1079
 customer ledger card, illustrated, 1080
 punched ledger cards, 1079
 vertical visible ledger cards, 1079
 when collected by salesman, 1084
 Overhead control, 851
 Overlapping circulation, defined, 261
 Overrun, defined, 261
 Overseas telephone calls, 473
 Owner's public-liability insurance, 703
 Ozalid, photographic duplication by, 411

P

Package, defined, 261
 Page proof, defined, 261
 Paid-in surplus, 888-890, 898
 Paid-up life insurance, group, (*see* Group life insurance: paid-up plan)
 Panel, defined, 261
 Paper:
 as advertising media, 165, 168
 carbon, 418
 for forms, 434-435
 kinds of, 231
 measure, 1396
 sizes, 242
 stocks, comparison, 233-241
 Parcel post:
 air, 498, 500
 forwarding, 497
 insurance, 742
 postal requirements, 490
 returning, 500
 Parent company, stock of, treatment in balance sheet, 889
 Parents' Magazine, mailing list checked by, 57
 Parol evidence rule, 603
 Partial self-insurance, workmen's compensation, 708
 Participating program, defined, 261
 Partitions, office, 383-384
 Partners:
 accounting, partner's right to, 1149
 alien as, 1134
 compensation of, 1147
 surviving partners on death of partner, 1153
 consent to admit new, 1152
 corporation as, 1135
 death, effect of, 1153

Partners (*Cont.*):
 expulsion of partner from business, 1151
 general, liability to creditors of partnership, 1140
 incapacity, as ground for dissolution, 1155
 incompetent person as, 1135
 incoming:
 admission into business, 1152
 liability of, 1153
 indemnity, right to receive, 1140
 individual who has not entered into agreement, liability of, 1141
 infant as, 1135
 inspection of books, right to, 1149
 interest:
 on capital, right to receive, 1140
 on loans, right to receive, 1140
 liability:
 of incoming partner, 1153
 of infant, 1135
 of individual who has not entered into agreement, 1141
 of secret, dormant, or silent partners, 1141
 to creditors, 1140
 to old partnership, 1152
 to partnership creditors, 1152
 tort, liability of copartners for, 1142
 losses of partnership, division among partners, 1140
 married woman as, 1135
 new, 1152, 1153
 partnerships as, 1135
 personal benefits, duty of partner to account for, 1150
 powers:
 after dissolution, 1155
 in nontrading partnership, 1145
 in trading partnership, 1145
 to borrow money for partnership, 1145
 to collect partnership debts, 1145
 to convey real partnership property, 1146
 to employ counsel, 1146
 tort, liability of copartners for, 1142
 to engage in other business, 1147
 to execute instruments:
 in firm name, 1147-1148
 in individual name, 1148
 negotiable, 1144
 to give chattel mortgage, 1145
 to lease partnership property, 1145
 to prevent copartner from binding him, 1144
 to purchase personal property, 1146

Partners (Cont.):

- profits of partnership, 1136-1139 (*see also* Partnerships: profits, division of)
- salary, fixed, 1147
- suit between, 1150
- third parties as, 1135
- tort, liability of copartners for, 1142
- transfer of interest in partnership, effect on dissolution, 1151
- who may become a partner, 1134
- withdrawal of partner, 1152
- Partnership, 1135-1158 (*see also* Partners)
 - agreement, contents of, 1135
 - borrowing money for, 1145
 - capital:
 - contributions, 1140
 - distribution on liquidation, 1157
 - raising of additional, 1129
 - changed to corporation, 1157-1158
 - compared with corporation taxwise, 1126
 - continuance beyond fixed term, 1154
 - composed of two or more partnerships, 1135
 - control, 1130
 - dissension among, 1143
 - dissolution:
 - defined, 1155
 - expulsion of partner, effect of, 1151
 - failure to make profits, ground for, 1155
 - incapacity of partner, ground for, 1155
 - insanity as ground for, 1135
 - liquidation differentiated from, 1155
 - notice of, 1154
 - on bankruptcy of partner, 1154
 - on death of partner, 1153
 - partner's right to an accounting on, 1149
 - powers of partners after, 1155
 - voluntary, liquidation of business upon, 1156
 - war as cause for, 1134
 - duration of, 1153
 - equal division of profits, 1139
 - information as to partnership affairs, right to, 1149
 - legal status of, 1131
 - limited (*see* Limited partnership)
 - limited-partnership association, 1122
 - liquidation:
 - agreement, business life insurance, 747
 - differentiated from dissolution, 1155

Partnership (Cont.):

- liquidation (*Cont.*):
 - division of profits and losses upon, 1156
 - ways accomplished, 1157
- losses, division, on liquidation, 1156
- management of, 1130, 1131, 1143
- name, considerations in choosing, 1133
- net worth, defined, 932
- new organization of, 1151
- nontrading, defined, 1145
- organization, manner of, 1122
- partners (*see* partners)
- power to do business in any state, 1131
- powers of partners in management of, 1143-1156 (*see also* Partners: powers)
- profits, division of:
 - in absence of express agreement, 1139
 - on basis of ratios, 1137
 - on liquidation, 1156
- property:
 - leasing, 1145
 - real, conveying, 1146
 - real, purchasing and selling, 1146
- taxation, 1124
- trading defined, 1145
- Uniform Partnership Act:
 - rights under, 1140-1156
 - states that have adopted, 1139
- unstable quality of, 1127
- voting of stock in name of, 1227
- war, as cause for dissolution of, 1134
- Patent:
 - officer responsible (table), 1195
 - valuation, in balance sheet, 871
- Pattern plate, defined, 261
- Patterns, valuation in balance sheet, 869
- Payroll:
 - accounting data, as internal, 836-838
 - distribution record, 841
 - journals, 841
- Payroll-robbery insurance, 721
- P.B.X., defined, 474
- Pegboard system, 405-407
- Pension plans:
 - advantages to businesses, 784, 785
 - advantages to employee, 784
 - advisers, 786
 - benefits:
 - death, 799
 - disability, 800
 - for past service, 798
 - formulae, 796, 797

Pension plans (*Cont.*):

- benefits (*Cont.*):
 - retirement, 795
 - termination of employment, 798
 - communicating to employees, 802
 - contributions, employer, 800
 - costs:
 - contributory plans, 793
 - factors, 792
 - noncontributory plans, 793
 - deposit administration, 791
 - employee eligibility, 793
 - formal, 783
 - funding, 787-792
 - deposit administration plan, 791
 - group annuity plans, 788
 - group permanent plans, 789
 - individual policy plans, 789
 - methods of, 787
 - self-administered and insured, combined, 791
 - uninsured, security-invested, or self-administered plans, 790
 - group annuity, 788
 - group permanent, 789
 - income tax.
 - employee's, 784
 - employer's, 784
 - individual policy, 789
 - informal, 782
 - interest rate on trust fund, 801
 - money purchase, 797
 - mortality, 800
 - pension committee, 802
 - percentage of compensation, 797
 - profit-sharing plans, compared with (chart), 804
 - retirement age, 794
 - security-invested, 790
 - self-administered, 790
 - self-administered and insured, combined, 792
 - severance, 801
 - termination of employment, 798
 - types, 787-792
 - uninsured, 790
- Performance tests for new employees, 443
- Periodic average, 1299
- Periodic interest, 1283
- Periodical Publishers' Association, recognition of advertising agencies by, 142
- Perpetual calendar, 1412-1413
- Person-to-person telephone calls, 471
- Personal finance company, borrowing from, 954
- Personal names, trade-marks, 193, 195

Personal notation:

- on envelopes, 638
 - on letters, 637
- Personality inventory, 300
- Personality tests for new employees, 443
- Petition in bankruptcy, 1101-1108 (*see also* Bankruptcy)
- Phonographic recordings, for training salesmen, 319
- Photo offset:
 - as printing process, advantages of, 212
 - preparation of copy for, 213
 - uses of, 213
- Photo-copy equipment:
 - machines, 409
 - Ozalid, 411
 - Photostat, 410
 - Portagraph, 410
- Photoengraving, defined, 261
- Photographic duplication, 409-411
- Photoplays, copyright on, 199, 202
- Photoservice, cable and radio, 466
- Photostat, photographic duplication by, 410
- Phototypography, 215
- Physical exams, employees, 300, 444
- Pi or pied type, defined, 262
- Pica, defined, 261
- Pick-up, telephone aid, 476
- Picture resolution, defined, 262
- Pioneering stage, defined, 262
- Plant owner, defined, 262
- Planographic printing, 212
- Plastic belt dictating machines, 414
- Plastic discs, dictating machines, 414
- Plate, defined, 262
- Plated stock, defined, 262
- Plate-glass insurance, 741
- Platen, defined, 262
- Playback, defined, 262
- Pledge of stocks and bonds for loan, 957
- Point, defined, 262
- Point system, as compensation for salesmen, 333-334
- Policies, insurance (*see* Insurance policies)
- Policies of indemnity, 728
- Policy manuals, 453
- Polk's Bankers Encyclopaedia, 51
- Poll, defined, 262
- Pope, addressing (chart), 654
- Portagraph, photographic duplication by, 410
- Portraits, as trade-marks, 196
- Postage, how to save, 485
- Postage-saver envelopes, 511

Postal cards, 508, 511-514
 for direct-mail selling, 12
 Postal guide, 485-515
 Poster:
 defined, 262
 panel, defined, 262
 plant, defined, 262
 showing, defined, 262
 Post Office Department of the United States (*see also* Mail; Postal rates)
 indemnity paid by, 494
 mailing lists, kept up to date, 498
 requirements for window envelopes, 510
 return cards printed by, 509
 specifications for business-reply cards and envelopes, 514
 Postal rates:
 air mail, 491-492
 books, 503-506
 bulk, 500
 cards, 508, 511-514
 catalogues, 503-506
 first-class, 487, 488, 497, 498, 499
 fourth-class, or parcel post, 490, 497, 499, 500
 letters, 501-502
 manuscripts, 488
 metered mail, 506-507
 printed matter, 503-506
 proofs, 488
 second-class, 487, 489, 497, 499
 stamps, 508, 509
 third-class, 489, 497, 498, 499, 500-503
 Postal telegraph:
 collection telegrams, 1082
 money orders, 461
 Post-dated checks, 1019
 Posting:
 defined, 841
 verification of, 1388
 visible equipment for, 395
 Postscript, to letters, 637
 Power plant insurance:
 exclusions in policy, 740
 inspection service, 740
 P.P.A., defined, 262
 P.; pp, defined, 261
 Precancelled stamps, 508
 Precision sampling, defined, 262, 266
 Pre-date, defined, 262
 Pre-emptive rights of stockholders, 1204
 Preferences, given by insolvent debtors, 1098
 Preferred position, defined, 262
 Premiums:
 as advertising media, 167

Premiums (*Cont.*):
 in direct-mail selling, 16
 insurance (*see* Insurance: premiums)
 on sale of stock, capital surplus, 899
 on stock, in statement of surplus, 888
 Prepaid expenses, place in credit analysis, 905
 Prepayments, treatment in balance sheet, 878
 Present value of 1, compound, tables, 1317-1320
 Presentation equipment, salesmen, 306
 President of Board of Commissioners, addressing (chart), 646
 President of corporation, duties, 1188
 President of a Republic, addressing (chart), 651
 President of U. S., addressing (chart), 641
 President of a University, addressing (chart), 660
 Presiding Bishop of the Protestant Episcopal Church in America, addressing (chart), 658
 Presiding Justice, addressing (chart), 647
 Price-fixing agreements, 359-361
 Schwegmann Brothers, et al., 360
 Price maintenance, 359-361
 Prices, rising, need for working capital, 941
 Priest, addressing (chart), 655
 Primary loss, in loss adjustment, 729, 730
 Primary service area, defined, 262
 Principal Register, defined, 263
 Printed matter, rates, 503-506
 Printers-Ink, 168
 Printers' Ink Model Statute, defined, 263
 Printer's Ink Publications, territory information form, 281
 Printing and typography:
 computation of space and copyfitting, 226-230
 illustrations, kinds of, 231, 234-237
 leading, 224
 planning a printing shop, 213-215
 printing processes, 211
 proofreaders' marks, 230, 232, 233
 sales letters, 11
 type:
 faces, 215-220
 kinds of, 215
 measurement, 221
 sizes, 222
 Prints, copyright on, 199, 202
 Private Automatic Exchange systems, 482-485

Private Branch Exchange system, 474
 Private brand, defined, 263
 Private insurance companies, workmen's compensation, 707
 Private wires, long-distance telephone, 473
 Procedures manuals, 453
 administrative, 454
 Process plates, defined, 263
 Process printing, defined, 263
 Procter & Gamble, use of messenger distribution service, 464
 Producer, defined, 263
 Product public-liability insurance, 703
 Production:
 defined, 263
 department, defined, 263
 director, defined, 542
 reports for, 851
 Production-sharing plans, 821-825 (*see also* Profit-sharing plans, current)
 nature of, 821
 Rucker plan, 823-825
 Scanlon plan, 821
 Professional people, sales letters to, 98
 Professor, addressing (chart), 660
 Profit percentage table, 1307
 Profit ratios, 913
 Profit-sharing plans, current:
 administration, 816
 basis for success, 825
 cash-payment plans:
 distribution formula, 818
 installation, 817
 continuity, 814
 distinguished from deferred, 812
 drawing up, 814
 eligibility, 815
 formulae:
 allocation, 815
 contribution, 815
 informing employees, 816
 joint agreement, 814
 objections, 813
 payment of shares, 816
 prerequisites of, 814
 production-sharing plans, 821-825
 stockholders' share, 814
 termination rights, 816
 types of, 813, 825
 wage-dividend plans, 819-820
 Profit-sharing plans, deferred benefits:
 advantages, 803, 804
 advisory committee, 812
 allocation of contributions, 810
 distribution, 811
 eligibility requirements, 809
 factors to consider, 809

Profit-sharing plans (*Cont.*):
 forfeitures under, 811
 income tax benefits under, 805-809
 informing employees, 811, 812
 investment of fund, 812
 nature of, 803
 pension plans, compared with (chart), 804
 percentage of profits shared, 810
 qualification under Sec. 165(a), 809
 tax-exempt plans, 802
 types, 802
 vesting under, 811
 Profits:
 equal division among partners, 1139
 in goods, intercompany, treatment in balance sheet, 866
 net, for cash plans, 817
 partnership, division of profits, 1136-1139
 secret, liability of directors for, 1179
 treatment in income statement, 897
 Pro-forma balance sheet, 857
 Program:
 following, defined, 263
 opposite, defined, 263
 preceding, defined, 263
 Progressive averages, 1298
 Progressive proofs, defined, 263
 Projection, defined, 263
 Promissory notes (*see* Notes)
 Proof:
 defined, 263
 machines, to speed sorting, 401
 Proofreaders' marks, 230, 232, 233
 Proofs, postal rates, 488
 Property:
 assignment for creditors, authority of partners, 1144
 corporate (*see* Corporation: property)
 excluded in fire-insurance policy, 701
 included in assignment for benefit of creditors, 1098
 insurance (*see* Insurance; Fire insurance policy)
 inventory of, in assignment for benefit of creditors, 1098
 items not disclosed in balance sheet, 870
 leased, improvements to, treatment in balance sheet, 878
 ownership by foreign corporation, 1263
 partnership, power of partner to lease, 1145
 personal, power of partner to purchase and sell, 1146
 Property-damage liability insurance:
 automobile, 703, 711

Property-damage liability insurance

(Cont.):

comprehensive, 705

provisions of policies, standard, 704

purpose of, 702

Proprietorship (*see* Single proprietor)

Proration of taxes (table), 1402

"Protest," defined, 1033

Protestant Episcopal Archdeacon, addressing (chart), 659

Protestant Episcopal Bishop, addressing (chart), 658

Protestant Minister, addressing (chart), 659

Protestant Priest, addressing (chart), 659

Proudfoot's Commercial Agency, Inc., 1005

Proxies:

acceptance of, 1228

compliance with statutory provisions, 1228

date of, 1229

defined, 1230

form of, 1228

inspectors of, 1228

notice of annual meeting and detachable proxy, 1210

number of shares represented by, 1229

officer responsible (table), 1196

plan for handling, 1209-1210

powers of, 1230

registered securities, 1209

seal on, 1229

voting, at stockholders' meeting, 1228

witnesses to signatures of, 1229

Proxy statement, 1209

Public liability insurance:

automobile, 703

comprehensive, 705

comprehensive, automobile, 718

contingent, 705

contractor's, 703

elevator, 703

employer's liability, 709

fiduciaries', 705

garage, 704

landlord's, 703

manufacturer's, 703

nonownership automobiles, 713

owner's, 703

product, 703

provisions of policies, standard, 704

purpose of, 702

tenant's, 703

theater, 703

types of, 702; 705

workmen's compensation, 703, 706-709

Public Opinion Index, 756

Public relations, officer responsible (table), 1196

Public Utility Holding Company Act of 1935, directors' liabilities under, 1183

Publications:

company, 452-455

of agencies, 1003-1007

Publisher's statement, defined, 263

Puget Sound Power and Light Company manual, 1067-1068

Punched-card accounting equipment, 400-401

Punctuation, open and close, 614

Purchase:

journals, 841

obligations, treatment in balance sheet, 882

of assets, capital surplus from, 899

Purchasing:

data, accounting, 835, 836

reports, 851

visible record equipment, 397

Purchasing News, 168

Q

Quads, defined, 264

Qualifications for credit, 942-945

Qualifications, standard personal, salesmen, 291

Quarter showing, defined, 264

Quarter tones, defined, 264

"Quick" ratio, financial analysis by, 92

Quorum:

at directors' meeting, 1244

at stockholders' meeting, 1222

terms relating to, meaning, 1223

Quota:

defined, 264

for mailings, direct-mail selling, 34

sales, 282-289 (*see also* Sales: quotas)

Quotations from copyrighted work, 20

R

Rabbi, addressing (chart), 657

Radio:

as advertising medium, 162-165

as equipment for salesmen, 306

messages, kinds of, 464-467

time chart, 468-469

Radio Corporation of America, 46470

Railroad showing, defined, 264

Rain insurance, 743

Randomization, defined, 264

Rate card, defined, 264

Rate-holder, defined, 264
 Ratings, credit, 983-985, 999 (*see also* Credit: ratings)
 Ratios:
 accounts receivable to sales, 916
 "acid-test," 932
 arbitrary, division of profits, 1137
 capital, shared by partners on dissolution, 1157
 comparison of age of accounts, shown by, 918
 credit strength determined by, 912
 current assets to current liabilities, 928, 929
 of average investments, division of profit on basis of, 1137
 of capital accounts, division of partnership profits on basis of, 1137
 profit-or-loss, upon liquidation of partnership, 1157
 "quick," 932
 reduction of figures to, in credit analysis, 912
 sales to accounts receivable, 916
 sales to inventories, 922
 use of, by banks, 913
 useful in average credit analysis, 913
 working capital, 928-930
 Reading notices, defined, 264
 Real estate:
 in partnership name, 1146
 investments, treatment in balance sheet, 875
 officer responsible (table), 1196
 power of directors to donate, 1173
 power of partner to convey, 1146
 power of partner to lease, 1145
 valuation in balance sheet, 868
 Ream, defined, 264
 Rear Admiral, addressing (chart), 653
 Rebroadcast, defined, 264
 Receiver, creditors' petition for, 1102
 Receivership:
 creditor's remedy, in collection of claim, 1093
 equity, 1093, 1100
 Reception clerk, qualifications of, 421
 Reciprocals in division, 1374
 Recognized agency, defined, 264
 Recorded program, defined, 264
 Recording:
 of contracts, 347
 satisfaction of contracts, 348
 telephone conversations, 477
 Records:
 accounting, 835, 840-844 (*see also* Accounting: records)

Records (*Cont.*):
 destruction of, 433
 inspection of, by partner, 1149
 manifold mailing, 494
 overdue accounts (*see* Overdue accounts)
 Recourse arrangements, 967
 Recruiting of salesmen, 289-303
 Recurrent illnesses, 781
 Reducing-balance form of income statement, 892
 Reducing-charge methods, calculation of depreciation, 1349
 Reduction in capital stock, capital surplus from 899
 Reduction surplus, as capital surplus, 898
 Referee:
 duties toward wage-earner debtors, 1112
 in bankruptcy, duties of, 1105
Reference Book, Dun & Bradstreet, 982
 Reference line, in letters, 635
 References:
 credit, letters of inquiry to customer's, 1036
 form sent to employers, 445
 form sent to schools, 446
 letters, in regard to salesmen, 298, 301-303
 Refunds for stamps, 509
 Regional-channel station, defined, 264
 Register, defined, 264
 Register marks, defined, 264
 Register of Copyright, 201
 Registered bonds, loans secured by, 958
 Registered mail, 494-495
 Registered-mail insurance, 742
 Registering trade-mark, defined, 264
 Registration of trade-marks, 185-189
 Regular meetings, stockholders', 1218
 Regular working capital, 941
 Rejection forms, material, 839, 840 (*see also* Forms: rejection)
 Release, defined, 264
 Relief printing, defined, 264
 Remote control, defined, 265
 Remote pickup, defined, 265
 Rent:
 as annuity, 1321
 insurance, 736
 treatment in balance sheet, 878, 881
 Rental Ready Reckoner, 1403
 Reorganization:
 corporate, under Bankruptcy Act, 1109
 involuntary, filing petition in, 1110
 plan for under Bankruptcy Act, 1111
 trustee, appointment of, 1110

Reply:

- cards, in direct-mail selling, 47
- forms, in direct-mail selling, 17
- post cards, 513, 514

Reply-O-Letter, 122-123

Reporting insurance, 693

Reports:

- accounting, 847-852
 - accounts receivable, daily, 848
 - illustrated, 849
 - balance sheet, 847, 854-891 (*see also* Balance sheet)
- capital expenditures report, 850
- cash reports, 848
 - illustrated, 848
- departmental cost summaries, 851
- factory cost, 851
- financial, 847
- fixed assets, 850
- income statement, 850
- inventory, 849
- labor cost analyses, 851
- material control, 851
- operating:
 - classes of, 847
 - general rules for, 851
 - uses of, 850
- overhead control, 851
- production, 851
- purchasing, 851
- working capital, 849
- credit interchange, 1000-1003 (*see also* Credit interchange)

Dun & Bradstreet, 985-994 (*see also* Dun & Bradstreet, Inc.: Reports)

- filed by foreign corporations, 1264
- income statement in form of, 892
- salesmen's credit, form of, 1008-1009
- trade, 999 (*see* Credit: ratings)

Representation, defined, 265

Repro proofs, defined, 265

Republic Steel Corporation, promotional activity of, 9

Requirements contracts:

- and output contracts, 345-346
- defined, 345

Requisitions:

- for filed materials, 431
- forms, material, 838-840

Resale price maintenance, 359-361

Reserve margin working capital, 941

Reserves, treatment in balance sheet, 886

- bad debts, 886
- contingencies, 886
- corresponding funds, 887
- depreciation, 886
- representing liabilities, 882
- representing net worth, 887

Resident Commissioner, addressin (chart), 643

Resolutions:

- and motions, 1247
- ballot for vote on, 1211
- book, 1261
- compared with by-laws, 1247
- compensation of officers, 1257
- drafting, 1247
- necessity for adopting, 1246
- opening and closing polls, 1254
- ratification of agent's unauthorized ac by, 1167
- ratifying acts of directors, 1254
- recording in minutes of meetings: 1249
- required or appropriate, 1246
- to effect delegation of powers by di rectors, 1165

Respondent, defined, 265

Restrictive loan agreements, 945

Retail Credit Company, 1004

Retail Credit Survey, 918

Retail dealer's, training, 317

Retailer, answering letter from, 551

Retentive stage, defined, 265

Retirement benefits, pension plans, 79

Retirement of stock, charged to capital surplus, 900

Retouching, defined, 265

Revaluation of assets, capital surplus: 899

Revaluation surplus, 899

Revolving credit, 956

Reversed plate, defined, 265

Ribbons, typewriter, 418

Riders attached to credit insurance policy, 731-733

Rights, stockholders' pre-emptive, 1204

Riot and riot attending strike, insurance: 735

Robbery, defined, 718

Robinson-Patman Anti-Price Discrimination Act, 339, 362

R.O.G. terms of sale, 1016

Roll call, voting by, 1231

Roman numerals, 1397

Roman type, defined, 265

ROP, defined, 265

Ross-Loos Medical Group, 775

Rotary filing device, 397

Rotary press, defined, 265

Rotation, defined, 265

Rotation training, company, 292

Rotagravure, defined, 265

Rough, defined, 265

Route list, salesmen's, 309

Routing out, defined, 265

Royalties, in balance sheet, 878

R.P.M., defined, 265
 Rucker, Allen W., 823
 Rucker share-of-production plan:
 basis of, 824
 nature of, 823
 Rule, defined, 265
 Run of paper, defined, 265
 Running form of income statement, 892

S

Saddle stitching, defined, 265
 Saddleback carbon paper, 420
 Safe-burglary insurance, mercantile, 721
 Safety devices, installation by employers, 708
 Salaries and wages.
 accounting data, 836-838
 compensation plan for salesmen, 325-326
 table of daily, weekly, monthly, annual, 1405
 taxability, and choice of organization, 1125
 treatment in balance sheet, 880, 881
 Salary or wage basis plan, group life insurance, 769

Sales:

 accounts receivable, ratio to sales, 916
 bailments distinguished from, 338, 348
 bills of sale, 352
 by foreign corporation, 1263
 C.O.D., 349
 conditional:
 agreement, financing of, 966
 bailment distinguished from, 348
 chattel mortgage distinguished from, 349
 consignment sale distinguished from, 348
 contract, form of, 348-352
 leases distinguished from, 348
 consignment (*see* Consignment)
 contracts (*see* Sales contracts)
 corporate property, 1171
 data, accounting, 835, 836
 defined, 338
 in income statements, 895
 journals, 840
 kits, types of, 312-313
 letter layout as aid to, 611-622
 letters (*see* Sales letters)
 management, 275-375 (*see also* Sales management)
 manual, for training salesmen, 318
 of merchandise:
 contracts for, 338-352
 defined, 338
 through brokers, 346

Sales (*Cont.*):

 quotas, 282-289
 acceptance by salesmen, 288
 advantages of, 283
 bases for, 285-288
 defined, 282
 qualities, 284
 weaknesses of, 284
 ratio, 913
 to accounts receivable, 916
 to inventories, 922
 reports, 850
 supervisors, training, 317
 terms of, 1014-1019 (*see also* Terms of sale, mercantile)
 in income statement, 895
 territories:
 allocation of, 281
 defined, 275
 determining, 275-282
 reallocation of, 282
 scientific determination of, 277-281
 source of data, 281
 trailers, automobile, as salesrooms, 306
 training, 315-322
 by correspondence, 320, 321
 meetings, 319-320
 sources of material, 322
 tools for, 318
 types of, 320
 volume:
 analysis of financial statement, 932
 relation of working capital to, 932
 Sales contracts:
 c a f or c&f., defined, 371
 c.i.f., defined, 372
 c i f i, defined, 374
 claims, provisions for, 342
 competency of parties to, 337
 consideration, defined, 338
 contract of sale distinguished from
 contract to sell, 339
 defined, 336
 disputes arbitrated, provisions for, 342
 "ex dock," defined, 375
 f.a.s., defined, 370
 f.o.b., defined, 366-369
 forms:
 conditional sales, 348-352
 letter of proposal and acceptance, 343-345
 payment, time of and price, 341
 provisions of, essential, 340
 shipping instruction, 341
 warranties in, 341
 written, 339

Sales contracts (Cont.):

- f.p.a., defined, 374
- resale price maintenance, 359-361
- w.a., defined, 374

Sales letters:

- action, stimulation of, 87-90
- campaign series, example, 104-120
- closings of, 90
- continued use of successful, 127
- devices that make effective, 120-127
- emotions, appeal to, 69-78
- extra size, 121
- facts and figures cited in, 85
- follow-up series, 102
- for large-quantity distribution, 10
- guaranty in, 82
- how to write, 58-102
- inquiries, answering, 546-550
- openings of, 61
 - news openings, 64
 - story openings, 63
 - stunt openings, 65
 - tests to apply to, 68
- personalization in, 124
- personalizing direct-mail, 11
- premiums, tie-up with, 124
- price, how to handle, 100-102
- sample offered in, 84
- showmanship in, 124
- stunt, to get attention, 65-68
- successful, ingredients of, 60
- testimonials, use in, 80, 86, 127
- tests, asking reader to make, 84
- to dealers, 91
- to executives, 92-95
- to farmers, 99
- to men, 95
- to professional people, 98, 99
- to special classes of buyers, 91
- to women, 96-98
- trial use of product offered in, 80, 83

Sales management:

- determining sales territories, 275-282
 - (see also Sales territories)
- equipping salesmen, 303-315 (see also Salesmen equipping)
- methods of compensating salesmen, 322-336 (see also Compensation: of salesmen)
- recruiting and selecting salesmen, 289-303 (see also Salesmen: recruiting and selecting)
- sales quotas, 282-289 (see also Sales: quotas)
- training salesmen, 315-322 (see also Salesmen: training)
- visible records in, 396

Sales Management, Incorporated, 168, 281

Sales-area method of testing advertising, 171-176

Salesmen:

- acceptance of quotas by, 288
- advertising for, 293
- aged-account list for, 1078
- allocation of sales territories to, 281
- as credit reporters, 1007-1010
- bonus plan for, 330-332
- collections by, 1084
- commission compensation for, 326-328
- compensation, 322-336 (see also Compensation: of salesmen)
- contracts employing, 363-365 (see also Contracts employing salesmen)
- drawing accounts for, 328-330
- equipping, 303-315
 - cases and kits, 312-313, 314
 - forms for salesmen's reports, 307, 308-311, 314
 - getting salesmen to use equipment, 314
 - models, 305
 - portfolios, 306
 - sales trailers, 306
 - sound-slide films, 305-307
 - to close sales, 307
 - to demonstrate product, 306
 - to locate prospects, 305
 - to open interviews, 306
 - to secure interviews, 305
 - to train salesmen, 307
 - types of equipment, 304-305
 - visualizers, 307
- expense report, weekly, 310, 311
- mailing lists built through, 53,
- new experienced, 316
- not restricted to territories, 276
- physical examinations, 300
- point system of compensation for, 330-334
- qualifications of, standard, 291
- recruiting and selecting, 289-303
 - application forms, 295-298
 - determining type of salesmen wanted, 290
 - establishing standard personal qualifications, 291
 - intelligence and aptitude tests, 300
 - judgment chart, 299
 - letters of reference, 298, 301-303
 - observation on the job, 303
 - personal interviews, 298
 - physical examinations, 300
 - recruiting process, 289
 - selecting process, 294
 - sources, 292-294
 - through tests, 300

Salesmen (Cont.):

- reference, letters of, 298, 301-303
- retail, training, 317
- route list, 309
- salary compensation for, 325-326
- samples insurance, 743
- selecting, 289-303
- senior, 316
- sources of, 291-294
- supervisors, training, 317
- training, 315-322
 - equipment for, 307
 - material, sources of, 322
 - meetings, 319-320
 - subject matter of, 317-318
 - tools, 318
 - types of, 320
 - types of salesmen, 316-317
 - where to train, 321-322
- Sales promotion, defined, 265
- Sales promotion department, defined, 266
- Salutation.
 - forms of, 629
 - persons holding honorary or official positions (chart), 641-660
 - To Whom It May Concern*, 630
 - typing, 629
 - women, 630
- Samples:
 - insurance of, 743
 - letters enclosing, 84
 - sending representative with, 551
- Sampling, defined, 266
- Saturday Evening Post*, page rates for advertising, 100
- Scale rate, defined, 266
- Scaling down, defined, 266
- S.C., defined, 266
- Scanlon, Joseph, 821
- Scanlon plan, 821-822
- Scanning, defined, 266
- Schools:
 - company training, 292
 - form sent to, for reference, 446
 - source of new employees, 437
- Schwegmann Brothers, et al., 360
- Score, defined, 266
- Scotch type, 219
- "Screen," defined, 231
- Script show, defined, 266
- S.D.-B.L., defined, 1015
- Seagram Distillers Corporation, Schwegmann Brothers, et al. v., 360
- Seal:
 - instruments under, power of partner to execute, 1147-1148
 - on proxies, 1229
- Seasonal greetings, letters, 564

- Second-class mail, 487, 489, 497, 499
- Secondary service area, defined, 266
- Secretary:
 - at stockholders' meeting, selection of, 1222
 - corporate:
 - duties, 1189
 - responsible for stockholders' meeting, 1215
 - signature to letters, 634
- Secretary General of the United Nations, addressing (chart), 650
- Secretary of State, addressing (chart), 645
- Secretary to the President, addressing (chart), 643
- Secretary to the President with military rank, addressing (chart), 643
- Secret partner, liability of, 1141
- Secret profits, liability of directors for, 1179
- Securities:
 - accounting data, 836
 - deposits as, treatment in balance sheet, 879
 - insurance, 724
 - loans secured by, 957
 - marketable:
 - treatment in balance sheet, 862
 - treatment in financial statement, 924
- Securities Act of 1933, directors' liabilities under, 1183
- Securities and Exchange Commission:
 - advice from in corporate reorganization, 1111
 - regulations in regard to proxies, 1231
- Securities Exchange Act of 1934, directors' liabilities under, 1183
- Security for loans to corporation, 1169
- Security-invested pension plans, 790
- Segue, defined, 266
- Self-administered and insured pension plans, combined, 791
- Self-administered pension plans, 790
- Self-insurance, 683
 - automobile, 716
 - meaning of, 683
 - of workmen's compensation risk, 707
 - private insurance differentiated from, 683
- Self-mailer:
 - defined, 266
 - for direct-mail selling, 14
- Selling by mail (*see* Direct-mail selling)
- Selling data, accounting, 835, 836
- Selling price, how to compute, 1305-1309
- Selling through collections, 1065

Semi-block style letter, 617
 Senior salesmen, training, 316
 Separation, color, defined, 266
 Service organizations, meetings, 1208
 Service, length of:
 for group insurance, 759
 basis for insurance coverage, 770
 Service plans, medical care, 774
 Service the script, defined, 267
 Severance of employment, pension plans, 801
 Shallow half tone, defined, 267
 Sheet, defined, 267
 Sherman Act, 359
 Shipping instructions in sales contracts, 341
 Ship-to-shore calls, telephone, 473
 Shopping goods, defined, 267
 Shore-to-ship, ship-to-shore messages, 466
 Short cuts in mathematics, 1362-1382
 Short rate, defined, 267
 Short-term borrowing, 941-976 (*see also* Financing working capital)
 Shoulder, defined, 267
 Side stitching, defined, 267
 Signals, telephone aids, 476
 Signature, defined, 267
 Signatures:
 proxies, 1229
 to letters:
 by firm of accountants or attorneys, 632
 by women, 633
 forms, 633
 secretary's, 634
 typing, 633
 Signs and symbols, mathematical, 1409
 Silent partner, liability of, 1141
 Silhouette half tone, defined, 267
 Silk screen, defined, 267
 Simple average, 1296
 Simple interest, how to calculate, 1271-1284
 Simplified style, letter, 621
 Single proprietorship:
 capital, raising of additional, 1129
 legal status of, 1131
 liability to creditors, 1128
 management, 1129
 name, choosing, 1133
 organization, manner of, 1122
 power to do business in any state, 1131
 stability of, 1127
 Sinking funds:
 arrears, balance sheet treatment, 880
 contributions to, as annuity, 1321
 method, calculating depreciation, 1355

Sinking funds (*Cont.*):
 provided by business life insurance, 746
 treatment in balance sheet, 876
 Sister Superior, addressing (chart), 656
 Sized and super-calendered paper, defined, 267
 Slip-sheeting, defined, 267
 Slogans, protection of, 209
 Slug, defined, 267
 Small Business Administration loans, 952
 Small caps, defined, 267
 Small loan companies, borrowing from, 954
 Sniping, defined, 267
 Solid or cubic measure, 1390
 Sound effects, defined, 268
 Sorters, for filing and other purposes, 404
 Sound-slide films:
 as equipment for salesmen, 305, 307
 for training salesmen, 317
 Sources of funds, 945-954 (*see also* Financing working capital)
 Southern Cotton Oil Company, messenger distribution service, 464
 Southern States Iron Roofing Company:
 letter campaign, 104-120
 promotional activity, 8
 Space:
 buyer, defined, 268
 discount, defined, 268
 schedule, defined, 268
 Spacing in letters, 530-531
 Speaker of House of Representatives, addressing (chart), 641
 Special delivery, 492, 496
 Special deposits, treatment in balance sheets, 862
 Special Libraries Association, 455
 Special meetings, stockholders', 1218
 Special or trade agencies, 998-1003 (*see also* Credit agencies: special or trade)
 Special representative, defined, 268
 Specialties, advertising, differentiated from premiums, 167
 Specialized credit reports, 990, 991-992
 Spectacular, defined, 268
 Spiral, defined, 268
 Split channel, radio, defined, 268
 Split run, defined, 268
 Spoken address, to persons holding honorary or official positions (chart), 641-660
 Sponsor, defined, 268
 Spot broadcast, defined, 268
 Spread, defined, 268
 Sprinkler-leakage insurance, 739

Square measure, 1390
 Square roots of numbers 1-1000 (table), 1411
 Squibb, E. R. & Sons, use of messenger distribution service, 463
 Stage, defined, 268
 Staggered schedule, defined, 268
 Stamp taxes, 1125
 Stamps, 508, 509
 Standard and Poor's Corporation, 1007
 Standard costs, 852-853
 Standard Gas and Electric Company, 885
 Standard practice instructions, officers responsible (table), 1196
 "Stand by," defined, 268
 Standing commitment or credit, 957
 State and Local Government Officials, addressing (chart), 645
 State "fair trade" laws, 359, 360-361
 State Farm Insurance Companies, Illinois, 1382
 State-fund insurance, workmen's compensation, 706
 State Labor Commission, bonds on deposit with, 879
 State Representative or Assemblyman, addressing (chart), 645
 Stated meetings, stockholders, 1207
 Stated value units, insurance, 765
 Statement:
 bank, accounting data, 836
 duplicate, as collection reminder, 1044
 income (*see* Income statement)
 of affairs, 1103, 1106, 1112
 differentiated from balance sheet, 856
 of assets and liabilities, 856
 of assets, liabilities, net worth, 856
 of financial condition, 856
 of ownership, 856
 of surplus, 898-901
 heading, 898
 with message, as collection reminder, 1046, 1047
 States:
 rights to regulate activities of foreign corporation, 1261
 that have adopted Uniform Partnership Act, 1139
 Station:
 announcement, defined, 268
 break, defined, 268
 director, defined, 268
 Stationery, business letter, 611
 Station-to-station telephone calls, 471
 Statute of frauds:
 defined, 603

Statute of frauds (*Cont.*):
 letter as memoranda satisfying, 603
 meaning of, 339
 Statute of limitations, 1073-1075
 Steel-die embossing, defined, 268
 Stencil duplication by mimeograph, 407
 Stereotype, defined, 268
 Stet., defined, 269
 Stickers, as collection reminders, 1044, 1045
 Stilted language in business letters, 533
 Stock (capital stock):
 and surplus, 887-891
 call for payment of, 1200
 co-owners of, right to vote, 1227
 corporate-owned, right to vote, 1227
 destruction of certificate, 1202
 dividend, capital surplus created, 899
 dividends, as annuities, 1321
 duplicate certificate, issuance of, 1202
 exchange, capital surplus from, 899
 funds for retirement of, in balance sheet, 876
 increased by stockholders, 1202
 issuance of, by directors, 1173
 ledger, 843
 liability of stockholders for payment of, 1200
 loans secured by, 957
 loss of certificate, 1202
 majority issued and outstanding, meaning of, 1224
 minor's voting power, 1227
 part-paid, voting rights of, 1226
 pledge of, right to vote, 1226
 pre-emptive rights to, 1204
 premium, in statement of surplus, 888
 reduction by stockholder, 1205
 sale of, buyer's right to vote, 1226
 subscriptions, treatment in balance sheet, 879, 888
 transfer:
 agreement, business life insurance, 747
 officers responsible, 1197
 right of stockholder to, 1127
 treasury:
 capital surplus from sale of, 899
 profits on sale of, 899
 valuation in balance sheet, 876, 888
 treatment in balance sheet:
 classes of, 887-891
 company's own, investments in, 876
 discount, 888
 no-par, 888
 voting of, 1227 (*see also* Voting)
 Stock cut, defined, 269

Subsidiary (*Cont.*):
 companies (*Cont.*):
 advances made to, 877
 investments in, 875
 ledgers, 843
 Substance No., defined, 269
 Subtraction:
 by addition, 1363
 verification of, 1386
 Suits, law (*see* Lawsuits)
 Sum-of-digits method, calculation of depreciation, 1352
 Sunday:
 note executed on, 1024
 rates, long-distance telephone calls, 471
 Superimposition, defined, 269
 Superior of a Brotherhood and Priest,
 addressing (chart), 655
 Super-process, for sales letters, 10
 Supervisors, training, 317, 449
 Supplementary proceedings, 1094
 Supplementary Register, defined, 269
 Supplies, treatment in financial statement, 921
 Surety:
 bonds, 726
 liability as, treatment in balance sheet, 884
 Surgical expense plan, 775
 Surplus:
 account, makeup of, 897
 additions to, 900
 "appraisal," 898
 balance of, 900
 capital stock and, 887-891
 charges, examples of, 900
 credits, 900
 deductions from, 900
 dividends payable from, 1174
 donated, 898
 transfer to capital surplus, 899
 earned, 890
 paid-in, 898, 890
 "reduction," 898
 reserves representing, 887
 statement, 898, 900
 treatment in balance sheet, 889-890
 undivided, 901
 Suspense items, in balance sheet, 879
 Surprint, defined, 269
 Surveys:
 automobile, in New Jersey, 715
 employee attitude, 756
 merchandise, 464
 Surveyors' measure (long and square), 1394
 Sustaining program, defined, 269
 Symbols:
 and signs, mathematical, 1409

Symbols (*Cont.*):
 as trade-marks, 196
 for credit ratings, 983, 984
 Syndicate:
 control, 1130
 liability to creditors, 1128
 organization, manner of, 1123
 power to do business in any state, 1131
 stability of, 1127
 Synopsis credit reports, 990-993
 Systems, Inc., freight rate calculator, 1385

T

T., defined, 269
 T.A.B., defined, 269
 Tables:
 office, 393
 prepared to expedite calculations, 1382-1385
 weights, measures, values, 1389-1396
 Tangible fixed assets, 867-870
 Taxes: (*see also* Income tax)
 choosing between partnership and corporation, 1126
 disputes over, treatment in balance sheet, 885
 in income statements, 896
 officer responsible (table), 1197
 on foreign corporations, 1264
 penalty surtax, 1125
 premiums paid for group insurance, 764
 proration of, table, 1402
 stamp, 1125
 treatment in balance sheet, 878, 881
 types of organizations compared as to, 1124
 Teams public-liability insurance, 703
 Tear sheet, defined, 269
 Telecast, defined, 269
 Telefax, 462
 Telegrams and cablegrams (*see also* Cable and radio messages; Telegraph)
 charges, how counted, 459-460
 collection, examples of, 1082
 costs, how to cut, 456-458
 day letters, 459
 domestic messages, kinds of, 459
 wording of, 458
 Telegraph (*see also* Telegrams and cablegrams):
 collections by, 1082
 commercial news service, 461
 dealer inquiry service, 464
 Desk-fax, 462
 errand service, 462

Telegraph (*Cont.*):

- gift service, 463
- guide service, 463
- merchandise surveys, 464
- money orders, 461
- operator 25 service, 464
- parcel service, 463
- special services, 461
- telemeter service, 461
- tie-lines, 461-462

Telemeter service, 461

Telephone company "servicing" services, 479-480

Telephone service:

- collections by telephone, 1081
- conference loud-speaker, 477
- convenience aids, 475-478
- interoffice communication, 481-485
- long-distance calls, 471-474
- P.B.X., 474
- teletypewriter service, 478-479
- tie line, 462

Teleprinter, 461

Teletypewriter service, 478-479

- as advertising medium, 162-165
- defined, 269

Temperatures, comparison of centigrade and fahrenheit, 1410

Temporary disability program (*see also* Group insurance)

- benefits, 780
- claims, 781
- cost, factors that affect, 781
- need for, 779
- nature of, 780
- recurrent illnesses, 781

Temporary investments, treatment in balance sheet, 877

Tenants:

- public-liability insurance, 703
- rent insurance, 737

Term life insurance (group), 764

Term loans, 957

Terms of sale, mercantile, 1014-1019

- A.O.G., 1016
- arrival of goods, 1016
- cash, 1016
- cash before delivery, 1015
- cash on delivery, 1015
- C.B.D., 1015
- C.O.D., 1015
- consignment, 1018
- end-of-month, 1017
- E.O.M., 1017
- individual-order, 1016
- lumped order, 1017
- middle-of-month, 1017
- M.O.M., 1017
- prepayment, 1014-1016

Terms of sale (*Cont.*):

- receipt-of-goods, 1016
- R.O.G., 1016
- season dating, 1018

Territorial Delegate, addressing (chart), 643

Territorial limits on property-insurance policies, 688

Territories, sales, 275-282

Testimonials, for direct-mail selling:

- effective use of, 22
- how to secure, 21
- permission to publish, 22
- use in sales letters, 80, 86, 127

Tests:

- advertising, 169-185
- direct-mail advertising, 23-30
- chart of results, 26
- elements to test, 23
- list of, 23
- mechanics of, 27
- results, 25
- size of, 25

for new employee:

- aptitude, 300, 442
- intelligence, 300, 442
- interest, 443
- performance, 443
- personality, 443
- physical, 300, 444

T.F., defined, 269

Thank-you letters

- for prompt payment, 563
- for recommendation from old customer, 563
- for initial purchase, 573
- gaining goodwill through, 586*

Theater public-liability insurance, 703

Theft.

- defined, 718
- insurance, automobile, 712

Third-class mail:

- bulk, 502
- forwarding, 497
- items included in, 487
- postal regulations, 489
- return of, 500

Thompson Products, Inc., use of messenger distribution service, 464

Ticket holders, for records, 395

Tickler system:

- file, for correspondence wanted in future, 431-433
- for collection follow-up, 1079

Tie-lines, defined, 461

Till-forbid, defined, 269

Time:

- between dates, how to calculate, 1272

Time (Cont.):

- buyer, defined, 269
- chart, American Cable and Radio Corporation, 468-469
- clock card, illustrated, 837
- daylight saving, 457
- deposits, treatment in balance sheet, 862
- discount, defined, 269
- extensions, letters on, 1064-1065
- recorders for offices, 415-416
- stamps, 416
- Tint block, defined, 270
- Title insurance, 743
- To fill, defined, 270
- To Whom It May Concern*, in salutation, 630
- Tools, valuation in balance sheet, 869
- Tornado insurance, 741
- Tort, defined, 1142
- Total income, in income statement, 897
- Tr., defined, 270
- Tracers, by credit agencies, 999
- Trade:
 - acceptances:
 - analysis of, 920
 - financing with, 959
 - advertising, defined, 270
 - agencies, credit information, 998-1003 (*see also* Credit: agencies)
 - association, sales training by, 322
 - creditors (*see* Creditors)
 - discounts (*see* Discounts: chain)
 - foreign, definitions, 365-375
 - journals, as source of new employees, 437
 - name, defined, 270
 - papers, 168
 - reports (*see* Credit: ratings; Dun & Bradstreet, Inc.)
- Trade-group interchange, 1002
- Trade-marks, 185-199
 - affidavit of use, 189
 - assignment of, 189
 - Canadian law, 192
 - coined or invented words, 193, 194
 - color, 196
 - conflicting, 189
 - copy demands of, 197-198
 - creating, 197
 - defined, 270
 - designs, 193, 196
 - dictionary words, 193, 194
 - duration of, 189
 - Food, Drug and Cosmetic Act, effect on, 193
 - foreign, protecting, 191
 - foreign words, 193, 195
 - forms of, 193-194

Trade-marks (Cont.):

- in balance sheet, valuation of, 873
- in other countries, 191-193
- incontestability of, 189
- initials, 194, 196
- Lanham Trade-Mark Act, 185
- legal requirements, 187
- nature of, 185-199
- numbers, 194, 196
- personal names, 193, 195
- portraits, 196
- registration of, 185-189
 - advantages, 186
 - cancellation of, 190
 - notice of, 188
- remedies, 191
- symbols, 196
- types permitted under law, 187
- use of, by related companies, 189
- Trading income, account, in income statement, 895
- Trading partnership, 1145
- Traffic Audit Bureau, 270
- Traffic department, defined, 270
- Trailers, automobile, as salesrooms, 306
- Training employees:
 - company libraries, use in, 455
 - company rotation training, 292
 - employee manuals, use in, 452
 - executives, 450
 - methods, 450
 - new employees, 448
 - old employees, 449
 - purposes, 448
 - salesmen, 292, 315-322 (*see also* Sales: training)
 - supervisions and foremen, 449
- Transcription department, 424-430
- Transcription program library, 270
- Transfer of stock (*see* Stock: transfer)
- Transient rate, defined, 270
- Transit radio, defined, 270
- Transparency, defined, 270
- Transportation insurance, 741
 - automobile, 712
- Traveling display, 270
- Treasurer of corporation, duties, 1191
- Treasury stock (*see* Stock: treasury)
- Trial balance, defined, 846
- Trimmed flush, defined, 270
- Troy measure (weight), 1393
- Trust funds, as annuity, 1321
- Trust receipts, loans secured by, 962
- Trustee:
 - appointment, under chapter X of National Bankruptcy Act, 1110
 - business life insurance, 746

Trustee (Cont.):

- in bankruptcy, 1103
 - bankrupt's assets acquired by, 1104
 - duties of, 1105
 - right to vote stock, 1227
 - valuation of business life insurance supervised by, 748

Trusts:

- business life-insurance, 746
- common-law (*see* Massachusetts trust)

TV, defined, 269

Twenty-five, thirty-eight, eighty, defined, 270

TWX, defined, 479

Type, 215-220 (*see also* Printing and typography: type)

- choosing face, 215-220

- face, 270

- page, 270

- sizes, 222

Typewriters:

- automatic, 409

- care, 417

- electric, 412

- ribbons, 418

Typists, daily supply folios for, 427

Typewriting minutes of meetings, 1250

Typography (*see* Printing and typography)**U**

Ultra vires transactions, 1179

Unamortized expenditures, treatment in balance sheet, 878

Under Secretary of a Department, addressing (chart), 642

Underwriters, indemnification of, treatment in balance sheet, 885

Underwriting basis of credit insurance, 729

Undivided surplus, 901

Unemployment insurance tax, 1125

Uniform Conditional Sales Act, 346-347, 349

Uniform Fraudulent Conveyance Act, 1105

Uniform Negotiable Instruments Law, 1019-1034

Uniform Partnership Act:

- accounting of partnership affairs, right of partner to, 1149

- bankruptcy of partner, 1154

- books, inspection of, right of partner to, 1149

- compensation of partners under, 1147

- continuance of partnership beyond fixed term, 1154

- contribution, right of partner to, under, 1140

Uniform Partnership Act (Cont.):

- conveyance of interest in partnership under, 1152

- death of partner, effect of partners acting without knowledge of, 1153

- debts, power of partner to collect, 1145

- dissolution of partnership, 1155

- equal rights of partners in partnership management, 1143

- incoming partner, liability of, under, 1141

- indemnity, right of partner to, under, 1140

- individual who has not entered into agreement, liability of, 1142

- information, right of partner to, 1149

- instruments, execution by partners, 1148

- interest on loans, right of partner to receive under, 1140

- new partner, consent of all partners required, 1152

- real partnership property, power of partner to convey, 1147

- rights under, 1140-1156

- sealed and unsealed documents, no distinction between, 1148

- states in which adopted, 1139

- tort of partner, liability of partners for, 1142

Uniform Sales Act:

- defined, 339

- provisions of, 340, 341

Uninsured pension plans, 790

Union membership, as requirement for group insurance, 760

Unit-production method, calculation of depreciation, 1348

United States Bureau of Foreign and Domestic Commerce, 281

United States Census Bureau, census of distribution, 281

United States Delegate to the United Nations, addressing (chart), 649

United States Diplomatic Representatives, addressing (chart), 648

United States Government Officials, addressing (chart), 641

United States money, 1397

United States Postal Manual, 486

United States Representative, addressing (chart), 643

United States Rule, partial payments, 1284

- compared with Merchants rule, 1287

United States Senator, addressing (chart), 643
 University Chancellor, addressing (chart), 660
 Unrealized profits, capital surplus, 887
 Use-and-occupancy insurance, 736
 Unsecured loans, 947, 954
 Unsigned checks, 1020
 "Up," defined, 270

V

Valuation, in balance sheet:
 advances made to subsidiary companies, 877
 buildings, 868
 containers, 869
 copyrights, 871
 delivery equipment, 869
 fixtures, 869
 formulas, 873
 franchises, 872
 funds, various, 876
 furniture, 869
 goodwill, 872
 intangible fixed assets, 870-873
 investments, 873-878
 in affiliated companies, 875
 other investment securities, 875
 permanent, 874
 land, 868
 leaseholds, 872
 machinery, 869
 notes receivable, long-term, 877
 patents, 871
 patterns, 869
 processes, 873
 real property, 875
 sinking funds, 876
 stock, company's own, 876
 tangible fixed assets, 867-870
 temporary investments, 877
 tools, 869
 trade-marks, 873
 Variable working capital, 941
 Verbosity in business letters, 535, 536
 Verification:
 check figure, 1386
 of computations by check numbers, 1386-1388
 of posting, 1388
 "Verification of Financial Statements," bulletin, 864
 Vesting:
 of group insurance values, 769
 pension plans, 798
 profit-sharing plans, 811
 Vice Admiral, addressing (chart), 653
 Vice President of corporation, duties, 1189

Vice President of United States, addressing (chart), 641
 Video, defined, 270
 Vignette, defined, 270
 Visual show, defined, 271
 Visual signals, telephone aid, 476
 Visible filing equipment, 395-398
 accounts receivable, 396
 board and ticket holders, 395
 for credit department, 397
 for purchasing, 397
 looseleaf binders, 395
 posting, 395
 sales management, 396
 Viva-voce vote, 1231
 Vocational Interest Blank for Men, The, 300
 Voluntary dissolution, liquidation of partnership upon, 1156
 Voorhees, William W., 831, 847
 Vote (*see also* Voting)
 authorizing action at directors' meeting, 1244
 election of directors, 1234
 questions other than election, 1236
 recording, in minutes, 1249
 tie, rules governing, 1235
 Voting:
 at stockholders' meetings, 1224-1237
 by administrator, 1227
 by buyer of stock, 1226
 by absent stockholder, 1228
 by co-owners, 1227
 by corporation, 1227
 by executor, 1227
 by guardian, 1227
 by partners, 1227
 by pledge, 1226
 by proxy, 1228
 by trustee, 1227
 cumulative, 1232
 for trustee in bankruptcy, 1103
 methods, 1231
 on death of stockholder, 1227
 part-paid stock, 1226
 Voucher register, 841, 842

W

w.a., defined, 374
 Wage dividend plans (*see also* Profit-sharing plans, current)
 example of, 820
 nature of, 819
 Wage earners, dealing with embarrassed, 1112
 "Wage Earners' Plans" of Bankruptcy Act, 1112

Wages, treatment in balance sheet, 881
(see also Salaries and wages)
Wait order, defined, 271
Waiver, oral, by agent, of insurance policy, 687
Waiver of notice of meeting, 1219, 1242
Walsh Construction Company, insurance loss, 677
War:
 effect on partnerships, 1134
 job training during, 321
War Manpower Commission, 321
Warehouse receipts, loans secured by, 961
Warm-up, defined, 271
Warranties:
 defined, 341
 insurance, 687
 when illegal, 688
Wash drawing, defined, 271
Washrooms, office, 383
Watchman, discount allowed on insurance premium for, 722
Wax engraving, defined, 271
Wax-mold electrotypes, defined, 271
Wayne Pump Company, direct-mail campaign, 37
Webster Teletalk, 483
Weekly bulletins, credit agencies, 999
Weighted average, 1299
Weights (*see also Measures*):
 apothecaries', 1394
 avoirdupois measure, 1392
 measures, values, and (tables), 1389-1396
 United States and British compared, 1396
Western Clock Company, safety work, 708
Western Union Telegraph Company, 456
 collection telegrams, 1082
 special services of, 461-464
Wet printing, defined, 271
W.F., defined, 271
Whiting Corporation, cash-payment, plan, 819
Whole-life level premium insurance plan, 767
Wholesalers, training, 317
Window envelopes, 271, 510
Windstorm insurance, 741
Wire circuits, defined, 271
Wire recorder, 415
Wolf & Dessauer Co., Christmas promotion idea, 43
Women:
 addressing, in letters, 627
 sales letters to, 96-98

Women (Cont.):
 signature to letters, 630
Woodcuts, defined, 271
Work-and-turn, defined, 271
Working capital (*see also Financing working capital*):
 analysis of, 914-932
 current liabilities, 925
 marketable securities, 924
 contingencies calling for, 941
 cushion, 941
 defined, 904
 distribution of current assets, 931
 financing, 939-976 (*see also Financing working capital*)
 merchandise turnover, 922
 need for, 941
 ratio, 928-930
 regular, 941
 relation of volume of sales to, 932
 reports of, 849
 reserve margin, 941
 sources:
 determining, 933
 importance in analysis of credit strength, 933
 of loans for, 945-954
 variable, 941
Working-hours method, calculation of depreciation, 1347
Workmen's compensation insurance:
 accident prevention, 708
 defined, 703
 employer's liability, 709
 laws, methods of meeting liability under, 706-708
 necessity of, 706
 partial self-insurance, 708
 private insurance companies, 707
 self-insurance, 707
 state fund, 706
Wove paper, defined, 271
Writ, attachment or garnishment, 1093, 1094
Write-down of marketable securities, 900
Write-offs, 899, 900
Wrong font, defined, 271

Y

Y. M. C. A., source of employees, 438
Y. M. H. A., source of employees, 438

Z

Zinc etching, defined, 271
Zone number, postal, in address, 625
Zone plan, defined, 271
Zooming, defined, 271

