
HORIZON RESEARCH GROUP

Benjamin Graham Part II

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PCS Research Services
125 Maiden Lane, 6th Floor
New York, NY 10038
(212) 233-0100
www.pcsresearchservices.com



Horizon Research Group

Steven Bregman	Thérèse Byars	Peter Doyle
Michael Gallant	Matthew Houk	David Leibowitz
Eric Sites	Fredrik Tjernstrom	Steven Tuen
	Murray Stahl	

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How They Did It

Tales of the Greatest Investors of All Time

Benjamin Graham

Part II

The following analysis is purely hypothetical, but is nevertheless interesting with regard to Benjamin Graham. He began his investment career in 1914 and ended it in 1956. If Benjamin Graham had commenced his investment career with \$1,000 and it had compounded at 20% per annum for 42 years, ignoring taxes and transaction costs, at the end of 1956 he would have accumulated \$2,116,471. Of course, that's nothing other than an abstraction, since he could not possibly have begun his career in 1914 with \$1,000, because that was a fantastic sum of money in the New York City of that year. Similarly, as can be readily visualized from the tax tables on the preceding page, no one could possibly have compounded tax-free. In point of fact, Benjamin Graham did not earn a 20% rate of return per annum, though he certainly earned a very high rate of return.

The reader will find appended to this essay various of the Graham-Newman Corporation shareholder letters for the period from 1946 to 1956, the last year in which the company was in existence.¹ It was in 1956 that the company voted its own liquidation. It is notable in these letters that Benjamin Graham derived a salary from the Graham-Newman Corporation. That firm was a regulated investment company under the then applicable laws, and it charged what are now called performance fees. As anyone can readily see by reading the footnotes of these reports, the performance fees embraced income and capital appreciation, both realized and unrealized. There was a very high concentration on preferred stocks that had fairly substantial yields. One can therefore calculate that Benjamin Graham earned a very considerable income, even in the absence of any capital appreciation.

Of course, during the years in question, the Graham-Newman Fund was usually appreciating, and it happened to be a fairly robust time for the securities markets as well. In 1946, the portfolio structure of the Graham-Newman Fund was 10.7% cash and government securities, 36.1% arbitrage, 12.2% liquidations, 20% hedges and convertible issues, 13% financial companies, and 8% what Graham describes in the report as "general portfolio." Most of those investments would have been taxable had they produced returns, and they did indeed earn returns that were taxed as income, not capital gains. To the extent

¹ Graham-Newman Corp. Stockholders Letter Feb. 28, 1946
Graham-Newman Corp. Stockholders Letter Aug. 28, 1947
Graham-Newman Corp. Stockholders Letter Feb. 25, 1949
Graham-Newman Corp. Stockholders Letter Feb. 27, 1950
Graham-Newman Corp. Special Meeting of Stockholders Aug. 20, 1956

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that capital gains rates applied, they would have affected the returns as well. Therefore, there is a vast dichotomy between the rate of return Benjamin Graham earned on his own investment in Graham-Newman, combined with his performance participation, and the rate of return that the shareholders of Graham-Newman received.

None of these observations detract at all from the accomplishments of Benjamin Graham, who was clearly an outstanding intellect and an outstanding investor. *Security Analysis*, as written by Graham and Dodd in its various editions, must remain the foundation, indeed the touchstone, of anyone interested in value oriented investing. Nevertheless, if one loses sight of the tax ramifications of the investments, one can clearly see that one could have done well being a shareholder in the Graham-Newman Corporation. However, there's a very big difference between being a passive investor as a shareholder in such an enterprise and being the active investor. The common denominator between all of the great investment talents is that they weren't merely able to earn a very high rate of return on their own capital; they were also able to mobilize the capital of others and earn a rate of return on that as well. That is why the whole field of free enterprise is not necessarily referred to as entrepreneurialism, but more properly as capitalism, because it embraces the mobilization of capital. That's the lesson that I think will be learned as one progresses through this series of essays.

A very interesting point, though it's actually very minor, with regard to the Graham-Newman shareholder letters, is that if one reads them very carefully, they have little, if any, commentary about the investments. They're merely short, declarative statements about the rate of return, the unit value, and how much dividend distribution there was. Though there are some exceptions, they're very brief. As a generalization, the letters are nothing if not laconic. It's very difficult to have any insight into what the managers were thinking by reading the letters. In that sense, they read very differently than a Berkshire-Hathaway annual letter, and I think readers may find that surprising. Another interesting point is that the fiscal years, as reported in these documents, are not uniform, which makes it difficult to recast the numbers and compare them on a calendar year basis with relevant indices, as we would like to do. It is, however, fairly easy to reach a determination that the performance of these funds far outdistanced the relevant indices as they then existed.

Another minor point is turnover. Laying the various shareholder letters against one another and comparing the holdings year-by-year, allowing for the fact that the fiscal years aren't uniform, one can easily observe that the holding statements are different, and one can conclude that there was a fair quantity of turnover in these portfolios. Therefore, we can reasonably assert that the funds themselves were regularly exposed to taxation, and that's interesting to observe. One final point regarding turnover is that in 1947, the Graham-Newman Corporation bought 500 shares of Boeing Corporation, which appreciated enough so that it was sold no later than January 1949. We don't know if it was sold in January 1949 or at some previous time, because the report doesn't specify in what month it was

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sold. We only know that it was not present in the January 1949 statement. Boeing is one of the great stock investments of all time, possibly ranking with Philip Morris and, had that investment been held to the current day, the annualized total return would have been 15.33%.²

None of these comments are meant to be in any way disparaging about the Graham-Newman Corporation, or about Benjamin Graham. They merely serve to illustrate the powerful compounding effects of great long-term investments, and that they might be even greater than a truly outstanding rate of return on a portfolio that trades with some degree of regularity. I think that's a worthwhile comparison to make. In view of the permanence of the capital gains advantage from 1916 to the present, it is astonishing that more focus is not placed upon tax-adjusted, or after-tax, investment performance.

² Source: www.CRSP.com

GRAHAM-NEWMAN CORPORATION

52 WALL STREET

NEW YORK 5, N. Y.

Feb. 28th, 1946.

To the Stockholders of Graham-Newman Corporation:

On January 31st, 1946, the Company concluded its tenth year of operations. This event makes it appropriate to depart from former custom and to include with our Annual Report some extended comment on our policies, results and prospects.

General Policy and Over-all Results.

The current Prospectus of the Corporation states that its general investment policy is:

(1) To purchase securities at prices less than their intrinsic value as determined by careful analysis, with particular emphasis on purchase of securities at less than their liquidating value.

(2) To engage in arbitrage and hedging operations in the securities field.

This policy means that, in our operations, relatively little stress is laid upon forecasting the future course of the securities market or the future prospects of individual companies on a basis differing materially from their past performance. With regard to "general portfolio operations" -- as distinguished from arbitrage, liquidation and hedging operations -- it means that we tend to purchase securities when general sentiment is pessimistic and prices are generally low, and to sell them out in periods of optimism and high prices.

The over-all results realized by the Corporation in the past decade are summarized in Tables I, II and III appended.

We may point out here that, for the ten-year period, total earnings before contingent compensation to officers aggregated \$245 per share, as against the original issue price, adjusted, of \$99 per share. Of these earnings, \$41 per share was paid as contingent compensation and \$204 accrued to the stockholders. Of the latter sum, \$161 was paid in cash dividends (including \$3.87 as the later cash value of a distribution in kind); \$16 represents the value of subscription rights offered; and \$27 represents the increase in the remaining net asset value of the shares.

The annual percentage gain to stockholders, based on net asset value at the beginning of each year, averaged 17.6%. This compares with 10.1% in the same period shown by the Standard Statistics - Poor's Index of 90 stocks, and 10% shown by the Dow-Jones Industrial Average -- in both cases with allowance for dividends received.

In the first six years of operation (calendar 1936-1941) -- a period of generally declining prices -- our over-all gain averaged 11.8% per annum, against a loss of .6% for the 90-stock average. In the past four years (calendar 1942-1945 inclusive) -- a period of steadily rising prices -- we averaged 26.3% against 26.0% for the 90 stocks. In our last fiscal year, we showed, for the first time, a lower percentage gain than that of the general market. These comparative results follow directly from our investment policy, which grows more conservative as the market level rises.

Future Policy and Prospects.

Because of the large advance in the general market in the past three years, we have substantially changed the character of our security holdings during this period. The percentage held in "general portfolio common stocks" has been greatly reduced, and the percentage in arbitrages, hedging operations and convertible senior issues correspondingly increased. These changes are summarized in the accompanying percentage-analysis of our portfolio as at January 31st, 1943 and January 31st, 1946.

Percentage Distribution of Portfolio by Type of Operations

(Based on Market Value of Long Securities)

	<u>Jan. 31, 1943</u>	<u>Jan. 31, 1946</u>
	<u>% of Total</u>	<u>% of Total</u>
Cash and Government Securities	3.4%	10.7%
Arbitrages, Reorganizations, Guaranteed Issues	17.2	36.1
Liquidations	11.7	12.2
Hedges and Convertible Issues	-	20.0
Financial Companies	8.5	13.0
General Portfolio	<u>59.2</u>	<u>8.0</u>
	100.0%	100.0%

The sharp reduction in our general portfolio has not been based on an opinion that the rise in the market has now run its course, but on the fact that very few common stocks remain attractive holdings judged by our technical standards. Under our established policy, we neither participate in clearly speculative profit opportunities nor assume clearly speculative risks. As long as the present rising market continues it is not likely that we shall be able to match the percentage gain shown by common stocks generally. There is reason to believe, however, that we may continue to make satisfactory, though not spectacular, profits in arbitrage and similar operations, which entail less risk than ordinary stock purchases at this time. The field of such operations has tended to expand with the increase in general market and corporate activity. For this reason we believe that we shall be able to find sound employment for our capital, including the limited expansion recently

provided for.

If the market should decline substantially, we can not expect our holdings to be unaffected; but we believe that any shrinkage in the net asset value of our shares should be moderate in itself, and relatively less severe than that shown by the market generally.

The chief objective of the management has been to conduct our operations so as to show an attractive rate of return on our shares during periods when stock prices generally have not moved substantially (net) in either direction. In spite of problems presented by rising and falling markets, we are hopeful that we shall be able to carry out this objective in the future as in the past decade.

Results for the Year Ended January 31, 1946.

Submitted herewith is a copy of the report of our auditors, Messrs. Stern, Porter, Kingston & Coleman, covering the fiscal year ended January 31, 1946.

The appended balance sheet indicates a net asset value of \$125.88 per share on January 31, 1946, compared with \$131.95 per share on January 31, 1945. These figures give effect to the sale of additional stock in January, 1946.

Dividends of \$33.20 per share were paid during the year, all of which have been designated as Capital Gains Dividends, pursuant to Section 362 of the Internal Revenue Code. Subscription rights issued in January, 1946 had a computed value of \$5.20 for each share owned.

The over-all gain for the fiscal year, including the increase in unrealized appreciation, amounted to \$32.31 per share on the average number of shares outstanding. This was equal to 24.5% of the value at the beginning of the year.

The indicated net asset value as of February 21, 1946, was approximately \$126 per share.

The annual meeting of stockholders is scheduled to be held on Monday, April 8, 1946. In connection therewith, it is expected that formal notice will be mailed to stockholders before March 30, 1946, together with a proxy statement and request for proxies.

Very truly yours,

Benj. Graham,
President

Jerome A. Newman,
Vice-President & Treasurer

INVESTMENTS IN SECURITIES

JANUARY 31, 1946

(CONTINUED)

NO. OF SHARES	DESCRIPTION OF SECURITIES	MARKET VALUE JANUARY 31, 1946	
		Price	Amount
<u>PREFERRED STOCKS- INDUSTRIALS</u>			
1,000	Aviation Corp. (The) \$2.25 Cumulative Convertible	80	\$ 80,000.00
500	Cities Service Company \$6.00 Cumulative Preferred	151	75,500.00
300	Di Giorgio Fruit Corporation \$3.00 Cumulative Participating Preferred	110	33,000.00
500	Gar Wood Industries, Inc. 4 1/2% Cumulative Convertible Preferred	62	31,000.00
6,800	Graham-Paige Motors Corp. Convertible 5% Cumulative Preferred	47-1/4	321,300.00
1,000	Jones & Laughlin Steel Corporation 5% Series B Convertible Preferred	155-1/4	155,250.00
290	Mansfield Tire & Rubber Co. Convertible \$1.20 Cumulative Preferred	32	9,280.00
300	The Murray Company \$4.50 Cumulative Preferred	52-3/4	15,825.00
	<u>Total - Industrial Preferred Stocks</u>		<u>\$721,155.00</u>
<u>PREFERRED STOCKS - INVESTMENT COMPANIES</u>			
900	Allegheny Corporation Cumulative Convertible \$2.50 Prior Preferred	76-1/4	\$ 68,625.00
<u>PREFERRED STOCKS - UTILITIES</u>			
3,000	Market Street Railway Company Cumulative Prior Preference 6%	18-1/2	55,500.00
300	Twin City Rapid Transit Co. 5% Convertible Prior Preferred	59-3/8	17,812.50
	<u>Total - Utilities Preferred Stocks</u>		<u>\$ 73,312.50</u>
	<u>TOTAL - PREFERRED STOCKS</u>		<u>\$863,092.50</u>
<u>COMMON STOCKS - INDUSTRIALS</u>			
1,300	A. D. F. Co.	6	7,800.00
100	American Shipbuilding Company	44-5/8	4,462.50
3,890	Bell Aircraft Corporation	32-1/2	126,425.00
10,000	Brewster Aeronautical Corporation	5	50,000.00
2,500	Buda Company	31	77,500.00
3,000	Compania Manufacturers Del Patrero S.A.	5-1/4	5,250.00
1,000	Cuban American Manganese Corporation	24-1/8	53,075.00
2,200	Electric Boat Company	3-1/2	7,700.00
2,200	L. H. Gilmer Company	22	4,400.00
200	Gisholt Machine Company	31-1/4	19,531.25
625	W. F. Hall Printing Company	25-1/4	7,575.00
300	International Match Realization Company, Ltd.		
	<u>Forward</u>		<u>\$363,718.75</u>

INVESTMENTS IN SECURITIES

JANUARY 31, 1946

(CONTINUED)

NO. OF SHARES	DESCRIPTION OF SECURITIES	MARKET VALUE JANUARY 31, 1946	
		Price	Amount
<u>COMMON STOCKS - INDUSTRIALS (Continued)</u>			\$363,718.75
	Forward		
1,000	Jones & Lamson Machine Company	31-1/2	31,500.00
600	McGraw-Hill Publishing Company, Inc.	33-1/4	19,950.00
1,600	Nipissing Mines Company, Limited	4-1/4	6,800.00
200	Pacific Mills	76-1/2	15,300.00
100	Pittsburgh Incline Plane Company	190	19,000.00
89	Pittsburgh Terminal Realization Corporation	14-1/2	1,290.50
	<u>Total - Industrial Common Stocks</u>		\$457,559.25
<u>COMMON STOCKS - INVESTMENT COMPANIES</u>			
1,500	American International Corporation	15-5/8	23,437.50
7,400	Carriers and General Corporation	10-1/8	74,925.00
1,200	General Shareholdings Corporation	6	7,200.00
7,000	Pacific American Investors, Inc.	5-1/4	36,750.00
10,600	The Pennroad Corporation	8-7/8	94,075.00
3,100	Railway and Light Securities Company	23-1/8	71,687.50
1,000	Tri-Continental Corporation	12	12,000.00
	<u>Total - Investment Companies Common Stocks</u>		\$320,075.00
<u>COMMON STOCKS - RAILROADS</u>			
512	Canada Southern Railway Company	54-3/4	28,032.00
1,200	Illinois Central Railroad Company	42	50,400.00
370	Mine Hill and Schuylkill Haven Railroad Company	53	19,610.00
700	Northern Pacific Railway Company	34-1/2	24,150.00
	<u>Total - Railroad Common Stocks</u>		\$122,192.00
<u>COMMON STOCKS - UTILITIES</u>			
300	International Ocean Telegraph Company	115	34,500.00
162	Pacific and Atlantic Telegraph Company of U.S.	21	3,402.00
223	Southern and Atlantic Telegraph Company	21-1/2	4,794.50
	<u>Total - Utilities Common Stocks</u>		\$42,696.50
<u>COMMON STOCKS - INSURANCE COMPANIES</u>			
250	American Surety Company	79-1/2	19,875.00
910	Employers' Group Associates	45-1/4	41,177.50
100	National Union Fire Insurance Company	203	20,300.00
1,000	New Amsterdam Casualty Company	38	38,000.00
1,000	Standard Accident Insurance Company	43-1/2	43,500.00
1,000	Universal Insurance Company	25	25,000.00
	<u>Total - Common Stocks - Insurance Companies</u>		\$187,852.50

GRAHAM-NEWMAN CORPORATION

NEW YORK

INVESTMENTS IN SECURITIES

JANUARY 31, 1946

SUMMARY

	<u>MARKET VALUE</u>
<u>BONDS</u>	
Railroads	\$1,366,746.39
Industrials	291,500.00
Utilities	56,330.00
Real Estate	75,250.00
Holding Companies	80,137.50
U. S. Government	307,593.75
<u>Total Bonds</u>	<u>\$2,177,557.64</u>
<u>PREFERRED STOCKS</u>	
Industrials	721,155.00
Investment Companies	68,625.00
Utilities	73,312.50
<u>Total Preferred Stocks</u>	<u>\$ 863,092.50</u>
<u>COMMON STOCKS</u>	
Industrials	457,559.25
Investment Companies	320,075.00
Railroads	122,192.00
Utilities	42,696.50
Insurance Companies	187,852.50
Real Estate	1,015.00
<u>Total Common Stocks</u>	<u>\$1,131,390.25</u>
<u>TOTAL</u>	<u>\$4,172,040.39</u>

2-17-53

GRAHAM-NEWMAN CORPORATION

52 WALL STREET

NEW YORK 5, N. Y.

August 28, 1947

To the Stockholders of Graham-Newman Corporation:

Submitted herewith is a copy of the report of our auditors, Messrs. Stern, Porter, Kingston & Coleman, covering the six months ended July 31st, 1947.

The appended balance sheet indicates a net asset value of \$119.76 on July 31st, 1947, compared with \$116.84 per share on January 31st, 1947. A dividend of \$1.75 per share was paid during the six months period, and \$1.75 per share was paid on August 15th, 1947.

As at August 15th, 1947, the net asset value was approximately \$118.50 per share, after deducting the dividend paid on August 15th.

Very truly yours.

Benj. Graham,
President

Jerome A. Newman,
Vice-President & Treasurer.

STERN, PORTER, KINGSTON & COLEMAN

CERTIFIED PUBLIC ACCOUNTANTS

ALFRED J. STERN, C. P. A.
S. CARLTON KINGSTON, C. P. A.
LUCIUS H. COLEMAN, C. P. A.

551 Fifth Avenue - New York

MURRAY HILL 2-8075

To the Board of Directors and Stockholders of
Graham-Newman Corporation:

We have examined the Balance Sheet of Graham-Newman Corporation as at July 31, 1947 and the related statements of Profit and Loss, Surplus and unrealized appreciation of investments for the six months then ended, have reviewed the system of internal control and the accounting procedures of the company and, without making a detailed audit of the transactions, have examined or tested accounting records of the company and other supporting evidence by methods and to the extent we deemed appropriate and in accordance with generally accepted standards applicable in the circumstances.

Pursuant to regulations of the Securities and Exchange Commission applicable to regulated investment companies, the Balance Sheet herein gives effect to the evaluation of investments in securities at their quoted market values as at the date thereof.

In our opinion, the accompanying Balance Sheet and related statements of Profit and Loss, Surplus and unrealized appreciation of investments together with the notes appended thereto, present fairly the position of Graham-Newman Corporation as at July 31, 1947 and the results of its operations for the six months then ended, in conformity with the accounting principles set forth hereinabove applied on a basis consistent with that of the preceding year.

Stern Porter Kingston & Coleman

STERN, PORTER, KINGSTON & COLEMAN
Certified Public Accountants

New York, N. Y.
August 20, 1947.

GRAHAM-NEWMAN

NEW

BALANCE

JULY 31,

(ON BASIS OF QUOTED MARKET VALUES OF

A S S E T S

<u>CASH IN BANKS</u>		\$ 257,448.52
<u>DUE FROM BROKERS</u>		87,374.83
<u>INVESTMENTS IN SECURITIES</u> (see Note A)		
Marketable Securities-at Quoted Market Values as at July 31, 1947 (Cost \$3,650,447.24)		3,740,158.00
<u>OTHER ASSETS</u>		
Dividends Receivable and Interest Accrued	\$ 5,975.00	
When Issued Contracts (see Notes A and E)- at amount realizable on basis of quoted market values as at July 31, 1947 (Cost \$7,156.46)	3,106.00	
Note Receivable (Secured)	76,000.00	
Deposit	30,000.00	
Advance	<u>400.00</u>	
		115,481.00
		<u>\$4,200,462.35</u>

The comments contained in the
are an integral part of this statement

CORPORATION
YORK
S H E E T
1947
SECURITIES AS AT JULY 31, 1947)

LIABILITIES AND CAPITAL

<u>SECURITIES SHORT</u> - at Quoted Market Values as at July 31, 1947 (see Note A) (Net Proceeds of Sales - \$72,117.77)		\$	37,250.00
<u>DUE TO BROKERS</u>			225.04
<u>ACCOUNTS PAYABLE, RESERVES AND ACCRUALS</u>			
Reserve for Federal Income Tax (see Note D)	\$	None	
Reserves for Other Taxes		2,841.26	
Other		<u>2,668.50</u>	<u>5,509.76</u>
<u>Total Liabilities</u>			42,984.80
<u>NET ASSETS APPLICABLE TO CAPITAL STOCK</u>			
Capital Stock:			
Authorized-40,000 shares of no par value			
Issued and Outstanding-			
34,715 shares, at stated value of \$50.00 per share		1,735,750.00	
Capital Surplus		2,211,694.45	
Earned Surplus		<u>89,505.03</u>	
<u>Total Capital Stock and Surplus</u>		4,036,949.48	
Unrealized Appreciation of Investments		<u>120,528.07</u>	
			4,157,477.55
			<u>\$4,200,462.35</u>

accompanying notes to financial statements
and should be read in conjunction therewith.

GRAHAM-NEWMAN CORPORATION

NEW YORK

NOTES TO FINANCIAL STATEMENTS

JULY 31, 1947

NOTE A - LIQUIDATING VALUE

The Balance Sheet herein presents the financial condition of the company as at July 31, 1947 on the basis of quoted market values of the securities positions as at that date, thus giving effect to the net unrealized appreciation in the market value of securities as at that date (including open positions in securities short and in "when issued" contracts) in the amount of \$120,528.07, but without making any provision for Federal income taxes in respect of such appreciation, the amount of which, if any, cannot presently be determined (see Note D).

As thus adjusted, the liquidating value of the capital stock as at July 31, 1947 was \$119.76 per share. The comparable liquidating value as at January 31, 1947 was \$116.84 per share.

The net unrealized appreciation in quoted market value as at July 31, 1947 in the amount of \$120,528.07 is represented as follows:

	<u>Cost</u>	Quoted Market Value at July 31, 1947	Unrealized Appreciation
Securities Long	\$3,650,447.24	\$3,740,158.	\$ 89,710.76
Securities Short	-72,117.77	-37,250.(a)	34,867.77
When Issued Contracts	<u>7,156.46</u>	<u>3,106.(b)</u>	<u>-4,050.46</u>
Total	<u>\$3,585,485.93</u>	<u>\$3,706,014.</u>	<u>\$120,528.07</u>

(a) Cover Value.

(b) Indicated amount realizable on basis of market value of "when issued" contracts.

The company has made investments in the securities of a railroad company which is in the process of reorganization, and has made sales upon a "when as and if issued" basis of the new securities which are to be issued by the reorganized company upon the consummation of the reorganization plan. It has also made purchases and sales of when issued contracts. The company's investment in the quoted market value as at July 31, 1947 of the old securities is included above in the item "Securities Long", and its investment in when issued contracts and the quoted market value thereof as at July 31, 1947 are reflected in the item "When Issued Contracts".

NOTE B - PROFIT AND LOSS

The Profit and Loss Statement herein presents the operations of the company for the six months ended July 31, 1947 on the basis of quoted market values of the securities positions as at January 31, 1947 and as at July 31, 1947, thus giving effect to the increase in the net unrealized appreciation as at July 31, 1947 as compared with the net unrealized appreciation as at January 31, 1947.

As adjusted upon this basis (i.e. on the basis of quoted market values) the operations for the period were as follows:

NOTES TO FINANCIAL STATEMENTS

JULY 31, 1947

(CONTINUED)

NOTE B - PROFIT AND LOSS (Continued)

		<u>No. of Shares</u>	<u>Per Share</u>
Net Assets as at January 31, 1947	\$3,996,593.16	34,207	\$116.84
Add-Proceeds from sale of Capital Stock during period February 1, 1947 to July 31, 1947	<u>65,240.13</u>	<u>508</u>	<u>128.42</u>
Total	4,061,833.29	34,715	117.00
Net Profit for the six months ended July 31, 1947 including increase in unrealized appreciation of invest- ments (\$6,139.23)	153,104.02		4.41(a)
Surplus Adjustments (net credit)	<u>3,291.49</u>		.09(a)
Total	4,218,228.80		
Deduct - Dividend Paid	<u>60,751.25</u>	34,715	1.75(b)
Net Assets as at July 31, 1947	<u>\$4,157,477.55</u>	<u>34,715</u>	<u>\$119.76</u>

(a) Computed on number of shares outstanding at close of period.

(b) Computed on number of shares outstanding at record date.

NOTE C - COMPENSATION OF OFFICERS

Compensation of Benjamin Graham and Jerome A. Newman as officers of the company for the fiscal year ended January 31, 1946 was voted by the Board of Directors at March 21, 1945, and ratified by the stockholders at their annual meeting on April 9, 1945 at (a) a stated salary of \$15,000. per annum to each, - plus (b) additional compensation equivalent to the lesser of either (i) 12½% to each, of the excess of the dividends paid during the year over an amount equal to \$0.018 per share per day (or at the rate of \$6.57 for the year) on the number of shares outstanding during the year, or (ii) 10% to each of the excess of the over-all net profit, adjusted to reflect unrealized appreciation or depreciation in the market value of securities, which had been earned subsequent to January 31, 1945, over a similar amount (viz: \$0.018 per share per day on the number of shares outstanding during the year). In the event of the death of either of these officers, or upon the termination of their tenure of office, any excess of the amount computed under (ii) above over the amounts of additional compensation which had previously been paid to such officer subsequent to January 31, 1945 would be payable to him or to his estate.

By resolution of the Board of Directors on April 23, 1946, this arrangement was continued for the fiscal year ending January 31, 1947. By resolution of the Board of Directors on February 17, 1947, this arrangement was modified to provide that the amount to be excluded from dividends paid, or from over-all net profit, be fixed at \$0.01724 per share per day, for the fiscal year ended January 31, 1947, and at \$0.016 per share per day for the current fiscal year, which amounts are equivalent of 5% on the net liquidating value of the capital stock as at the beginning of the respective fiscal years, viz: at January 31, 1946 \$125.88 per share, and as at January 31, 1947 \$116.84 per share.

NOTES TO FINANCIAL STATEMENTS

JULY 31, 1947

(CONTINUED)

NOTE C - COMPENSATION OF OFFICERS (Continued)

Upon the basis of the operations for the period subsequent to January 31, 1946 (to July 31, 1947), there is no additional compensation payable to these officers for the current period. There would likewise have been no additional compensation payable to either of them as at July 31, 1947 in the event of death or termination of tenure of office at that date.

NOTE D - TAX STATUS

The company is a regulated investment company under the Internal Revenue Code, and as such it is subject to Federal Income Tax at 25% of the excess of its net long term capital gain (less its net short term capital loss, if any) over the amount distributed as "capital gain dividends", and at 38% of the excess of its other net income over the amount distributed as dividends and chargeable thereto. The company intends to distribute substantially all of its net income as dividends. For this reason, no provision has been made in the statements herewith for Federal Income Tax on the net income for the current period, or on the net unrealized appreciation in market values as at July 31, 1947.

NOTE E - EVALUATION OF WHEN ISSUED CONTRACTS

When Issued Contracts have been evaluated at the quoted market value thereof, viz: upon the basis of the discount on the indicated profits or losses which will be realizable upon the consummation of the reorganization plans.

NOTE F - PURCHASES AND SALES OF INVESTMENT SECURITIES

The aggregate amounts of purchases and sales of investment securities (other than government securities) during the period were \$2,615,303.00 and \$2,898,610.00, respectively.

GRAHAM-NEWMAN CORPORATION

NEW YORK

EARNED SURPLUSFOR THE SIX MONTHS ENDED JULY 31, 1947

<u>BALANCE AT JANUARY 31, 1947</u>		None
<u>ADD:-</u>		
Net Income for the six months ended July 31, 1947:		
Net Income, excluding gain or loss on investments	\$ 33,027.02	
Realized Gains on sales of investments	<u>113,937.77</u>	146,964.79
Surplus Adjustments - tax refund and adjust- ment of reserves for taxes of prior years (net credit)		<u>3,291.49</u>
<u>TOTAL</u>		150,256.28
<u>DEDUCT:-</u>		
Dividend Paid May 22, 1947 (\$1.75 per share)		<u>60,751.25</u>
<u>BALANCE AT JULY 31, 1947</u>		<u>\$ 89,505.03</u>

STATEMENT OF UNREALIZED APPRECIATION OF INVESTMENTSFOR THE SIX MONTHS ENDED JULY 31, 1947

<u>UNREALIZED APPRECIATION AT JANUARY 31, 1947</u>	\$114,388.84
<u>ADD</u> - increase in Unrealized Appreciation for the six months ended July 31, 1947	<u>6,139.23</u>
<u>UNREALIZED APPRECIATION AT JULY 31, 1947</u>	<u>\$120,528.07</u>

GRAHAM-NEWMAN CORPORATION

NEW YORK

CAPITAL STOCK AND CAPITAL SURPLUS
FOR THE SIX MONTHS ENDED JULY 31, 1947

	CAPITAL STOCK		CAPITAL SURPLUS
	No. of Shares	Stated Value (\$50. per share)	
<u>CAPITAL STOCK AUTHORIZED AT JANUARY 31, 1947</u> (no change during period)	40,000		
<u>CAPITAL STOCK OUTSTANDING AT JANUARY 31, 1947</u>	34,207	\$1,710,350.	
<u>CAPITAL SURPLUS AT JANUARY 31, 1947</u>			\$2,171,854.32
<u>CAPITAL STOCK ISSUED DURING PERIOD-For Cash</u> 508 shares-Amount Realized \$65,240.13 (average per share \$128.42)			
Of which:			
Credited to Capital Stock at \$50.00 per share (stated value)	508	25,400.	
Excess over \$50.00 per share- credited to Capital Surplus			<u>39,840.13</u>
<u>BALANCES AT JULY 31, 1947:</u>			
<u>Capital Stock</u>	<u>34,715</u>	<u>\$1,735,750.</u>	
<u>Capital Surplus</u>			<u>\$2,211,694.45</u>

GRAHAM-NEWMAN CORPORATION

NEW YORK

INVESTMENT IN SECURITIES

JULY 31, 1947

SUMMARY

	<u>MARKET VALUE</u>
<u>BONDS</u>	
Railroads	\$ 278,720.
Utilities	364,128.
Real Estate	3,750.
Holding Companies	2,514.
U. S. Government	<u>306,938.</u>
<u>Total Bonds</u>	<u>\$ 956,050.</u>
 <u>PREFERRED STOCKS</u>	
Industrials	111,563.
Investment Companies	172,000.
Utilities	216,725.
Insurance Companies	4,150.
Holding Companies	<u>123,900.</u>
<u>Total Preferred Stocks</u>	<u>\$ 628,338.</u>
 <u>COMMON STOCKS</u>	
Industrials	1,408,399.
Holding Companies	91,059.
Investment Companies	245,327.
Railroads	146,025.
Utilities	34,201.
Insurance Companies	<u>230,759.</u>
<u>Total Common Stocks</u>	<u>\$2,155,770.</u>
 <u>TOTAL</u>	 <u>\$3,740,158.</u>

GRAHAM-NEWMAN CORPORATION

NEW YORK

INVESTMENT IN SECURITIES

JULY 31, 1947

<u>FACE AMOUNT</u>	<u>DESCRIPTION OF SECURITIES</u>	<u>MARKET VALUE JULY 31, 1947</u>
<u>BONDS - RAILROADS</u>		
\$ 20,000.	Chicago, Rock Island & Pacific Railway Co. General Mortgage 4% - 1/1/1988	\$ 16,800.
\$ 96,000.	Chicago, Terre Haute & Southeastern Railway Co. Income Mortgage 2-3/4% - 1/1/1994	74,880.
\$110,000.	Choctaw, Oklahoma & Gulf Railroad Co. Consolidated Mortgage 5% 5/1/1952-Stamped do do do -C/D-Stamped	85,250.
\$171,000.	Northwestern Terminal Railway Co. First Mortgage Income 5% - 1/1/1977	80,370.
\$ 63,000.	Rio Grande & Western Railway Co. First Consolidated Mortgage-Series A 4% - 4/1/1949 (stubs)	5,670.
\$ 20,000.	Wisconsin Central Railway Co. First General Mortgage 4% - 7/1/1949	<u>15,750.</u>
	<u>Total Railroad Bonds</u>	<u>\$278,720.</u>
<u>BONDS - UTILITIES</u>		
	Chicago Rapid Transit Company:	
\$ 12,500.	1st & Refunding Mtge. Series A 6% - 7/1/1953	7,380.
23,500.	1st & Refunding Mtge. 6 1/2% - 7/1/1944	
\$ 80,000.	Chicago Railways Co. First Mtge. C/D stamped 5% 2/1/27 25% Principal Paid	58,000.
\$ 45,000.	Inland Gas Corporation First Mortgage - Series A 6 1/2% 2/1/38	11,475.
\$ 38,000.	Metropolitan West Side Elevated Ry. Co. (Chicago): Ext. Mtge. 4% 7/1/1938	102,043.
305,000.	1st Mtge. 4% 8/1/1938	
\$ 36,000.	Northwestern Elevated Railway Company 1st Mtge. 5% 9/1/1941	13,590.
\$ 60,000.	Portland Electric Power Co. Collateral Trust Cumulative Income 6% 3/1/1950	88,800.
\$102,000.	Union Elevated Railroad Company: 1st Mortgage 5% 10/1/1945	82,840.
116,000.	1st Mortgage C/D 5% 10/1/1945	
	<u>Total Utilities Bonds</u>	<u>\$364,128.</u>
<u>BONDS - REAL ESTATE</u>		
	2,500 Units Schulco Company Incorporated Scrip 5% 7/1/1963	<u>\$ 3,750.</u>
<u>BONDS - HOLDING COMPANIES</u>		
\$ 30,000.	Continental Securities Corp. Deb. Series "A" 5% 5/1/42	825.
\$ 96,500.	Reynolds Realization Corporation Debentures 5% 4/1/1946	<u>1,689.</u>
	<u>Total Holding Companies Bonds</u>	<u>\$ 2,514.</u>
<u>BONDS - U. S. GOVERNMENT</u>		
\$300,000.	U. S. Treasury Bonds 2 1/4% 12/15/1959-62	<u>\$306,938.</u>
	<u>TOTAL BONDS</u>	<u>\$956,050.</u>

INVESTMENT IN SECURITIES

JULY 31, 1947

(CONTINUED)

<u>NO. OF SHARES</u>	<u>DESCRIPTION OF SECURITIES</u>	<u>MARKET VALUE JULY 31, 1947</u>
<u>PREFERRED STOCKS - INDUSTRIALS</u>		
1,100	Avco Manufacturing Corp. Cum. Conv. Pfd.	\$ 45,925.
300	Franklin Simon & Co, Inc. Cumulative Conv. Pfd.	9,525.
500	Gar Wood Industries Inc. 4 $\frac{1}{2}$ % Cumulative Conv. Pfd.	13,500.
700	Graham Paige Motors Corp. Cumulative Conv. Pfd.	10,063.
300	Murray Company \$4.50 Cum. Pfd.	12,150.
400	Thermoid Co. \$2.50 Cum. Conv. Pfd.	<u>20,400.</u>
	<u>Total Preferred Stocks - Industrials</u>	<u>\$111,563.</u>
<u>PREFERRED STOCKS- INVESTMENT COMPANIES</u>		
1,800	Alleghany Corporation Cum. Conv. \$2.50 Prior Pfd.	114,300.
925	Railway and Light Securities Company 4% Cum.Conv. Pfd.	45,325.
3,000	Transit Investment Corp. 6% Cum. Part. Pfd.	<u>12,375.</u>
	<u>Total Preferred Stocks-Investment Companies</u>	<u>\$172,000.</u>
<u>PREFERRED STOCKS - UTILITIES</u>		
4,000	Market Street Railway Company Cum. Prior Preference 6%	45,500.
500	New England Public Service Company \$6. Prior Lien Cum. Pfd.	80,500.
500	New England Public Service Company \$7. Prior Lien Cum. Pfd.	86,625.
100	Twin City Rapid Transit Co. 5% Conv.Prior Preferred	<u>4,100.</u>
	<u>Total Preferred Stocks - Utilities</u>	<u>\$216,725.</u>
<u>PREFERRED STOCKS - INSURANCE COMPANIES</u>		
400	U. S. Casualty Co. \$0.45 Cum. Conv. Participating Pfd.	<u>\$ 4,150.</u>
<u>PREFERRED STOCKS - HOLDING COMPANIES</u>		
5,000	Electric Bond & Share Co. \$6.00 Preferred Contingent Certificates for additional amounts due	10,000.
100	Electric Power and Light Corp. \$6.00 Cumulative Preferred	15,100.
200	Standard Gas and Electric Co. \$6.00 Cumulative Prior Preferred	19,700.
700	Standard Power and Light Corporation \$7.00 Cumulative Preferred	<u>79,100.</u>
	<u>Total Preferred Stocks - Holding Companies</u>	<u>\$123,900.</u>
	<u>TOTAL PREFERRED STOCKS</u>	<u>\$628,338.</u>
<u>COMMON STOCKS - INDUSTRIALS</u>		
4,600	A. D. F. Company	9,200.
1,000	American Hawaiian Steamship Company	38,000.
500	Aspinook Corporation	11,500.
1,000	Beech Aircraft Corporation	8,000.
12,300	Bell Aircraft Corporation	<u>152,212.</u>
	Forward	<u>\$218,912</u>

INVESTMENT IN SECURITIES

JULY 31, 1947

(CONTINUED)

<u>NO. OF SHARES</u>	<u>DESCRIPTION OF SECURITIES</u>	<u>MARKET VALUE JULY 31, 1947</u>
COMMON STOCKS - INDUSTRIALS (Continued)		
	Forward	\$218,912.
500	Boeing Airplane Company	8,000.
12,100	Brewster Aeronautical Company	58,988.
4,000	Buda Company	67,000.
3,000	Compania Manufactures del Patrero, S.A.	-
2,800	Consolidated Steel Corporation	73,150.
500	Consolidated Vultee Aircraft Corporation	5,813.
200	Douglas Aircraft Co.	11,200.
800	Fajardo Sugar Co. of Porto Rico	23,000.
2,200	L. H. Gilmer Company	6,600.
200	Gishelt Machine Company	3,225.
300	International Match Realization Company, Ltd.	4,125.
600	Jones & Lamson Machine Company	12,300.
1,000	Merchants & Minders Transportation Company	42,000.
2,300	Mission Corporation	93,150.
700	National Department Stores Corp.	12,600.
44,790	National Transit Company*	683,048.
300	N. Y. Shipbuilding Corp.	3,600.
100	Pittsburgh Incline Plane Company	16,500.
2,000	Tide Water Associated Oil Company	41,750.
500	United Aircraft Corporation	9,688.
1,000	R. C. Williams Company	13,750.
	<u>Total Common Stocks - Industrials</u>	<u>\$1,408,399.</u>
COMMON STOCKS - HOLDING COMPANIES		
1,000	Amerex Holding Corporation	32,250.
500	Central & Southwest Utilities Co.	5,125.
2,805	Engineers Public Service Company-Ex-distribution	5,259.
100	Georgia Railroad and Banking Company	16,400.
3,000	Midland Realization Company	17,625.
600	Railroad Securities Company	14,400.
	<u>Total Common Stocks - Holding Companies</u>	<u>\$ 91,059.</u>
COMMON STOCKS - INVESTMENT COMPANIES		
530	Aldred Investment Trust Shareholders	4,515.
1,500	American International Corp.	18,375.
7,400	Carriers and General Corporation	50,875.
1,800	General Shareholdings Corporation	6,750.
1,000	Niagara Shares Corp. "B"	9,625.
7,000	Pacific American Investors, Inc.	19,250.
15,000	The Pennroad Corporation	99,000.
2,500	Railway and Light Securities Company	45,937.
	<u>Total Common Stocks - Investment Companies</u>	<u>\$245,327.</u>

*Non-controlled affiliate.

INVESTMENT IN SECURITIES

JULY 31, 1947

(CONTINUED)

<u>NO. OF SHARES</u>	<u>DESCRIPTION OF SECURITIES</u>	<u>MARKET VALUE JULY 31, 1947</u>
<u>COMMON STOCKS - RAILROADS</u>		
300	Denver and Rio Grande Western Railroad Co.	\$ 3,675.
1,600	Mine Hill and Schuylkill Haven Railroad Company	77,600.
1,000	Northern Pacific Railway Company	21,000.
500	Vicksburg Shreveport & Pacific Railway Company	43,750.
	<u>Total Common Stocks - Railroads</u>	<u>\$146,025.</u>
<u>COMMON STOCKS - UTILITIES</u>		
300	International Ocean Telegraph Company	24,750.
500	Middle West Corporation	7,563.
59	Monongahela Street Railway Company	1,888.
	<u>Total Common Stocks - Utilities</u>	<u>\$ 34,201.</u>
<u>COMMON STOCKS - INSURANCE COMPANIES</u>		
400	American Surety Company	22,200.
1,000	Employers Group Associates	29,000.
100	National Union Fire Insurance Company	15,300.
3,305	New Amsterdam Casualty Company	91,714.
200	Northern Insurance Company of New York	15,400.
40	Northwestern National Insurance Co.	5,020.
1,100	Standard Accident Insurance Company	31,625.
1,000	Universal Insurance Company	20,500.
	<u>Total Common Stocks - Insurance Companies</u>	<u>\$230,759.</u>
<u>COMMON STOCKS - REAL ESTATE</u>		
290	Mercantile Properties	<u>-0-</u>
	<u>TOTAL COMMON STOCKS</u>	<u>\$2,155,770.</u>

GRAHAM-NEWMAN CORPORATION

NEW YORK

WHEN ISSUED CONTRACTS

JULY 31, 1947

<u>SHORT</u>			INDICATED PROFIT (OR LOSS*) ON BASIS OF TRADE VALUES AND QUOTED MARKET VALUES AT JULY 31, 1947
<u>PRINCIPAL AMOUNT OR NO. OF SHARES</u>		<u>AMOUNT PAID (DR.)</u>	
Chicago, Rock Island & Pacific Ry. Co.:			
\$12,996.15	4% - 1994	\$ 130.30	\$ -434.*
Even	do	-	406.
\$62,915.25	4½% - 2019	131.91	-1,977.*
Even	do	6,601.82	1,534.
Even	do	-	6,501.
651.0494	5% Preferred	114.82	-1,255.*
268.9136	Common	177.61	-1,669.*
		<u>\$7,156.46</u>	<u>\$3,106.</u>

*Loss

GRAHAM-NEWMAN CORPORATION

NEW YORK

SECURITIES SHORT

JULY 31, 1947

COMMON STOCKS - INDUSTRIALS

<u>NO. OF SHARES</u>		<u>NET PROCEEDS OF SALE</u>	<u>COVER VALUE JULY 31, 1947</u>	
			<u>Price</u>	<u>Amount</u>
2,800	Avco Manufacturing Corp.	\$31,938.63	5-3/8	\$15,050.
2,100	Graham Paige Motors Corporation	22,690.07	4	8,400.
1,200	Thermoid Co.	<u>17,489.07</u>	11-1/2	<u>13,800.</u>
	Total	<u>\$72,117.77</u>		<u>\$37,250.</u>

GRAHAM-NEWMAN CORPORATION

52 WALL STREET

NEW YORK 5. N. Y.

February 25 , 1949

To the Stockholders of Graham-Newman Corporation:

Submitted herewith are financial statements of the Corporation covering the fiscal year ended January 31, 1949.

The appended balance sheet indicates a net asset value of \$97.56 per share on January 31, 1949, compared with \$114.13 per share on January 31, 1948.

In July 1948 a capital distribution was made consisting of all of the shares of Government Employees Insurance Co. owned by the Corporation, which were carried at a book cost equivalent to \$21.21 per share of Graham-Newman Corp. stock. In addition, dividends of \$5.75 were paid during the year. Of this amount \$4.31 per share has been designated as Capital Gain dividends, pursuant to Section 362 of the Internal Revenue Code.

The over-all net gain for the fiscal year, including the net increase in unrealized appreciation, amounted to \$9.15 per share on the average number of shares outstanding. Net realized profits for the year, without reflecting the increase in unrealized appreciation, amounted to \$6.07 per share.

If effect is given to the increase over book cost in the quoted value of the Insurance Company shares at the date of their distribution in July 1948, the over-all gain would be \$14.94 per share. In addition, stockholders who received and retained their Insurance Company shares have a further gain thereon—based on their market price of \$30.00 per share on January 31, 1949, plus dividends received—amounting to no less than \$28.80 per share of their Graham-Newman Corp. stock.

The results for the full year ended January 31, 1949, to stockholders who held their Graham-Newman Corp. and Insurance Company shares throughout the applicable period, may be summarized as follows:-

	<u>Per Share of Graham-Newman Stock</u>
Net asset value on January 31st, 1949 shown herewith	\$ 97.56
Add: Cash dividends paid in year	5.75
Market value on January 31st, 1949 of stock of Government Employees Insurance Co. distributed in July 1948, plus stock dividend thereon (1.8 shares of Insurance Co. stock at \$30 per share)	54.00
Cash dividends paid in July 1948 and January 1949 on the Insurance Co. shares	<u>1.80</u>
	Total - \$159.11
Net asset value on January 31st, 1948	<u>114.13</u>
Gain for the year	<u>\$ 44.98</u>

The indicated net asset value as of February 19, 1949 was approximately \$97.00 per share.

The financial statements have been reviewed by Messrs. Stern, Porter, Kingston and Coleman, independent public accountants, whose certificate is set forth herein.

The proxy statement for the annual meeting to be held April 11, 1949 will be sent to stockholders on or about April 1, 1949.

By Order of the Board of Directors,

Benj. Graham,
President

Jerome A. Newman,
Vice-President & Treasurer

STERN, PORTER, KINGSTON & COLEMAN
CERTIFIED PUBLIC ACCOUNTANTS


551 Fifth Avenue, New York 17, N. Y.
MURRAY HILL 2-8075

To the Board of Directors and Stockholders of
Graham-Newman Corporation:

We have examined the Balance Sheet of Graham-Newman Corporation as at January 31, 1949 and the related statements of Profit and Loss and Changes of Net Assets for the fiscal year ended January 31, 1949, have reviewed the system of internal control and the accounting procedures of the company and, without making a detailed audit of the transactions, have examined or tested accounting records of the company and other supporting evidence by methods and to the extent we deemed appropriate and in accordance with generally accepted standards applicable in the circumstances.

Pursuant to regulations of the Securities and Exchange Commission applicable to regulated investment companies, the Balance Sheet herein gives effect to the evaluation of investments in securities at their quoted market values as at the date thereof.

In our opinion, the accompanying Balance Sheet and related statements of Profit and Loss and Changes of Net Assets, subject however to the notes appended thereto, present fairly the position of Graham-Newman Corporation as at January 31, 1949 and the results of its operations for the fiscal year then ended, in conformity with the accounting principles set forth hereinabove applied on a basis consistent with that of the preceding year.


STERN, PORTER, KINGSTON & COLEMAN
Certified Public Accountants

New York, N. Y.
February 18, 1949.

GRAHAM-NEWMAN

NEW

B A L A N C E

JANUARY 31,

(ON BASIS OF QUOTED MARKET VALUE)

A S S E T S

CASH IN BANKS \$ 86,243.81

DUE FROM BROKERS

For Securities sold

\$ 2,874.05

Other

166,279.90

169,153.95

INVESTMENTS IN SECURITIES (see Note A)
(Cost \$5,076,072.43)

5,242,969.00

OTHER ASSETS

Interest Accrued on Bonds

220.00

\$5,498,586.76

CORPORATION

YORK

S H E E T

1949

OF SECURITIES AS AT JANUARY 31, 1949)

LIABILITIES AND CAPITAL

NOTES PAYABLE - BANK (secured)		\$ 450,000.00
SECURITIES SHORT (see Note A) (Net Proceeds of Sales \$131,496.61)		112,290.00
ACCOUNTS PAYABLE AND ACCRUALS		
Officers' Additional Compensation (see Note B)	\$21,260.56	
Other	<u>4,213.14</u>	25,473.70
PROVISION FOR ADDITIONAL CONTINGENT COMPENSATION OF OFFICERS (on increase in unrealized appreciation subsequent to January 31, 1948)		32,568.92
NET ASSETS APPLICABLE TO OUTSTANDING CAPITAL STOCK		4,878,254.14
Capital Stock:		
Authorized, Issued and Outstanding- 50,000 shares of no par value Stated Value \$50.00 per share	2,500,000.00	
Capital Surplus	2,224,719.88	
Earned Surplus	-	
Total Capital Stock and Surplus	<u>4,724,719.88</u>	
Unrealized Appreciation of Investments (after deducting provision for additional contingent compensation of officers)	<u>153,534.26</u>	
Total as above	<u>\$4,878,254.14</u>	
equivalent to \$97.56 per share		
		<u>\$5,498,586.76</u>

GRAHAM-NEWMAN CORPORATION
 STATEMENT OF CHANGES IN NET ASSETS
 APPLICABLE TO OUTSTANDING CAPITAL STOCK
 FOR THE FISCAL YEAR ENDED JANUARY 31, 1949

		NO. OF SHARES	PER SHARE
<u>NET ASSETS AT JANUARY 31, 1948</u>	\$3,961,948.39	34,715	\$114.13
<u>ADD</u>			
Capital Stock issued during year - for cash	<u>1,528,500.00</u>	<u>15,285</u>	<u>100.00</u>
	5,490,448.39	50,000	109.91
Net Income for year:			
Net Income, excluding gain or loss on investments, and before deducting additional compensation of officers	\$ 52,966.31		
Realized Net Gain on Sales of Investments	<u>225,589.55</u>		
Total	<u>278,555.86</u>		
Deduct-Additional compensation of officers (see Note B)	21,260.56		
Provision for Federal income tax (see Note C)	<u> -</u>		
Net Income for year	257,295.30		6.07(a)
Increase in Unrealized Appreciation	162,844.58		
Deduct-Provision for additional contingent compensation of officers (see Note B)	<u>32,568.92</u>	<u>130,275.66</u>	3.08(a)
<u>TOTAL</u>	5,878,019.35		
<u>DEDUCT</u>			
Distribution to Stockholders at July 6, 1948 of 37,492-20/100 shares Government Employees Insurance Company stock-at Cost	<u>736,190.95</u>		21.21(c)
Dividends Paid:			
Date Paid	Per Share	No. of Shares	
June 18, 1948	\$1.75	34,715	60,751.25
Sept. 17, 1948	1.25	50,000	62,500.00
Dec. 17, 1948	1.25	50,000	62,500.00
Jan. 28, 1949	<u>1.50</u>	<u>50,000</u>	<u>75,000.00</u>
Total	<u>\$5.75</u>		<u>260,751.25</u>
Recapitalization Expenses (see Note D)	2,823.01		.06(d)
	<u>999,765.21</u>		
<u>NET ASSETS AT JANUARY 31, 1949</u>	<u>\$4,878,254.14</u>		<u>\$ 97.56(d)</u>

- (a) computed on basis of average number of shares outstanding during year-42,357-1/2 shares.
- (b) computed on number of shares upon which dividends were actually paid.
- (c) computed on number of shares upon which distribution of Government Employees Insurance Co. stock was made (34,715 shares).
- (d) computed on number of shares outstanding at close of year (50,000 shares).

STATEMENT OF CHANGES IN NET ASSETS
 APPLICABLE TO OUTSTANDING CAPITAL STOCK
 FOR THE FISCAL YEAR ENDED JANUARY 31, 1949

	<u>T O T A L</u>	<u>CAPITAL STOCK STATED VALUE \$50. PER SHARE</u>	<u>CAPITAL SURPLUS</u>	<u>EARNED SURPLUS</u>	<u>UNREALIZED APPRECIATION</u>
<u>ANALYSIS OF CHANGES IN NET ASSETS</u>					
Net Assets at January 31, 1948	\$3,961,948.39	\$1,735,750.	\$2,202,939.79	\$ -	\$ 23,258.80
Add:					
Capital Stock issued during year (15,285 shares)	1,528,500.00	764,250.	764,250.00		
Net Income for year	257,295.30			257,295.30	
Increase in Unrealized Appreciation less provision for additional contingent compensation of officers	<u>130,275.66</u>				<u>130,275.66</u>
Total	5,878,019.35	2,500,000.	2,967,189.79	257,295.30	153,534.26
Deduct:					
Distribution-Government Employ- ees Insurance Company stock	736,190.95		736,190.95		
Dividends Paid	260,751.25		3,455.95	257,295.30	
Recapitalization Expense	<u>2,823.01</u>		2,823.01		
	<u>999,765.21</u>				
Net Assets at January 31, 1949	<u>\$4,878,254.14</u>	<u>\$2,500,000.</u>	<u>\$2,224,719.88</u>	<u>\$ -0-</u>	<u>\$153,534.26</u>

GRAHAM-NEWMAN CORPORATION
NEW YORK
NOTES TO FINANCIAL STATEMENTS
JANUARY 31, 1949

NOTE A - VALUE OF INVESTMENTS-UNREALIZED APPRECIATION OF INVESTMENTS

The unrealized appreciation of investments at January 31, 1949 is represented as follows:

	<u>Cost</u>	<u>Value at January 31, 1949</u>	<u>Unrealized Appreciation</u>
Investments in Securities	\$5,076,072.43	\$5,242,969.	\$166,896.57
Securities Short	<u>131,496.61</u>	<u>112,290.</u>	<u>19,206.61</u>
Net Securities Position	<u>\$4,944,575.82</u>	<u>\$5,130,679.</u>	186,103.18
The unrealized appreciation of investments at January 31, 1948 was			<u>23,258.60</u>
and the increase in unrealized appreciation at the close of the year as compared with the status at the close of the prior year was			<u>\$162,844.58</u>

The investment in Atlantic Gulf & West Indies Steamship Lines Common Stock has been valued per resolution of the board of directors at its quoted market value on the New York Stock Exchange as at the close of the year, and on this basis shows an unrealized appreciation of \$166,341.50, thus representing an amount slightly in excess of the increase in unrealized appreciation for the year and the greater part of the unrealized appreciation at the close thereof. The company and other persons associated with it in this transaction acquired an effective control of that company (A.G.W.I.) in December 1948 and there have recently been only occasional transactions in this security on the Exchange.

Current values of investments at January 31, 1949 are based on market quotations and are not intended as representations of the amounts which may actually be realizable upon sale of these securities.

NOTE B - COMPENSATION OF OFFICERS

Pursuant to a resolution of the directors approved by the stockholders at a special meeting held on February 27, 1949, the corporation pays the President and Treasurer each a salary at the rate of \$25,000.00 per annum from February 1, 1948 and as additional compensation to each, a sum equal to 10% of the over-all earnings from February 1, 1948 above a cumulative annual dividend of \$4.00 per share, to the extent that the balance of such excess over-all earnings shall have been paid in dividends. Any such additional compensation is payable in five equal annual amounts on or about each successive January 31st, beginning January 31, 1949. The directors have voted to accelerate the payment of the additional compensation for the current year. In the event of death of either officer or the election of a successor, additional compensation will be payable of a sum which, together with the total additional compensation previously paid, shall equal 10% of the excess of the over-all net earnings of the corporation from February 1, 1948 to the date of termination of office over an amount equal to \$4.00 per share per annum on the average number of shares outstanding for such period.

NOTES TO FINANCIAL STATEMENTS

JANUARY 31, 1949

(CONTINUED)

NOTE C - TAX STATUS

The company is a "regulated investment company" under the Internal Revenue Code, and as such is subject to Federal income tax at 25% of the excess of its net long term capital gain (less its net short term capital loss, if any) over the amount distributed as dividends which are designated by it as "capital gain dividends", and at 38% of the excess of its other net income over the amount of dividend distributions therefrom. The Company has distributed as dividends the entire amount of its net income for the current year, so that no provision for Federal income tax for the year is required. The Company likewise intends to follow the same practice in the future and no Federal income taxes will be payable on the basis of the Internal Revenue Code presently in force for any year in which this practice is followed. No provision has therefore been made for Federal income tax on unrealized appreciation of investments at January 31, 1949.

NOTE D - ISSUE OF ADDITIONAL STOCK

At June 16, 1948 the directors voted to increase the authorized Capital Stock of the Company from 40,000 to 50,000 shares of no par value and to offer the balance of the unissued stock to stockholders of record July 14, 1948 at \$100.00 per share in the ratio of 44/100 of a share of new stock for each share then outstanding. The rights to subscribe expired August 9, 1948 and the entire number of authorized and unissued shares (15,285 shares) were subscribed for. Of the amount received, \$50.00 per share, being the stated value per share of the capital stock, was credited to Capital Stock account, and the balance of \$50.00 per share was credited to Capital Surplus.

NOTE E - SUPPLEMENTARY INFORMATION

The aggregate dollar amount of purchases and sales of investment securities, other than Government securities, made during the year were as follows:

	<u>Cost of Purchases</u>	<u>Proceeds from Sales</u>
First half (February 1, 1948 to July 1, 1948)	\$2,231,534.44	\$1,373,835.93
Second half (August 1, 1948 to January 31, 1949)	<u>1,919,694.03</u>	<u>885,194.72</u>
Total for the year	<u>\$4,151,228.47</u>	<u>\$2,259,030.65</u>

GRAHAM-NEWMAN CORPORATION
NEW YORK
INVESTMENTS IN SECURITIES
JANUARY 31, 1949

S U M M A R Y

QUOTED
MARKET VALUE
AT JANUARY 31, 1949

INVESTMENT COMPANIES

Preferred Stocks
Common Stocks

\$ 35,063.
248,741.

HOLDING COMPANIES

Preferred Stocks
Common Stocks

447,356.
174,342.

OTHER SECURITIES

Bonds

Railroads
Utilities
Real Estate

342,865.
391,663.
1,500.

Preferred Stocks

Utilities
Insurance Companies
Industrials

203,240.
4,000.
154,830.

Common Stocks

Railroads
Utilities
Banks
Insurance Companies
Industrials

22,750.
198,520.
50,625.
289,661.
2,677,813.

\$5,242,969.

GRAHAM-NEWMAN CORPORATION
 NEW YORK
 INVESTMENTS IN SECURITIES
 JANUARY 31, 1949

<u>NO. OF SHARES</u>	<u>DESCRIPTION OF SECURITIES</u>	<u>QUOTED MARKET VALUE AT JANUARY 31, 1949 Amount</u>
<u>INVESTMENT COMPANIES</u>		
<u>Preferred Stocks</u>		
825	Railway & Light Securities Co. 4% Cumulative Convertible Preferred	<u>\$ 35,063.</u>
<u>Common Stocks</u>		
530	Aldred Investment Trust	66.
1,000	American Research & Development Corporation	22,250.
1,500	American International Corporation	18,000.
3,400	Carriers and General Corporation	23,800.
1,000	Niagara Share Corporation "B"	9,500.
7,000	Pacific American Investors, Inc.	21,000.
18,000	The Pennroad Corporation	137,250.
2,500	Tri-Continental Corporation	<u>16,875.</u>
		<u>\$248,741.</u>
<u>HOLDING COMPANIES</u>		
<u>Preferred Stocks</u>		
1,300	Alleghany Corporation Cumulative Convertible \$2.50 Prior Preferred	85,800.
600	American & Foreign Power Co. \$6.00 Cumulative Preferred	30,600.
400	American & Foreign Power Co. \$7.00 Cumulative Preferred	22,800.
8,850	Electric Bond & Share Co. \$6.00 Preferred (stubs)	34,294.
300	Electric Power & Light Corp. \$6.00 Cumulative Preferred	41,325.
1,251	Federal Light & Traction Co. \$6.00 Cumulative Preferred	6,724.
500	International Hydro-Electric System \$3.50 Cumulative Convertible Preferred	26,063.
1,700	Standard Power & Light Corporation \$7.00 Cumulative Preferred	<u>199,750.</u>
		<u>\$447,356.</u>

INVESTMENTS IN SECURITIES

JANUARY 31, 1949

NO. OF SHARES	DESCRIPTION OF SECURITIES	QUOTED MARKET VALUE AT JANUARY 31, 1949 <u>Amount</u>
<u>HOLDING COMPANIES (Continued)</u>		
<u>Common Stocks</u>		
3,000	Amerex Holding Corporation	\$ 74,250.
3,405	Engineers Public Service Company- ex-distributions	5,107.
5,000	General Tin Investments, Ltd.- American Certificate for Ordinary Capital	5,625.
130	Georgia Railroad & Banking Company	18,785.
2,000	Marine Midland Corporation	13,500.
3,000	Midland Realization Company	3,180.
4,500	Midland Utilities Company	562.
500	Mission Corporation	23,750.
166-2/3	Mission Development Company	1,458.
500	North American Company	8,125.
2,000	Transamerica Corporation	<u>20,000.</u>
		<u>\$174,342.</u>

OTHER SECURITIES - BONDS

Face Amount		
<u>Railroads</u>		
\$ 75,000.	Boston Terminal Co. 1st Registered 3½% 2/1/1947	57,750.
50,000.	Central Railroad Co. of New Jersey-First Mortgage 5% 7/1/1987 (C/D)	37,500.
96,000.	Chicago, Terre Haute and South- eastern Railway Co. Income Mortgage 2-3/4% 1/1/1994	69,120.
100,000.	The New York, New Haven & Hartford R.R. Co. General Mortgage Series "A" Income 4½% 7/1/2022	46,000.
185,000.	Northwestern Terminal Railway Company First Mortgage Income 5% 1/1/1977	122,100.
63,000.	Rio Grande & Western Railway Co. First Consolidated Mortgage Series A 4% 4/1/1949(stubs)	<u>10,395.</u>
		<u>\$342,865.</u>

INVESTMENTS IN SECURITIES

JANUARY 31, 1949

<u>FACE AMOUNT</u>	<u>DESCRIPTION OF SECURITIES</u>	<u>QUOTED MARKET VALUE AT JANUARY 31, 1949 Amount</u>
<u>OTHER SECURITIES - BONDS (Continued)</u>		
<u>Utilities</u>		
\$100,000.	Chicago City Railway Company First Mortgage 5% 2/1/1927 (C/D) (Stubs)	\$ 11,125.
359,000.	Chicago Rapid Transit Company: First & Refunding Mortgage Series "A" 6% 7/1/1953 (stubs) First & Refunding Mortgage 6 1/2% 7/1/1944 (stubs)	12,116.
34,000.	Federal Street and Pleasant Valley Passenger Rail- way Co.: Consolidated Mortgage 5% 5/1/1942	44,000.
21,000.	Consolidated Mortgage 5% 5/1/1942 Stamped	
1,131,000.	Metropolitan West Side Elevated Railway Co. (Chicago): Extension Mortgage 4% 7/1/1938 (stubs) First Mortgage 4% 8/1/1938 (stubs)	52,309.
145,000.	Northwestern Elevated Railway Company: First Mortgage 5% 9/1/1941 (stubs) First Mortgage 5% 9/1/1941 (C/D)(stubs)	8,156.
9,000.	Second Avenue Traction Co.: First Mortgage 5% 12/1/1934	48,910.
56,000.	First Mortgage 5% 12/1/1934 (C/D)	
2,000.	First Mortgage 5% 12/1/1934-Stamped(C/D)	
150,000.	Southern Traction Company: First and Coll. 5% 10/1/1950	172,190.
107,000.	First and Coll. 5% 10/1/1950 Stamped	
126,000.	Union Elevated Railroad Company First Mortgage 5% 10/1/1945 (stubs)	7,087.
13,000.	West End Traction Co.: General Mortgage 5% 1/1/1938	35,770.
36,000.	General Mortgage 5% 1/1/1938 Stamped (C/D)	
		<u>\$391,663.</u>

INVESTMENTS IN SECURITIES

JANUARY 31, 1949

NO. OF SHARES OR FACE AMOUNT	<u>DESCRIPTION OF SECURITIES</u>	QUOTED MARKET VALUE AT <u>JANUARY 31, 1949</u> Amount
<u>OTHER SECURITIES - BONDS (Continued)</u>		
<u>Real Estate</u>		
2,500 units	Schulco Company Incorporated 5% 7/1/1963 Scrip	\$ -
\$10,000.	Sunnyside Properties, Inc. 6% Cumulative Income Notes 10/1/1950 - Registered	1,500.
		<u>\$ 1,500.</u>
 <u>OTHER SECURITIES - PREFERRED STOCKS</u>		
<u>Utilities</u>		
8,600	Market Street Railway Company Cumulative Prior Preferred 6%	146,200.
685	New England Public Service Company: \$6.00 Prior Lien Cumulative Preferred Contingent Certifi- cate for additional amount due (stubs)	2,740.
1,120	\$7.00 Prior Lien Cumulative Preferred Contingent Certifi- cate for additional amount due (stubs)	9,800.
500	Vicksburg, Shreveport and Pacific Railway Company 5% Common guaranteed by Illinois Central Railroad Company	44,500.
		<u>\$203,240.</u>
 <u>Insurance Companies</u>		
400	U.S. Casualty Company \$.45 Cumulative Convertible Parti- cipating Preferred	\$ 4,000.
 <u>Industrials</u>		
	Autocar Company:	
609	Cumulative Convertible Preferred Series A - 5%	13,000.
291	Convertible Preferred Series B - 5%	
100	Cumulative Convertible Preferred Series C - 5%	
1,200	Avco Manufacturing Corporation \$2.25 Cumulative Convertible Preferred	49,950.
300	Cluett Peabody and Co. 4% Cumulative Convertible 2nd Preferred	24,900.
	Forward	<u>\$ 87,850.</u>

INVESTMENTS IN SECURITIES

JANUARY 31, 1949

<u>NO. OF SHARES</u>	<u>DESCRIPTION OF SECURITIES</u>	<u>QUOTED MARKET VALUE AT JANUARY 31, 1949</u> <u>Amount</u>
<u>OTHER SECURITIES - PREFERRED STOCKS (Continued)</u>		
<u>Industrials (Continued)</u>		
	(Forward)	\$ 87,850.
300	Franklin Simon & Company, Incorporated 4½% Cumulative Convertible Preferred	7,500.
1,100	Gar Wood Industries, Inc. 4½% Cumulative Convertible Preferred	31,900.
200	General Cable Corp. 4% Cumulative Convertible 2nd Preferred	5,750.
100	Mansfield Tire & Rubber Company \$1.20 Cumulative Convertible Preferred	1,850.
300	Murray Corporation of America 4% Cumulative Preferred	10,425.
260	Thermoid Co. \$2.50 Cumulative Convertible Preferred	<u>9,555.</u>
		<u>\$154,830.</u>
 <u>OTHER SECURITIES - COMMON STOCKS</u>		
<u>Railroads</u>		
1,400	Northern Pacific Railway Company	<u>\$ 22,750.</u>
<u>Utilities</u>		
1,450	Boston Elevated Railway Company	24,650.
6,200	Federal Water & Gas Corporation	30,225.
1,400	Illinois Power Company	37,975.
300	International Ocean Telegraph Company	23,700.
11,000	Longview Bridge Company	16,500.
700	Monongahela Street Railway Company	18,550.
196	Pittsburgh Incline Plane Company*	23,520.
1,000	Portland General Electric Company	22,750.
400	United Public Utilities Corporation	<u>650.</u>
		<u>\$198,520.</u>
<u>Banks</u>		
5,000	Continental Bank & Trust Company	<u>\$ 50,625.</u>
<u>Insurance Companies</u>		
800	American Surety Company	49,600.
1,100	Employers Group Associates	37,812.
4,755	New Amsterdam Casualty Company	147,405.
900	Standard Accident Insurance Company	29,475.
1,025	Universal Insurance Company	<u>25,369.</u>
		<u>\$289,661.</u>

*See Page for footnote.

INVESTMENTS IN SECURITIES

JANUARY 31, 1949

<u>NO. OF SHARES</u>	<u>DESCRIPTION OF SECURITIES</u>	<u>QUOTED MARKET VALUE AT JANUARY 31, 1949 Amount</u>
<u>OTHER SECURITIES - COMMON STOCKS (Continued)</u>		
<u>Industrials</u>		
		\$ 5,750.
4,600	A.D.F. Company	
5,000	American-Hawaiian Steamship Company	181,250.
23,763	Atlantic Gulf & West Indies Steamship Lines*	1,295,084.
12,600	Brewster Aeronautical Corporation	1,008.
3,700	Buda Company	39,775.
3,000	Compania Manufactures del Patrero S. A.	-
5,000	Consolidated Liquidating Corporation	87,500.
1,000	Diamond T. Motor Car Company	11,875.
7,000	Equitable Office Building Corporation	34,125.
1,000	Fairchild Engine & Airplane Corporation	4,125.
10,500	Fajardo Sugar Company of Porto Rico	244,807.(a)
1,200	Franklin Railway Supply Company	14,400.
300	Hercules Motors Corporation	4,125.
2,000	Hunt Foods, Incorporated	20,750.
999	Jones & Lamson Machine Company	20,230.
1,000	Lee Rubber & Tire Corporation	39,250.
500	Mandel Brothers, Incorporated	4,000.
1,400	Manhattan Shirt Company	24,500.
1,500	Maryland Dry Dock Company	20,250.
1,550	Merchants & Miners Transport Company	13,175.
		20,625.
1,500	Mohawk Rubber Company	
3,100	National Department Stores Corporation	46,500.
44,790	National Transit Pump & Machine Company*	246,345.
		13,410.
745	New Britain Machine Company	37,950.
3,300	New York Merchandise Co., Inc.	
		7,650.
300	Rice-Stix Dry Goods Company	2,640.
110	Shuron Optical Company, Inc.	12,750.
1,000	Stewart Warner Corporation	8,745.
265	Taylor-Wharton Iron & Steel Co.	34,950.
600	Todd Shipyards Corporation	
		146,844.
4,079	Utica Knitting Company*	15,000.
1,000	White Motor Company	7,425.
1,100	R.C. Williams & Company, Inc.	11,000.
500	Yale & Towne Manufacturing Company	
		<u>\$2,677,813.</u>

*Represents investment in a non-controlled affiliate, as defined in Investment Company Act of 1940, under which an issuer is an "affiliate" of one who owns 5% or more of its outstanding voting securities.

(a) Includes dividend receivable.

GRAHAM-NEWMAN CORPORATION

NEW YORK

SECURITIES SHORT

JANUARY 31, 1949

<u>NO. OF SHARES</u>	<u>DESCRIPTION OF SECURITIES</u>	<u>COVER VALUE, JANUARY 31, 1949 Amount</u>
<u>PREFERRED STOCKS - RAILROADS</u>		
1,000	New York, New Haven & Hartford R.R. Co. 5% Series A	\$ 31,625.
<u>COMMON STOCKS - RAILROADS</u>		
1,000	Central Railroad Co. of New Jersey	31,750.
<u>COMMON STOCKS - INDUSTRIALS</u>		
2,800	Avco Manufacturing Corporation	18,900.
4,600	Gar Wood Industries, Inc.	27,025.
400-70/100	Utah Fuel Co. When Issued	2,990.
		<hr/>
		<u>\$112,290.</u>

GRAHAM-NEWMAN CORPORATION

120 WALL STREET

NEW YORK 5, N. Y.

February 27, 1950

To the Stockholders of Graham-Newman Corporation:

Submitted herewith are the financial statements of the Corporation, covering the fiscal year ended January 31, 1950.

The appended balance sheet indicates a net asset value of \$106.57 per share on January 31, 1950, compared with \$97.56 on January 31, 1949.

During the fiscal year total dividends of \$10 per share were paid, of which \$7.63 has been designated as Capital Gain Dividends, pursuant to Section 362 of the Internal Revenue Code; \$0.28 per share represents a return of capital, and the balance of \$2.09 per share represents ordinary income.

The over-all gain for the year, including the net increase in unrealized appreciation, amounted to \$19.01 per share. Net realized profits for the year, without reflecting the increase in unrealized appreciation, amounted to \$9.12 per share.

The attached financial statements have been reviewed by Messrs. Stern, Porter, Kingston & Coleman, independent public accountants, whose certificate is set forth herein.

During the year, the Corporation moved its offices to larger quarters at 120 Wall Street. This enabled us to effect a much needed increase in our personnel by the addition of Messrs. Edward E. Laufer and Howard A. Newman to the staff. During the year, also, a limited partnership was formed, known as Newman & Graham, with a present capital of \$2,570,000, to operate on a basis similar to that of Graham-Newman Corporation. Operating expenses are being shared between the two businesses in proportion to capital. As a result, we have been able to expand our organization without increase in the Corporation's overhead.

With deep regret we report the untimely death in December, 1949, of Seymour T. Cohn, our good friend and the Secretary of the Corporation since its inception. At a subsequent meeting of the Board of Directors, Mr. Laufer was elected Secretary to succeed Mr. Cohn and Mr. Howard A. Newman was elected Assistant Treasurer and Assistant Secretary.

The annual meeting of stockholders is scheduled to be held on Monday, April 10, 1950 at 2:00 P.M. Formal notice thereof, together with a proxy statement and request for proxies, will be sent to stockholders on or about March 31, 1950.

By Order of the Board of Directors,

Benj. Graham,
President

Jerome A. Newman,
Vice-President & Treasurer

STERN, PORTER, KINGSTON & COLEMAN
CERTIFIED PUBLIC ACCOUNTANTS

551 Fifth Avenue, New York 17, N. Y.
MURRAY HILL 2-8075

To the Board of Directors and Stockholders
of Graham-Newman Corporation:

We have examined the Balance Sheet of Graham-Newman Corporation as at January 31, 1950 and the related statements of Profit and Loss and Changes of Net Assets for the fiscal year ended January 31, 1950, have reviewed the system of internal control and the accounting procedures of the company and, without making a detailed audit of the transactions, have examined or tested accounting records of the company and other supporting evidence by methods and to the extent we deemed appropriate and in accordance with generally accepted standards applicable in the circumstances.

Pursuant to regulations of the Securities and Exchange Commission applicable to regulated investment companies, the Balance Sheet herein gives effect to the evaluation of investments in securities at their quoted market values as at the date thereof.

In our opinion, the accompanying Balance Sheet and related statements of Profit and Loss and Changes of Net Assets, subject however to the notes appended thereto, present fairly the position of Graham-Newman Corporation as at January 31, 1950 and the results of its operations for the fiscal year then ended, upon the basis of the accounting principles set forth hereinabove and applied, except for the change noted in Note D to the Financial Statements, which change we approve, on a basis consistent with that of the preceding year.


STERN, PORTER, KINGSTON & COLEMAN
Certified Public Accountants

New York, N. Y.
February 21, 1950

GRAHAM-NEWMAN

NEW

BALANCE

JANUARY 31,

(ON BASIS OF QUOTED

A S S E T S

CASH IN BANKS		\$ 53,867.42
DEPOSITS WITH BROKERS		121,850.24
INVESTMENTS IN SECURITIES (See Note A) (Cost \$4,777,929.56)		5,568,145.00
OTHER ASSETS		
Dividends Receivable	\$21,275.10	
Interest Accrued on Bonds	220.00	
Deposits and Sundry Receivables	<u>963.59</u>	22,458.69
FURNITURE AND FIXTURES		5,005.86

\$5,771,327.21

CORPORATION

YORK

B H E E T

1950

MARKET VALUE OF SECURITIES)

LIABILITIES AND CAPITAL

NOTE PAYABLE - BANK (secured)		\$ 100,000.00
SECURITIES SHORT (see Note A) (Net proceeds of sales \$120,580.65)		106,418.00
DUE TO BROKERS - for securities purchased		9,577.64
ACCOUNTS PAYABLE AND ACCRUALS		
Benjamin Graham- Additional compensation (see Note B)	\$ 31,972.55	
Jerome A. Newman- Additional compensation (see Note B)	31,972.55	
Other	<u>6,508.07</u>	70,453.17
PROVISION FOR ADDITIONAL CONTINGENT COMPENSATION OF OFFICERS (on increase in unrealized appreciation of investments subsequent to January 31, 1948) (see Note B)		156,223.90
NET ASSETS APPLICABLE TO OUTSTANDING CAPITAL STOCK		5,328,654.50
Capital Stock:		
Authorized, issued and outstanding:		
50,000 shares of no par value - at stated value of \$50.00 per share	2,500,000.00	
Capital Surplus	2,180,500.31	
Earned Surplus	-	
Total Capital Stock and Surplus	<u>4,680,500.31</u>	
Unrealized Appreciation of Investments (after deducting provision for related additional contingent compensation of officers)	<u>648,154.19</u>	
Total, as above	<u>\$5,328,654.50</u>	
Equivalent to \$106.57 per share		
		<u>\$5,771,327.21</u>

GRAHAM-NEWMAN CORPORATION
 PROFIT AND LOSS STATEMENT
 FOR THE FISCAL YEAR ENDED JANUARY 31, 1950

STATEMENT OF INCOME AND EXPENSES

(excluding gain or loss on investments)

<u>Income</u>			
Dividends (see Note D)		\$199,574.50	
Interest on Investments		<u>13,598.05</u>	
Total			213,172.55
<u>Expenses</u>			
<u>Salaries of Officers:</u>			
Benjamin Graham (see Note B)	\$ 25,000.00		
Jerome A. Newman (do)	25,000.00		
Other	10,499.99		
<u>Other:</u>			
Office salaries	18,820.57		
Executive committee fees	5,550.00		
Directors' fees	1,075.00		
Rent and light	3,459.32		
Telephone and telegraph	1,700.47		
Insurance	467.50		
Taxes (other than Federal income tax)	2,924.41		
Legal and accounting	6,536.23		
Custodian fees	2,436.83		
General expense	3,268.83		
Depreciation	359.05		
Payment to widow of deceased officer	<u>3,500.00</u>		
Total		110,598.20	
Interest Paid		<u>1,927.22</u>	
<u>Total Expenses (exclusive of additional compensation of officers)</u>			<u>112,525.42</u>
<u>Net Income</u> , excluding gain or loss on investments- before deducting additional compensation of officers and provision for Federal income tax			100,647.13
Add-Expenditures for office fixtures, etc. written off in prior year-capitalized			<u>1,643.15</u> \$102,290.28
<u>NET REALIZED GAIN ON SALES OF INVESTMENTS</u>			417,435.25
Amount realized	2,301,654.90		
Cost	<u>1,884,219.65</u>		
<u>NET INCOME</u> , before deducting additional compensation of officers and provision for Federal income tax			519,725.53
Deduct-Additional compensation of officers (see Note B):			
Benjamin Graham	31,972.55		
Jerome A. Newman	<u>31,972.55</u>	63,945.10	
Provision for Federal income tax (see Note C)		<u>-</u>	<u>63,945.10</u>
<u>NET INCOME FOR YEAR</u>			455,780.43
<u>ADD:-</u>			
Increase in Unrealized Appreciation (see Note A)		618,274.91	
Unrealized Appreciation-at January 31, 1949	186,103.18		
-at January 31, 1950	<u>804,378.09</u>		
Deduct-Provision for additional contingent compensation of officers (see Note B)		<u>123,654.98</u>	<u>494,619.93</u>
<u>NET INCOME FOR YEAR</u> - including increase in unrealized appreciation of investments (see Notes A and B)			<u>\$950,400.36</u>

Equivalent (on 50,000 shares outstanding during year) to \$19.01 per share.

GRAHAM-NEWMAN CORPORATION
STATEMENT OF CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JANUARY 31, 1950

		PER SHARE*
<u>NET ASSETS AT JANUARY 31, 1949</u>	\$4,878,254.14	\$ 97.56
<u>ADD-NET INCOME FOR YEAR</u>		
Net Income, excluding gain or loss on investments	\$102,290.28	
(before deducting additional compensation of officers)		
Net Realized Gain on Sales of Investments	417,435.25	
Total	519,725.53	
Deduct-Additional Compensation of Officers	63,945.10	
Net Income for year	455,780.43	9.12
Increase in Unrealized Appreciation of Investments	618,274.91	
Deduct-Provision for related additional contingent compensation of officers	123,654.98	494,619.93
Total	5,828,654.50	116.57
Deduct-Dividends Paid (on 50,000 shares)		
	<u>Per share</u>	
April 25, 1949	\$ 1.25	62,500.00
July 20, 1949	1.25	62,500.00
October 21, 1949	1.25	62,500.00
January 31, 1950	6.25	312,500.00
Total	\$10.00	500,000.00
		10.00
<u>NET ASSETS AT JANUARY 31, 1950</u>	<u>\$5,328,654.50</u>	<u>\$106.57</u>

ANALYSIS OF CHANGES IN NET ASSETS

	<u>Total</u>	<u>Capital Stock</u>	<u>Capital Surplus</u>	<u>Earned Surplus</u>	<u>Unrealized Appreciation(x)</u>
Net Assets At January 31, 1949	\$4,878,254.14	\$2,500,000.	\$2,224,719.88	\$ -0-	\$153,534.26
Add-Net Income for year	455,780.43			455,780.43	
Increase in un- realized appre- ciation less provision for related addi- tional contin- gent compensa- tion of officers	494,619.93				494,619.93
Total	5,828,654.50	2,500,000.	2,224,719.88	455,780.43	648,154.19
Deduct-Dividends Paid	500,000.00		44,219.57	455,780.43	
Net Assets at January 31, 1950	<u>\$5,328,654.50</u>	<u>\$2,500,000.</u>	<u>\$2,180,500.31</u>	<u>\$ -0-</u>	<u>\$648,154.19</u>

* Capital Stock - 50,000 shares of no par value - stated value \$50. per share
(x) Unrealized Appreciation of Investments, after deducting provision for
related additional contingent compensation of officers.

GRAHAM-NEWMAN CORPORATION
NEW YORK
NOTES TO FINANCIAL STATEMENTS
JANUARY 31, 1950

NOTE A - VALUE OF INVESTMENTS-UNREALIZED APPRECIATION OF INVESTMENTS

Investments have been evaluated at their quoted market values as at January 31, 1950 except for an investment (American Maracaibo Co. participation note) of \$43,752.60 for which no market quotation was obtainable and which has been included at cost, being the fair value thereof as determined by the management.

The unrealized appreciation of investments at January 31, 1950 is represented as follows:

	<u>Cost</u>	<u>Value at January 31, 1950</u>	<u>Unrealized Appreciation</u>
Investments in securities	\$4,777,929.56	\$5,568,145.	\$790,215.44
Securities short	<u>120,580.65</u>	<u>106,418.</u>	<u>14,162.65</u>
Net Securities position	<u>\$4,657,348.91</u>	<u>\$5,461,727.</u>	804,378.09
The unrealized appreciation at January 31, 1949 was			<u>186,103.18</u>
and the increase in unrealized appreciation for the year was			<u>\$618,274.91</u>

The investment in Atlantic Gulf & West Indies Steamship Lines (AGWI) common stock has been valued at its quoted market value on the New York Stock Exchange as at January 31, 1950, and upon this basis shows an unrealized appreciation at that date of \$507,934.50 of which \$341,593.00 represents appreciation during the year. Unrealized appreciation is therefore represented as follows:

	<u>Increase in Unrealized Appreciation during year</u>	<u>Total Unrealized Appreciation at January 31, 1950</u>
AGWI Common Stock	\$341,593.00	\$507,934.50
Other Securities	<u>276,681.91</u>	<u>296,443.59</u>
Total	<u>\$618,274.91</u>	<u>\$804,378.09</u>

Effective control of AGWI was acquired by Jerome A. Newman, by virtue of the control by him or power to influence a majority of the outstanding stock of that company, including the holdings of Graham-Newman Corporation. There have recently been only occasional transactions in AGWI common stock on the New York Stock Exchange.

Current values of investments at January 31, 1950 are based upon market quotations, except as noted above, and are not intended as representations of the amounts which may actually be realizable upon sale of these securities.

NOTE B - COMPENSATION OF OFFICERS

Pursuant to resolution of the board of directors at March 24, 1949 the President and Treasurer of the company each receive a salary at the rate of \$25,000. per annum and additional compensation, computed upon an annual basis, of 10% of the excess of net realized income (less the net unrealized depreciation if any in value of investments) over an amount equivalent to \$1.00 per share per quarter, - such additional compensation as to each being limited to 12½% of the excess of dividends actually paid over an amount equal to \$1.00 per share per quarter. The additional compensation is cumulative from February 1, 1948 and is payable in five equal annual installments within 60 days of the close of the respective years.

NOTES TO FINANCIAL STATEMENTS

JANUARY 31, 1950

(CONTINUED)

NOTE B - COMPENSATION OF OFFICERS (continued)

In the event of death of either officer or the termination of his tenure of office, additional compensation will be payable to such officer, or to his estate, in an amount equal to 10% of the increase in unrealized appreciation subsequent to January 31, 1948, less an amount equal to \$1.00 per share per quarter, to the extent that such amounts had not previously been taken into consideration in computing additional compensation.

NOTE C - TAX STATUS

The company is a "regulated investment company" under the Internal Revenue Code, and as such is subject to Federal income tax at 25% of the excess of its net long term capital gain (less its net short term capital loss, if any) over the amount distributed as dividends which are designated by it as "capital gain dividends", and at 38% of the excess of its other net income over the amount of dividend distributions therefrom. Dividends have been paid during the year in an amount in excess of net income, and no provision for Federal income tax for the year is therefore required. The company likewise intends in the future to distribute its entire realized net income each year as dividends, and if this practice is followed, it will not under the present Federal Internal Revenue Code be liable to income tax on the presently unrealized appreciation, as and when realized.

NOTE D - INCOME FROM DIVIDENDS

Income from dividends includes both (a) dividends received during the year on stocks which were selling ex-dividend at the close of the prior year in the amount of \$18,100.01 (which had not been set up as an asset in the balance sheet as of that date, except for a special dividend of \$11,182.50 which had been included in the evaluation of investments) and (b) dividends in the amount of \$21,275.10 on stocks which were selling ex-dividend at the close of the year, which latter amount has been set up as an asset in the balance sheet herein.

NOTE E - SUPPLEMENTARY INFORMATION

The aggregate dollar amounts of purchases and sales of investment securities, other than United States Government securities, made during the year were as follows:

Cost of securities purchased	\$1,712,875.80
Proceeds of sales of securities	2,417,537.96

GRAHAM-NEWMAN CORPORATION

NEW YORK

INVESTMENTS IN SECURITIES

JANUARY 31, 1950

S U M M A R Y

	QUOTED MARKET VALUE AT JANUARY 31, 1950
<u>INVESTMENT COMPANIES</u>	
Preferred Stocks	\$ 27,169
Common Stocks	94,912
<u>HOLDING COMPANIES</u>	
Preferred Stocks	192,067
Common Stocks	148,965
<u>OTHER SECURITIES</u>	
<u>Bonds and Notes</u>	
Railroads	221,945
Utilities	162,889
Industrials	43,753
<u>Preferred Stocks</u>	
Utilities	190,000
Industrials	176,263
<u>Common Stocks</u>	
Railroads	303,488
Utilities	238,483
Banks	33,750
Insurance Companies	123,857
Industrials	3,610,604
 	<hr/>
<u>TOTAL</u>	<u>\$5,568,145</u>

GRAHAM-NEWMAN CORPORATION

NEW YORK

INVESTMENTS IN SECURITIES

JANUARY 31, 1950

<u>NO. OF SHARES</u>	<u>DESCRIPTION OF SECURITIES</u>	<u>QUOTED MARKET VALUE AT JANUARY 31, 1950 Amount</u>
<u>INVESTMENT COMPANIES</u>		
<u>Preferred Stocks</u>		
525	Railway & Light Securities Co. 4% Cumulative Convertible Preferred	\$ <u>27,169.</u>
<u>Common Stocks</u>		
1,000	American Research & Development Corporation	24,500.
2,200	Carriers & General Corporation	17,600.
14,500	Pacific American Investors, Inc.	47,125.
242	Railway & Light Securities Co.	<u>5,687.</u>
		\$ <u>94,912.</u>
<u>HOLDING COMPANIES</u>		
<u>Preferred Stocks</u>		
800	American & Foreign Power Co. \$6.00 Cumulative Preferred	48,400.
12,400	Electric Bond & Share Co. \$6.00 Preferred (stubs)	106,950.
3,405	Engineers Public Service Company ex distributions (stubs)	647.
987	Federal Light & Traction Co. \$6.00 Cumulative Preferred (stubs)	9,870.
400	Queens Borough Gas & Electric Co. 6% Cumulative Preferred	<u>26,200.</u>
		\$ <u>192,067.</u>
<u>Common Stocks</u>		
1,000	Amerex Holding Corporation	34,000.
5,000	General Tin Investments, Ltd.- American Certificate for Ordinary Capital	5,938.
155	Georgia Railroad & Banking Company	21,002.
2,000	Marine Midland Corporation	18,000.
10,000	Middle West Corporation	26,250.
500	Mission Corporation	23,250.
400	Mission Development Company	4,150.
1,000	Transamerica Corporation	<u>16,375.</u>
		\$ <u>148,965.</u>
<u>OTHER SECURITIES - BONDS</u>		
<u>Face Amount</u>		
<u>Railroads</u>		
Boston Terminal Co.:		
\$21,000.	{ First Mortgage 3 1/2% 2/1/1947	109,500.
\$123,000.	{ do do do (Registered)	
\$6,000.	{ First Mortgage 4% 7/1/50 (do do)	
\$96,000.	Chicago, Terre Haute & Southeastern Railway Co. Income Mortgage 2-3/4% 1/1/1994	<u>75,840.</u>
Forward		\$185,340

INVESTMENTS IN SECURITIES

JANUARY 31, 1950

<u>FACE</u> <u>AMOUNT</u>	<u>DESCRIPTION OF SECURITIES</u>	<u>QUOTED</u> <u>MARKET VALUE AT</u> <u>JANUARY 31, 1950</u> <u>Amount</u>
<u>OTHER SECURITIES - BONDS (Continued)</u>		
<u>Railroads (continued)</u>		
	Forward	\$185,340.
\$50,000.	The New York, New Haven & Hartford R.R.Co.General Mortgage Series "A" Income 4½% 7/1/2022	23,375.
63,000.	Rio Grande & Western Railway Co. First Consolidated Mortgage Series A 4% 4/1/1949 (stubs)	<u>13,230.</u>
		<u>\$221,945.</u>
<u>Utilities</u>		
\$100,000.	Chicago City Railway Company First Mortgage 5% 2/1/1927 (C/D) (Stubs)	9,750.
490,000.	Chicago Rapid Transit Company: First and Refunding Mortgage Series "A" 6% 7/1/1953(stubs) } First and Refunding Mortgage 6½% 7/1/1944 (stubs) }	15,000.
1,131,000.	Metropolitan West Side Elevated Railway Co. (Chicago): Extension Mortgage 4% 7/1/1938 } (stubs) } Extension Mortgage 4% 7/1/1938 } (stubs)(C/D) }	57,964.
145,000.	Northwestern Elevated Railway Company: First Mortgage 5% 9/1/41(stubs) } First Mortgage 5% 9/1/41 } (stubs)(C/D) }	8,881.
65,000.	Southern Traction Company: First & Collateral 5% 10/1/1950 } First & Collateral 5% 10/1/1950 } Stamped }	58,988.
126,000.	Union Elevated Railroad Company First Mortgage 5% 10/1/1945 (stubs)	7,718.
5,000.	Washington & Cannonsburg Railway Co. First Mortgage 5% 7/1/1932 Stamped } First Mortgage 5% 7/1/1932 Stamped Registered }	4,588.
		<u>\$162,889.</u>
<u>Industrials</u>		
	American Maracaibo Company 50% Participation in Note for \$109,381.49	\$ <u>43,753.(x)</u>

INVESTMENTS IN SECURITIES

JANUARY 31, 1950

<u>NO. OF SHARES</u>	<u>DESCRIPTION OF SECURITIES</u>	<u>QUOTED MARKET VALUE AT JANUARY 31, 1950</u> <u>Amount</u>
<u>OTHER SECURITIES-PREFERRED STOCKS</u>		
<u>Utilities</u>		
10,000	Market Street Railway Company Cumulative Prior Preferred 6%	\$190,000.
<u>Industrials</u>		
	Autocar Company:	
609	Cumulative Convertible Preferred Series A - 5%	
100	Cumulative Convertible Preferred Series C - 5%	10,500.
291	Convertible Preferred Series B 5%	
1,200	Avco Manufacturing Corporation \$2.25 Cumulative Convertible Preferred	51,150.
300	Cluett Peabody & Co. 4% Cumulative Convertible 2nd Preferred	23,850.
800	Gar Wood Industries, Inc. 4½% Cumulative Convertible Preferred	20,600.
500	General Cable Corp. 4% Cumulative Convertible 2nd Preferred	14,000.
100	Mansfield Tire & Rubber Company \$1.20 Cumulative Convertible Preferred	1,800.
500	Murray Corporation of America 4% Cumulative Preferred	18,313.
700	Willys-Overland Motors Incorporated \$4.50 Cumulative Convertible Preferred Series A	36,050.
		<u>\$176,263.</u>
<u>OTHER SECURITIES - COMMON STOCKS</u>		
<u>Railroads</u>		
4,000	Montgomery & Erie Railway Company 3½%* (Guaranteed by Erie Railroad Company)	29,000.
13,500	Northern Pacific Railway Company	254,813.
200	Vicksburg, Shreveport & Pacific Railway Company 5% (Guaranteed by Illinois Central Railroad Company)	19,675.
		<u>\$303,488.</u>

INVESTMENTS IN SECURITIES

JANUARY 31, 1950

NO. OF SHARES	DESCRIPTION OF SECURITIES	QUOTED MARKET VALUE AT JANUARY 31, 1950 <u>Amount</u>
<u>OTHER SECURITIES - COMMON STOCKS (Continued)</u>		
<u>Utilities</u>		
5,653	Boston Elevated Railway Company	\$ 82,675.
3,000	Federal Water & Gas Corporation (stubs)	22,125.
300	International Ocean Telegraph Company	23,250.
1,230	Monongahela Street Railway Company	55,965.
100	Pittsburgh & Birmingham Traction Co.	4,750.
106	Pittsburgh Incline Plane Company*	17,384.
1,000	Portland General Electric Company	24,875.
155	Suburban Rapid Transit Street Railway Company	6,859.
400	United Public Utilities Corporation	<u>600.</u>
		<u>\$238,483.</u>
<u>Banks</u>		
5,000	Continental Bank & Trust Company	<u>\$ 33,750.</u>
<u>Insurance Companies</u>		
800	American Surety Company	48,400.
800	Employers Group Associates	29,200.
700	Standard Accident Insurance Company	26,863.
725	Universal Insurance Company	<u>19,394.</u>
		<u>\$123,857.</u>
<u>Industrials</u>		
4,600	A. D. F. Company	6,325.
500	A. T. F. Incorporated	6,875.
500	Allied Kid Company	10,063.
3,550	American Arch Company Delaware) 74,106.
3,550	American Arch Company, Inc. New York	
5,000	American Hawaiian Steamship Company	207,500.
500	American Laundry Machinery Co.	10,188.
23,763	Atlantic Gulf & West Indies Steamship Lines*	1,636,677.
1,200	Baldwin Locomotive Works	14,550.
200	Bates Manufacturing Company	5,925.
12,600	Brewster Aeronautical Corporation	1,008.
4,000	Buda Company	45,000.
1,500	Bunte Brothers	14,438.
100	Burd Piston Ring Company	800.
500	Colts Manufacturing Co.	21,750.
5,000	Consolidated Liquidating Corporation	23,750.
557	Cramp Shipbuilding Company	13,925.
1,000	Crowley Milner & Company	<u>6,500.</u>
	Forward	<u>\$2,099,380.</u>

INVESTMENTS IN SECURITIES

JANUARY 31, 1950

<u>NO. OF SHARES</u>	<u>DESCRIPTION OF SECURITIES</u>	<u>QUOTED MARKET VALUE AT JANUARY 31, 1950</u> <u>Amount</u>
<u>OTHER SECURITIES - COMMON STOCKS (Continued)</u>		
<u>Industrials (continued)</u>		\$3,287,900.
Forward		
1,500	Rice Stix Inc.	37,875.
321-6/10	Shuron Optical Company, Inc.	9,648.
3,000	Stewart-Warner Corporation	43,500.
600	Todd Shipyards Corporation	24,450.
250	Tyler Rubber Company	5,500.
4,595	Utica Knitting Company*	178,056.
1,000	White Motor Company	16,250.
1,100	R. C. Williams & Company, Inc.	7,425.
		<u>\$3,610,604.</u>

*Represents investment in a non-controlled affiliate,
as defined in Investment Company Act of 1940,
under which an issuer is an affiliate of one who
owns 5% or more of its outstanding voting securities.

(x) Evaluation by management.

GRAHAM-NEWMAN CORPORATION

NEW YORK

SECURITIES SHORT

JANUARY 31, 1950

<u>NO. OF SHARES</u>	<u>DESCRIPTION OF SECURITIES</u>	<u>COVER VALUE JANUARY 31, 1950 Amount</u>
<u>PREFERRED STOCKS-RAILROADS</u>		
500	New York, New Haven & Hartford R.R. Co. 5% Series A	\$ 15,875.
<u>HOLDING COMPANIES-PREFERRED STOCKS</u>		
3,200	American & Foreign Power Co. 2nd Preferred Series A (\$7.) Cumula- tive	56,800.
<u>COMMON STOCKS - INDUSTRIALS</u>		
2,800	Avco Manufacturing Corporation	19,600.
2,000	Gar Wood Industries, Inc.	9,750.
400-70/100	Utah Fuel Co. When Issued	4,393
		<u>\$106,418.</u>

GRAHAM-NEWMAN CORPORATION

122 EAST 42ND STREET

NEW YORK 17, N. Y.

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS

to be held August 20th, 1956

To the Stockholders of

GRAHAM-NEWMAN CORPORATION:

NOTICE IS HEREBY GIVEN that a special meeting of the stockholders of Graham-Newman Corporation will be held at the office of the Corporation, at 122 East 42nd Street, New York, N. Y., on Monday, August 20th, 1956 at 10:30 A.M. to take action on a proposition to liquidate and dissolve the Corporation.

The stock transfer books of the Corporation will not be closed, but in lieu thereof, the Board of Directors has fixed the close of business on July 30th, 1956 as the record date for the determination of stockholders entitled to notice and to vote at the meeting.

Each stockholder who does not expect to attend in person is requested promptly to date, fill in, sign and return the enclosed Form of Proxy.

By Order of the Board of Directors

Douglass Newman
Secretary

New York, N. Y.
July 30th, 1956.

STOCKHOLDERS ARE URGED TO FILL IN, SIGN, DATE AND RETURN PROMPTLY THE ENCLOSED PROXY IN THE STAMPED, SELF-ADDRESSED ENVELOPE.

P R O X Y S T A T E M E N T
SPECIAL MEETING OF STOCKHOLDERS OF
GRAHAM-NEWMAN CORPORATION

This statement is furnished to stockholders of Graham-Newman Corporation in connection with the solicitation by the management of the Company of proxies for use at a Special Meeting of Stockholders to be held on August 20th, 1956, and at all adjournments of such meeting, for the purpose set forth in the accompanying Notice of Special Meeting of Stockholders.

As of June 30th the Company had 5,000 shares of capital stock outstanding. Up to July 20th, 82 shares had been tendered and paid for leaving 4,918 shares of capital stock outstanding. Each of such shares (less any redeemed up to the record date which has been set at the close of business July 30th, 1956) is entitled to one vote.

If the enclosed Form of Proxy is executed and returned, it may, nevertheless, be revoked at any time in so far as it has not been exercised.

The Board of Directors has deemed it advisable to recommend the liquidation and dissolution of the corporation and has voted that a Special Meeting of Stockholders be convened for the purpose of voting upon such liquidation and dissolution. Their recommendation was prompted by the facts that Mr. Graham, who now lives in California, and Mr. Jerome A. Newman, the founders of the Corporation, do not choose to continue the management of a publicly owned investment company and Mr. Howard A. Newman, who is President of the Philadelphia and Reading Corporation, finds it impossible to direct the management of this Company as well as carry on his duties as President of the Philadelphia and Reading Corporation.

Management believes it in the interest of all stockholders to permit orderly liquidation of its securities and pro-rata distributions as fast as possible, to each stockholder. If liquidation is voted, then promptly thereafter there will be distributed to stockholders in excess of 50% of the net asset value of the stock, including at the stockholders' election, which will be requested later, either Philadelphia and Reading stock or the cash equivalent thereof as outlined further along in this communication. It is anticipated that the liquidation of the Corporation's assets will be completed in not more than one year from the date such liquidation is voted. We anticipate that additional substantial payments may be made within six months. As of July 13th, 1956, the approximate net asset value was \$915.72 per share after reserves for liquidating expense of \$10 per share. Appended hereto is the pertinent financial data of the corporation.

The Corporation's prospectus issued July 14th, 1948, provides

"To the extent at the time permitted by law, the corporation may redeem or purchase from its stockholders, shares of its own stock for not exceeding their proportionate interests in the properties of the corporation, or for not exceeding the cash equivalent of such proportionate interests, no value shall be ascribed to good will but indicated and unrealized profits and losses and accrued liabilities shall be taken into account. Any stockholder shall be entitled to redemption of his stock for its proportionate interest in the corporation's properties, or the cash liquidating equivalent thereof, such redemption or payment to be made not more than seven days after tender of such stock to the corporation."

The prospectus also provides under "Redemption Rights" - - a flat charge of \$1.50 per share is deducted from the net asset value to cover approximate brokerage commissions and transfer taxes incurred in the sale of the portfolio. Since there was an exchange of 1 share for 10 in April 1950, this charge becomes \$15 per share. This Right of Redemption and "the Redemption charge of \$15 per share" will continue right up to final liquidation. However the stockholder who does not tender his stock for redemption but retains it until final liquidation will not have any such charge made against his pro-rata interest in the Corporation assets.

The portfolio contained some slow moving securities. These have been turned over to the Manufacturers Trust Company and Jerome A. Newman as co-trustees solely for the purpose of liquidation; these securities had an approximate market value of \$795,000 on June 29th, 1956. To the extent tenders of Graham-Newman shares are made for redemption, assignments of the Corporation's interest in the trusted securities will be made in the ratio of 1/5000 interest therein for each share of Graham-Newman stock tendered. It is anticipated that the Trustees of the Liquidation Trust will make distributions of cash at the earliest moments after a reasonable amount of securities has been liquidated.

The Corporation has one substantial holding that permits distribution "in kind". A stockholder, at his option, may receive either 10 shares of Philadelphia and Reading Corporation for each share of Graham-Newman or the market price equivalent in cash, (where cash is preferred, stock may be sold on the New York Stock Exchange or at the market price to Messrs. Graham & Newman and Associates or others) as a partial distribution of his pro-rata interest in the entire portfolio. Attention is directed to the fact that electing to receive such stock in lieu of cash is the same as purchasing it at the market. A stockholder who tenders and does not elect to have such stock, will in effect be selling his share of Philadelphia and Reading stock at the market. No recommendation is made as to the advisability of electing to take the Philadelphia and Reading stock in lieu of cash.

The Management knows of no other matters which are to be brought before the meeting. However, if any other matters not now known or determined properly come before the meeting, it is the intention of the persons named in the enclosed Form of Proxy to vote such proxy in accordance with their judgment on such matters.

All proxies received will be voted in accordance with the instructions and specifications contained therein.

The cost of preparing, assembling and mailing material in connection with this solicitation of proxies will be borne by the Corporation and will not exceed \$500.

On the proposition to be acted upon, the Stock Corporation Law requires a vote, cast in person or by proxy, of the holders of record of two-thirds of the outstanding shares of the Corporation entitled to vote thereon. It is important that your vote be cast.

If you cannot attend the meeting please fill in, execute and return the enclosed proxy in the stamped envelope provided. Your cooperation in giving this matter your immediate attention will be appreciated.

By Order of the Board of Directors.

Douglass Newman
Secretary

New York, N. Y.
July 30th, 1956

GRAHAM-NEWMAN
NEW
BALANCE
JANUARY 31,
(on basis of quoted
of securities

A S S E T S		
CASH		\$ 213,220.88
DIVIDENDS RECEIVABLE	\$ 1,962.50	
INTEREST RECEIVABLE	2,784.15	4,746.65
ACCOUNTS RECEIVABLE		
For securities sold	None	
Brokers	571,854.36	
Other	3,632.87	575,487.23
INVESTMENTS IN SECURITIES OF UNAFFILIATED ISSUERS (Note A)		
United States Treasury Bills due March 8-April 5, 1956- at cost	745,298.00	
Securities of other investment companies	None	
Other securities (cost \$4,488,996.99)	5,128,177.00	5,873,475.00
<u>INVESTMENTS IN AFFILIATES-NOT CONTROLLED</u>		None
FURNITURE AND FIXTURES	11,631.25	
Provision for depreciation	5,939.33	5,691.92
		\$6,672,621.68

The comments contained in the accompanying Notes to Financial Statements are an integral part of this statement and should be read in conjunction therewith.

CORPORATION
 YORK
 SHEET
 1956
 market values
 at that date)

LIABILITIES AND CAPITAL

FINAL DIVIDEND FOR FISCAL YEAR ENDED JANUARY 31, 1956 (declared February 16, 1956 payable March 12, 1956)		\$ 950,850.00
SECURITIES SHORT AT COVER VALUE (net proceeds of sales \$493,724.08)		515,671.00
ACCOUNTS PAYABLE AND ACCRUALS		
For securities purchased	\$ 47,475.00	
Officers' compensation payable:		
payable currently	169,907.80	
payable in annual installments (1957-1960)	396,321.96	
Other	<u>15,538.04</u>	<u>629,242.80</u>
<u>Total Liabilities</u>		2,095,763.80
PROVISION FOR ADDITIONAL CONTINGENT COMPENSATION OF OFFICERS (on increase in unrealized appreciation of investments subsequent to January 31, 1948) (Notes A and B)		118,794.90
NET ASSETS APPLICABLE TO OUTSTANDING CAPITAL SHARES (equivalent to \$891.61 per share)		4,458,062.98
Represented by:		
Capital shares-authorized, issued and outstanding-5,000 shares of no par value stated value \$500.00 per share	2,500,000.00	
Capital Surplus	1,459,624.79	
Accumulated net realized gain on investments	881,273.63	
Unrealized appreciation of investments (after deducting provision for related additional contingent compensation of officers) (Note A)	498,438.19	
Total Capital	<u>5,339,336.61</u>	
Balance of Undistributed Income	<u>(881,273.63)</u>	
Total, as above	<u>4,458,062.98</u>	<u>\$6,672,621.68</u>

NOTES

Capital Stock issued or repurchased during year		\$ <u>None</u>
Dividend distributions from date of organization (February 8, 1936) paid out of Capital Surplus including distribution of Government Employees Insurance Co. stock- July 6, 1948-cost \$736,190.95		1,572,896.62
from Realized Gains on Investments		<u>\$9,299,236.03</u>

GRAHAM-NEWMAN CORPORATION
NEW YORK
PROFIT AND LOSS STATEMENTS

	FISCAL YEARS ENDED JANUARY 31st.		
	1 9 5 6	1 9 5 5	1 9 5 4
A - STATEMENTS OF INCOME AND EXPENSES			
<u>Income</u>	\$ 81,968.32	\$131,090.19	\$160,366.54
Cash dividends			
(net of dividends paid on short securities			
at June 30, 1956 \$22,187.15;			
at June 30, 1955 \$ 3,210.00)			
Interest on investments	15,534.58	19,257.89	7,040.22
Other income	<u>110.94</u>	<u>150.00</u>	<u>-</u>
<u>Total Income</u>	\$ 97,613.84	\$ 150,498.08	\$ 167,406.76
<u>Expenses</u>			
Officers' compensation (Note E):			
Benjamin Graham	96,679.23	170,617.41	86,951.53
Jerome A. Newman	106,679.23	170,617.41	86,951.53
Howard A. Newman	50,446.00	18,000.00	18,000.00
Other		11,766.67	30,856.67
Other:			
Office salaries	21,512.17	12,344.17	11,358.66
Executive committee fees	10,000.00	10,000.00	10,000.00
Directors' fees	350.00	200.00	450.00
Rent and light	6,104.92	5,528.15	5,242.13
Telephone and telegraph	1,452.87	1,569.09	1,300.85
Taxes (other than Federal taxes on income)	10,970.97	14,045.47	6,900.69
Legal and accounting	10,231.00	7,368.76	10,304.08
Custodian fees	2,544.40	2,480.68	1,801.90
General expense	{ 5,002.87	{ 8,136.96	{ 2,761.94
Contributions		1,702.61	4,850.00
Depreciation of furniture and fixtures	<u>1,542.34</u>		<u>1,667.17</u>
<u>Total Expenses</u>	<u>323,516.00</u>	<u>434,377.38</u>	<u>261,197.15</u>
<u>Balance, before provision for Federal taxes on income</u>	(225,902.16)	(283,879.30)	(93,790.39)
<u>Provision for Federal taxes on income (Note C)</u>	<u>None</u>	<u>None</u>	<u>None</u>
<u>Net Loss</u>	\$ (225,902.16)	\$ (283,879.30)	\$ (93,790.39)
B - NET REALIZED GAIN ON INVESTMENTS	\$1,181,119.98	\$1,648,818.55	\$ 789,402.63
(see following page)			
C - DECREASE IN UNREALIZED APPRECIATION OF INVESTMENTS	\$ (449,985.53)	\$ (436,072.00)	\$ (616,165.89)
(after deducting provision for related additional contingent compensation of officers)			
(see following page)			

The comments contained in the accompanying Notes to Financial Statements are an integral part of these statements and should be read in conjunction therewith.

PROFIT AND LOSS STATEMENTS

PISCAL YEARS ENDED JANUARY 31st.

1 9 5 6

1 9 5 5

1 9 5 4

B - STATEMENTS OF REALIZED GAIN OR LOSS ON INVESTMENTS
ON SALES OF

	1 9 5 6			1 9 5 5			1 9 5 4		
	Proceeds of sale	Cost	Gain	Proceeds of sale	Cost	Gain	Proceeds of sale	Cost	Gain
Securities of affiliates	\$545,584.20	-	\$ 545,584.20*	\$ 946,394.00	\$ 29,000.00	\$ 917,394.00*	\$1,214,491.35	\$1,146,480.00	\$ 68,011.35*
U.S. Government obligations	-	-	-	-	-	-	-	-	-
Securities of other investment companies	-	-	-	109,098.26	100,219.87	8,878.39	-	-	-
Other securities	<u>3,057,470.49</u>	<u>2,421,934.71</u>	<u>635,535.78</u>	<u>2,769,095.61</u>	<u>2,046,539.45</u>	<u>722,546.16</u>	<u>1,536,974.87</u>	<u>815,483.59</u>	<u>721,391.28</u>
Total	<u>\$3,603,054.69</u>	<u>\$2,421,934.71</u>	<u>1,181,119.98</u>	<u>\$3,824,577.87</u>	<u>\$2,175,759.32</u>	<u>1,648,818.55</u>	<u>\$2,751,366.22</u>	<u>\$1,961,963.59</u>	<u>789,402.63</u>
Provision for Federal taxes on income (Note C)			<u>None</u>			<u>None</u>			<u>None</u>
Net Realized Gain on Investments			<u>\$1,181,119.98</u>			<u>\$1,648,818.55</u>			<u>\$789,402.63</u>

*represented primarily by gain on liquidation of Atlantic Gulf and West Indies Steamship Lines.

Cost of securities acquired during year:

Securities of affiliates	None	None
U.S. Government obligations	745,298.00	747,056.25
Securities of other investment companies	None	None
Other securities	<u>3,056,557.06</u>	<u>808,974.09</u>
Total	<u>\$3,801,855.06</u>	<u>\$1,556,030.34</u>

Cost of securities sold has been determined upon the "first in-first out" basis. It is not practicable to determine gains or losses on the average cost basis.

C - STATEMENTS OF UNREALIZED APPRECIATION OR DEPRECIATION ON INVESTMENTS (Note A)

Unrealized appreciation at beginning of year	\$1,179,715.00	\$1,787,305.00	\$2,557,512.35
do at close of year	<u>617,233.09</u>	<u>1,179,715.00</u>	<u>1,787,305.00</u>
Decrease in unrealized appreciation	(562,481.91)	(607,590.00)	(770,207.35)
Deduct-Reduction in provision for related additional contingent compensation of officers (Note B)	<u>(112,496.38)</u>	<u>(121,519.00)</u>	<u>(154,041.46)</u>
Balance-Decrease in unrealized appreciation applicable to outstanding capital shares	<u>\$(449,985.53)</u>	<u>\$(486,072.00)</u>	<u>\$(616,165.89)</u>

The comments contained in the accompanying Notes to Financial Statements are an integral part of these statements and should be read in conjunction therewith.

GRAHAM-NEWMAN CORPORATION
NEW YORK
STATEMENTS OF CHANGES IN NET ASSETS

	FISCAL YEARS ENDED JANUARY 31st.													
	1	9	5	6	1	9	5	5	1	9	5	4		
NET ASSETS AT BEGINNING OF YEAR				\$5,091,180.69				\$5,850,963.44					\$6,541,517.09	
Undistributed net income included therein (Deficit) (excess of accumulated distributions over accumulated net income)				\$(655,371.47)				\$(371,492.17)					\$(277,701.78)	
INCOME														
Net Loss (per Exhibit III)				(225,902.16)				(283,879.30)					(93,790.39)	
Distributions paid (or payable)				None				None					None	
Balance of income undistributed (loss)				(225,902.16)				(283,879.30)					(93,790.39)	
REALIZED GAIN ON INVESTMENTS														
Net realized gain on investments (per Exhibit III)				1,181,119.98				1,648,818.55					789,402.63	
Distributions paid (or payable)				955,217.82*				1,364,939.25*					695,612.24*	
Balance of realized gain on investments for the year				225,902.16				283,879.30					93,790.39	
DECREASE IN UNREALIZED APPRECIATION OF INVESTMENTS														
(per Exhibit III)				(562,481.91)				(607,590.00)					(770,207.35)	
Less-Reduction in provision for related contingent compensation of officers (Note B)				(112,496.38)				(121,518.00)					(154,041.46)	
Balance-Decrease in unrealized appreciation applicable to outstanding capital shares				(449,985.53)				(486,072.00)					(616,165.89)	
SECURITIES ISSUED				None				None					None	
SECURITIES REPURCHASED				None				None					None	
DISTRIBUTIONS OF CAPITAL				(183,132.18)*				(273,710.75)*					(74,387.76)	
NET ASSETS AT CLOSE OF YEAR														
Undistributed net income included therein (Deficit) (excess of accumulated distributions over accumulated net income)				\$(881,273.63)				\$(655,371.47)					\$(371,492.17)	
*Distributions paid (or payable)														
				Per share				Per share					Per share	
July 1, 1955				\$12.50	\$ 62,500.00	June 4, 1954		\$ 12.50	\$ 62,500.00	June 12, 1953			\$12.50	\$ 62,500.00
Sept. 1, 1955				12.50	62,500.00	Sept. 24, "		12.50	62,500.00	Sept. 10, "			12.50	62,500.00
Dec. 1, 1955				12.50	62,500.00	Dec. 22, "		12.50	62,500.00	Dec. 18, "			12.50	62,500.00
March 12, 1956				190.17	950,850.00*	Mar. 10, 1955		290.23	1,451,150.00	Mar. 5, 1954			116.50	582,500.00
Total				\$227.67	\$1,138,350.00			\$327.73	\$1,638,650.00				\$154.00	\$770,000.00
of which-charged to Earned Surplus:					None				None					None
out of income					955,217.82				1,364,939.25					695,612.24
out of realized gain on investment					183,132.18				273,710.75					74,387.76
do Capital Surplus (excess of distributions over balance of Earned Surplus)														
Total, as above					\$1,138,350.00				\$1,638,650.00					\$770,000.00
Net Loss (not including capital gains)				(45.18)	(225,902.16)			(56.78)	(283,879.30)				(18.76)	(93,790.39)
Realized gain on investments				236.22	1,181,119.98			329.76	1,648,818.55				157.88	789,402.63
Decrease in Unrealized Appreciation applicable to outstanding capital shares				(90.00)	(449,985.53)			(97.21)	(486,072.00)				(123.23)	(616,165.89)
Total				\$101.05	\$ 505,232.29			\$175.77	\$ 878,867.25				\$ 15.89	\$ 79,446.35

STATEMENTS OF CHANGES IN NET ASSETS
FOR THE FISCAL YEARS ENDED
JANUARY 31, 1954, JANUARY 31, 1955 AND JANUARY 31, 1956

	TOTAL NET ASSETS	C A P I T A L				NET INCOME
		Capital Shares	Capital Surplus	Realized Gains on Investments	Unrealized Appreciation of Investments(3)	
FISCAL YEAR ENDED JANUARY 31, 1954						
Balances at January 31, 1953	\$6,805,567.09	\$2,500,000.00	\$2,097,580.32	\$ 425,028.34	\$2,050,661.61	\$(277,701.76)
Deduct-Final dividend for prior year (paid March 12, 1953)	<u>264,050.00</u>		<u>106,725.44</u>	<u>157,324.56</u>		
	6,541,517.09		1,990,855.48	277,701.78		(93,790.39)
Net income for year (deficit)	(83,790.39)			769,402.63		
Realized gains on investments	789,402.63				(616,165.89)	
Decrease in unrealized appreciation of investments (3)	<u>(616,165.89)</u>					
	6,620,963.44		1,990,855.48	1,067,104.41	1,434,495.72	(371,492.17)
Distributions paid (1)	<u>770,000.00</u>		<u>74,587.36(2)</u>	<u>695,512.24</u>		
Balances at January 31, 1954	5,850,963.44	2,500,000.00	1,916,467.72	371,492.17	1,434,495.72	(371,492.17)
FISCAL YEAR ENDED JANUARY 31, 1955						
Net income for year (deficit)	(283,879.30)			1,648,118.55		(283,879.30)
Realized gains on investments	1,648,818.55				(486,072.00)	
Decrease in unrealized appreciation of investments (3)	<u>(486,072.00)</u>					
	6,729,830.69			2,020,110.72	948,423.72	(655,371.47)
Distributions paid (1)	<u>1,638,650.00</u>		<u>273,710.75(2)</u>	<u>1,364,339.25</u>		
Balances at January 31, 1955	5,091,180.69	2,500,000.00	1,642,756.97	655,771.47	948,423.72	(655,371.47)
FISCAL YEAR ENDED JANUARY 31, 1956						
Net income for year (deficit)	(225,902.16)			1,181,119.98		(225,902.16)
Realized gains on investments	1,181,119.98				(449,985.53)	
Decrease in unrealized appreciation of investments (3)	<u>(449,985.53)</u>					
	5,596,412.98			1,336,91.45	498,438.19	(881,273.63)
Distributions paid (1)	<u>1,138,350.00</u>		<u>183,132.18(2)</u>	<u>955,27.82</u>		
Balances at January 31, 1956	\$4,458,062.98	\$2,500,000.00	\$1,459,624.79	\$ 381,73.63	\$ 498,438.19	\$ (881,273.63)

- (1) The accounts for the fiscal years ended January 31, 1954 and January 31, 1955 have been restated to include in "distributions paid" the final dividends for the year which were paid subsequent to the close thereof (at March 12, 1953 \$264,050; at March 5, 1954 \$582,500; at March 10, 1955 \$1,451,150).
- (2) The distributions paid which are shown as having been paid out of capital surplus represent the excess of such distributions over the balance of Earned Surplus -

	Jan. 31, 1954	Jan. 31, 1955	Jan. 31, 1956
Earned surplus at the close of the year ended before deducting distributions paid being represented as follows:			
Accumulated balance of realized gains	\$1,067,104.41	\$2,020,310.2	\$1,836,491.45
Accumulated net income, exclusive of capital gains (deficit)	<u>(371,492.17)</u>	<u>(655,371.47)</u>	<u>(881,273.63)</u>
Total - Earned Surplus	695,612.24	1,364,939.2	955,217.82
Distributions paid	<u>770,000.00</u>	<u>1,638,650.00</u>	<u>1,138,350.00</u>
Excess of Distributions paid over Earned Surplus balance	\$ 74,587.76	\$ 273,710.5	\$ 183,132.18

- (3) The amounts shown as Unrealized Appreciation of Investments (and the decreases therein) represent the net amounts applicable to outstanding capital shares, after deducting the related additional contingent compensation of officers (and the decreases therein).

NEW YORK

STATEMENT OF SOURCES OF NET ASSETS

JANUARY 31, 1956

CAPITAL

Excess of amounts received from sale of capital shares over amounts paid out in redeeming or reacquiring shares	\$5,532,521.41	
Number of shares authorized and outstanding - <u>5,000 shares</u>		
Stated value thereof - <u>\$500.00</u> per share	<u>\$5,000,000</u>	
Aggregate distributions from net proceeds from sale of capital shares (including distribution of Government Employees Insurance Co. stock July 6, 1948 at cost \$736,190.95)	1,572,896.62	
Balance of Capital paid in on shares		\$3,959,624.79
<u>ACCUMULATED NET REALIZED GAIN ON INVESTMENTS</u>	10,180,509.66	
Accumulated distributions of realized gain on investments	<u>9,299,236.03</u>	881,273.63
<u>UNREALIZED APPRECIATION OF ASSETS</u>	617,233.09	
less provision for related additional contingent compensation of officers	<u>118,794.90</u>	<u>498,438.19</u>
<u>TOTAL</u>		5,339,336.61
<u>BALANCE OF UNDISTRIBUTED NET INCOME (DEFICIT)</u> (excess of accumulated distributions over net income)		(881,273.63)
<u>NET ASSETS APPLICABLE TO OUTSTANDING SHARES</u>		<u>\$4,458,062.98</u>

NEW YORK

NOTES TO FINANCIAL STATEMENTS

JANUARY 31, 1956

NOTE A - VALUATION OF INVESTMENTS-
UNREALIZED APPRECIATION OF INVESTMENTS

Investments have been evaluated at their quoted market values as at January 31, 1956 except that an investment in respect of which the company has a put option, exercisable during a period of one year commencing one year subsequent to the date of each purchase, has been valued on the basis provided for in the put option - at \$495,236. These valuations are not, however, intended as representations of the amounts which may be actually realizable upon sale of the securities.

The unrealized appreciation of investments as at January 31, 1956 is represented as follows:

	<u>Cost</u>	<u>Value at Jan. 31, 1956</u>	<u>Unrealized Appreciation at Jan. 31, 1956</u>
Investments in securities of unaffiliated issuers:			
United States Treasury bills	\$ 745,298.00	\$ 745,298.00	\$ -
Securities of other investment companies	-	-	-
Other securities	4,488,996.99	5,128,177.00	639,180.01
Investments in affiliates (not controlled)		None	
Total	5,234,294.99	5,873,475.00	639,180.01
Securities short (a)	<u>(493,724.08)</u>	<u>(515,671.00)</u>	<u>(21,946.92)</u>
Net securities position	<u>\$4,740,570.91</u>	<u>\$5,357,804.00</u>	617,233.09
Deduct-Provision for related additional contingent compensation of officers on the increase in unrealized appreciation subsequent to January 31, 1948			<u>118,794.90</u>
Net unrealized appreciation of investments, after providing for related additional contingent compensation of officers			<u>\$498,438.19</u>

(a) Securities short are stated at proceeds of sale, market value at January 31, 1956 and indicated gain or loss on the basis of such market value.

JANUARY 31, 1956

NOTE B - COMPENSATION OF OFFICERS

The Chairman of the Board receives a salary of \$15,000 per annum and the President and the Treasurer each receive a salary of \$25,000 per annum. (For the fiscal year ended January 31, 1955 the salaries paid were \$25,000, \$25,000 and \$18,000; and for the prior fiscal year - ended January 31, 1954, salaries were paid to Benjamin Graham as President and to Jerome A. Newman as Vice-President and Treasurer of \$25,000 to each.) In addition thereto, additional compensation is payable to them as a group of 20% of the excess of the realized net income in each year as determined at the close thereof (less the net unrealized depreciation, if any, in the value of the investments at the year end which had accrued subsequent to January 31, 1948) over an amount equivalent to \$40.00 per share per annum (\$10.00 per share per quarter) on the outstanding capital stock. The total amount of such additional compensation subsequent to January 31, 1948 is, however, limited to 25% of the excess of the dividends paid during this period over the amount equivalent to \$40.00 per share per annum on the presently outstanding capital stock (or the equivalent on the old stock outstanding prior to recapitalization in 1950). For the purpose of computing this limitation, the final dividend for any fiscal year, although declared and payable subsequent to the close of the year (but which under the provisions of the Internal Revenue Code may be included for tax purposes in the amount of dividends paid during the prior year) is considered as includible in the amount of dividends paid during such prior year. The additional compensation is payable in five equal annual installments within sixty days of the close of the respective fiscal years, but payment of the deferred installments may be accelerated at the discretion of the directors. In the event of the death of any officer who is entitled to additional compensation, or upon the termination of his tenure of office, the additional compensation due him is to be determined upon the basis of the value of investments (including unrealized appreciation or depreciation) as at the date of such event.

NOTE C - TAX STATUS

The corporation has elected to be taxed as a "regulated investment company" under the Internal Revenue Code, and as such will be liable to Federal taxes on income on such amount only as is represented by its undistributed net long term capital gains (less its short term capital losses, if any) and its undistributed net income from other sources. The corporation has in the past, and intends in the future, to distribute as dividends each year, or within the time limit provided by the terms of the Internal Revenue Code, an amount which will absorb the total net income in each of the above categories which is reportable for Federal income tax purposes, and in this event will not be liable for Federal taxes on income. No provision has therefore been made for such taxes either in respect of the realized net income for the current year or in respect of the unrealized appreciation at the close thereof.

By reason of the fact that deduction is taken on the corporation's tax return in respect of officers' compensation for such amount only as is currently payable (including installments of compensation earned in prior years which become currently payable - see Note B), the net income reported for tax purposes is greater than the net income shown by the statements herein.

JANUARY 31, 1956

NOTE D - FINAL DIVIDEND FOR THE YEAR

The "final dividend" of a regulated investment company for any year may, under the provisions of the Internal Revenue Code, be included for tax purposes in the amount of dividends paid during the prior year, even though declared and paid subsequent to the close thereof. The company has adopted the policy of including the final dividend for the year in its accounts for the year to which it relates. This change in accounting procedure became effective for the fiscal year ended January 31, 1955. The accounts for the fiscal years ended January 31, 1954 and January 31, 1955 have been re-stated to give effect to this change.

GRAHAM-NEWMAN CORPORATION

NEW YORK

INVESTMENTS IN SECURITIES

JANUARY 31, 1956

S U M M A R Y

	<u>MARKET VALUE</u> <u>AT JAN. 31, 1956</u>
<u>HOLDING COMPANIES</u>	
Preferred Stocks	\$ 13,500
Common Stocks	869,159
<u>OTHER SECURITIES</u>	
<u>Bonds</u>	1,141,489
Railroads	20,250
Utilities	160,660
Industrial	
<u>Preferred Stocks</u>	65,000
Railroad	6,600
Utilities	552,699
Industrial	
<u>Common Stocks</u>	620,390
Railroads	298,616
Utilities	1,379,814
Industrial	
<u>TOTAL</u>	<u>\$5,128,177</u>

GRAHAM-NEWMAN CORPORATION
NEW YORK
INVESTMENTS IN SECURITIES
JANUARY 31, 1956

No. of shares or Face amount	MARKET VALUE JAN. 31, 1956
<u>HOLDING COMPANIES</u>	
<u>Preferred Stocks</u>	
100 Alleghany Corp. \$4.00 Convertible Prior Preferred	<u>\$ 13,500</u>
<u>Common Stocks</u>	
3,405 Engineers Public Service Company (stubs)	409
50,000 Philadelphia & Reading Corp.	<u>868,750</u>
	<u>\$869,159</u>
<u>OTHER SECURITIES-BONDS</u>	
<u>Railroads</u>	
195 M. International Great Northern Railroad Company Adjustment Mortgage Series A 6% 1952	196,770*
313 M. Missouri Pacific Railroad 5-1/2% Series A 5/1/1949	374,084*
31 M. Missouri Pacific Railroad 5-1/4% Secured Serial 12/1/1956	50,212*
2,039 M. New York, New Haven & Hartford Railroad Co. Certificates of Beneficial Interest	495,236(x)
25 M. New Orleans, Texas & Mexico- 5-1/2% Series A-1954	<u>25,187</u>
	<u>\$1,141,489</u>
<u>Utilities</u>	
25 M. Brazilian Traction Light & Power Co. Ltd. Series E Convertible Collateral Trust 4-1/2% 9/1/1971	<u>\$ 20,250</u>
<u>Industrial</u>	
100 M. Dow Chemical Co. 3% Convertible Subordinated Debentures 7/1/1982	126,250
37 M. Standard Coil Products, Inc. 5% Convertible Subordinated Debentures 12/1/1967	<u>34,410</u>
	<u>\$160,660</u>

*Evaluated on basis of realizable value of sales contracts
of when issued securities receivable in proposed re-
organization.

(x) Evaluated upon the basis of a put option (see Note A).

INVESTMENTS IN SECURITIES

JANUARY 31, 1956

Number of Shares		MARKET VALUE JAN. 31, 1956
<u>OTHER SECURITIES-PREFERRED STOCKS</u>		
<u>Railroad</u>		
500	Norwich & Worcester Railroad Co. Preferred	\$ <u>65,000</u>
<u>Utilities</u>		
2,200	Central States Electric Corporation 7% Preferred (stubs)	\$ <u>6,600</u>
<u>Industrial</u>		
1,000	American Airlines 3-1/2% Convertible Preferred	113,500
1,000	American Cyanamid 3-3/4% Convert- ible Preferred-Series C	130,500
500	Fedders Quigan Corporation 5% Convertible Preferred-Series A	25,625
100	Fedders Quigan Corporation 5-1/2% Convertible Preferred	4,750
500	Hamilton Watch Co. 4% Convertible Preferred	44,375
200	McCord Corporation \$2.50 Convertible Preferred	9,200
430	McCrorry Stores Corp. 3-1/2% Convertible Preferred	34,400
600	National Container Corp. \$1.25 Convertible Preferred	21,150
500	Olin Mathieson Chemical Corporation 4-1/4% Convertible Preferred-1951	57,500
460	Pfizer & Co., Inc. (Chas.)- 4% Convertible Preferred	47,380
201	Rockwood & Co. 5% Preferred-Class A	16,582
500	Thermoid Company \$2.50 Convertible Preferred	22,437
1,100	Twin Coach Co. \$1.50 Convertible Preferred	<u>25,300</u>
		<u>\$552,699</u>
<u>OTHER SECURITIES-COMMON STOCKS</u>		
<u>Railroads</u>		
500	Cleveland & Pittsburgh Railroad Co.:	38,125
	\$3.50 Regular Guaranteed	18,000
400	\$2.00 Special Guaranteed Betterment	14,275
200	Erie & Pittsburgh Railroad Co.	299,250
19,000	Illinois Terminal Railroad Co.	117,750
200	Mahoning Coal Railroad Co.	9,630
60	Providence & Worcester Railroad Co.	27,360
240	Vermont & Massachusetts Railroad Co.	<u>96,000</u>
1,500	Western Pacific Railroad Company	<u>\$620,390</u>

INVESTMENTS IN SECURITIES

JANUARY 31, 1956

Number of <u>Shares</u>		<u>MARKET VALUE</u> <u>JAN. 31, 1956</u>
<u>OTHER SECURITIES-COMMON STOCKS (Continued)</u>		
<u>Utilities</u>		
1,000	American Telephone & Telegraph Co.	\$184,375
2-64/154	Brooklyn & Richmond Ferry Co.	441
500	Gold & Stock Telegraph Company	77,000
320	International Ocean Telegraph Company	<u>36,800</u>
		<u>\$298,616</u>
 <u>Industrials</u>		
400	Allied Kid Company	9,550
900	Arkansas Fuel Oil Corp.	29,588
400	Brockway Motor Co.	11,700
400	Butler Bros.	11,800
2,300	Chamberlin Co. of America	14,088
1,100	Cleveland Worsted Mills Company	160,600
1,500	Conn (C.G.) Ltd.	12,188
1,300	C.W.C. Liquidating Corp.	7,312
4,100	Clinton Foods, Inc.	183,475
5,000	Consolidated Liquidating Corporation	2,500
5,000	Continental Foundry & Machine Co.	40,000
700	Crompton & Knowles Loom Works	13,912
1,300	Davenport Hosiery Mills, Inc.	21,450
700	Diamond T Motor Car Co.	13,475
1,000	Dictograph Products Co., Inc.	7,125
500	Fowler Hosiery Co.	3,375
770	General Realty & Utilities Corp.	11,550
1,600	Greif Bros. Cooperage Class A	50,600
1,400	Gruen Watch Company	21,000
500	Hart, Schaffner & Marx	15,250
2,500	Hercules Motors Corporation	44,062
900	Houston Oil Co. of Texas	141,750
234	Industrial Enterprises, Inc.	5,499
1,000	International Packers, Ltd.	12,875
1,800	Kalamazoo Stove & Furnace Co.	3,375
700	Kirby Petroleum Trust #1 Certificates of Beneficial Interest	4,812
1,200	Kirby Petroleum Trust #2 Certificates of Beneficial Interest	3,150
25	Laundry & Cleaners Supply Corp.	1,625
500	Francis H. Leggett & Co.	5,750
100	Marshall-Wells Company	<u>35,200</u>
	Forward	\$898,636

INVESTMENTS IN SECURITIES

JANUARY 31, 1956

<u>Number of Shares</u>		<u>MARKET VALUE JAN. 31, 1956</u>
<u>OTHER SECURITIES-COMMON STOCKS (Continued)</u>		
<u>Industrials (Continued)</u>		
	(Forward)	\$898,636
1,900	Mohawk Rubber Co.	32,300
2,000	Moore Handley Hardware Co., Inc.	15,500
1,000	National Department Stores Corporation	22,875
1,600	National Presto Industries	17,400
3,000	P.R.M. Incorporated	61,875
5,329	Publicker Industries, Inc.	50,625
400	Reliable Stores Corporation	6,000
1,500	Rockwood & Co.	120,000
500	Sargent & Co.	9,750
100	Schenley Industries, Inc.	2,000
220	Shuron Optical Company, Inc.	7,975
100	Singer Manufacturing Co.	4,012
1,000	Spiegel, Inc.	15,750
325	J. H. Thorpe, Inc.	15,925
845	Timely Clothes, Inc.	15,316
1,000	Todd Shipyards Corporation	65,250
1,350	Tyer Rubber Company	16,875
500	Willys Overland Motors, Inc.(stubs)	1,750
		<u>\$1,379,814</u>

GRAHAM-NEWMAN CORPORATION

NEW YORK

SECURITIES SHORT

JANUARY 31, 1956

<u>Number of Shares</u>		<u>COVER VALUE JAN. 31, 1956</u>
1,600	Alleghany Corporation	\$ 13,400
4,800	American Airlines	111,600
2,000	American Cyanamid	131,500
2,142	Dow Chemical Co.	125,307
2,028	Fedders Quigan Corporation	22,815
1,020	National Container Corp.	20,655
1,050	Olin Mathieson Chemical Corp.	55,519
900	Pfizer & Co., Inc. (Chas.)	34,875
		<u>\$515,671</u>

A C C O U N T A N T S' R E P O R T

To the Board of Directors and Stockholders of
Graham-Newman Corporation:

We have examined the Balance Sheet of Graham-Newman Corporation as of January 31, 1956 and the related statements of Income and Expense, Realized Gain or Loss on Investments, Unrealized Appreciation or Depreciation of investments, and Changes in Net Assets, for the three fiscal years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The company has adopted the policy of charging against surplus and setting up as a liability at the close of the fiscal year the final dividend for the year, which although declared and payable subsequent to the close thereof, may, under the provisions of the Internal Revenue Code applicable to regulated investment companies, be included for tax purposes in the amount of dividends paid during the prior year.

In our opinion, the accompanying Balance Sheet and the related statements herein covering the operations of the company for the fiscal years ended January 31, 1954, 1955 and 1956, together with the Notes appended thereto and the related schedules herein, present fairly the position of Graham-Newman Corporation as at January 31, 1956 and the results of its operations for the three fiscal years then ended, in conformity with generally accepted accounting principles applicable to regulated investment companies, applied on a consistent basis.

Stern Porter Kingston & Coleman
STERN, PORTER, KINGSTON & COLEMAN
Certified Public Accountants

New York, N. Y.
July 17, 1956.

GRAHAM-NEWMAN CORPORATION

**122 EAST 42ND STREET
NEW YORK 17, N. Y.**

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

To the Stockholders of Graham-Newman Corporation:

NOTICE IS HEREBY GIVEN that the Annual Meeting of Stockholders of Graham-Newman Corporation will be held at the office of the Corporation at 122 East 42nd Street, New York, N. Y., on Monday, April 9, 1956, at 2:00 P.M., for the following purposes:

- (1) To elect six Directors to hold office until the Annual Meeting of Stockholders next ensuing after their election and until their successors shall have been elected and shall have qualified.
- (2) To consider and vote upon a proposal to ratify the selection of Messrs. Stern, Porter, Kingston & Coleman as auditors of the Corporation for the Corporation's fiscal year ending January 31, 1957.
- (3) To transact such other business as may properly come before the meeting or any adjournment or adjournments thereof.

There will be laid before the meeting the Annual Report of the Corporation, including financial statements for the fiscal year ending January 31st, 1956, in the form in which it was mailed to the Stockholders of the Corporation on February 24, 1956. Stockholders will not be called upon to take any action in connection with the said Annual Report. The minute book of the Corporation, containing the minutes of all meetings of the Board of Directors since the last Annual Meeting of Stockholders, will be available at the meeting for inspection.

The stock transfer books of the Corporation will not be closed, but in lieu thereof, the Board of Directors has fixed the close of business on March 28, 1956, as the record date for the determination of stockholders entitled to notice of, and to vote, at the meeting.

Each stockholder who does not expect to attend in person is requested promptly to date, fill in, sign and return the enclosed Form of Proxy. This Proxy is solicited on behalf of the Management of the Company.

By Order of the Board of Directors.

WARREN E. BUFFETT
Secretary

New York, N. Y.
March 15, 1956.

PLEASE SIGN AND RETURN THE ENCLOSED PROXY PROMPTLY. A SELF-ADDRESSED, STAMPED ENVELOPE IS ENCLOSED FOR YOUR CONVENIENCE.

PROXY STATEMENT

Annual Meeting of Stockholders

GRAHAM-NEWMAN CORPORATION

to be held April 9, 1956

This statement is furnished in connection with a solicitation by the management of Graham-Newman Corporation (hereinafter called the "Corporation") of proxies to be used at the Annual Meeting of Stockholders of the Corporation to be held at 2:00 P.M. on Monday, April 9, 1956 at the office of the Corporation, 122 East 42nd Street, in the City of New York, N. Y., for the purpose set forth in the accompanying Notice of Annual Meeting of Stockholders.

An Annual Report of the Corporation was mailed to Stockholders on February 24, 1956. This report included financial statements for the fiscal year ended January 31, 1956. Such report is not to be incorporated in this Proxy Statement by reference and is not to be deemed to be a part of the proxy soliciting material.

At the close of business on March 15, 1956, there were 5,000 shares of capital stock of the Corporation outstanding. Each of such shares held of record on March 28, 1956 is entitled to one vote.

If the enclosed Form of Proxy is executed and returned, it may, nevertheless, be revoked at any time in so far as it has not been exercised.

A. Election of Directors.

Six Directors are to be elected, each to hold office until the annual meeting of Stockholders next ensuing after his election and until his successor shall have been elected and shall have qualified. It is the intention of the persons named in the enclosed Form of Proxy to nominate and vote such proxy for the election of the following persons, all of whom are candidates for re-election:

Benjamin Graham
Jerome A. Newman

Robert J. Marony
David L. Dodd

William K. Jacobs, Jr.
Howard A. Newman

In the event of the inability of any of such nominees to accept nomination or election, it is the intention of the persons named in the enclosed Form of Proxy to vote such proxy for the election of such other person as Director as they may in their discretion determine.

The By-Laws provide that the Board of Directors shall consist of six members and may be increased to not more than nine. The number of directors now has been fixed at six.

B. Information about Nominees for Election as Directors.

<u>Names</u>	<u>Principal Occupation or Employment</u>	<u>Served continuously as a Director Since</u>	<u>Number of Shares Graham-Newman Corporation Common Stock Beneficially Owned Directly and/or Indirectly on February 16, 1956</u>	
Benjamin Graham	Chairman of Board of Directors, Graham-Newman Corp.	1936	(1)	84
Jerome A. Newman	President, Graham-Newman Corp.	1936	(2)	207
Robert J. Marony	Director, Chicago, Milwaukee, St. Paul & Pacific RR	1936	(3)	61
Wm.K.Jacobs, Jr.	Financial Counsel	1940	(4)	None
David L. Dodd	Professor of Finance, Columbia University	1944	(5)	41
Howard A. Newman	President, Phila. and Reading Corp. and Vice President and Treasurer, Graham-Newman Corp.	1952		4

- (1) Mrs. Graham owns 12 shares.
- (2) Mrs. Newman owns 159 shares.
- (3) Mrs. Marony owns 21 shares.
- (4) Mrs. Jacobs is a life tenant of a trust owning 60 shares in which Mr. Jacobs has a contingent beneficial interest.
- (5) Mrs. Dodd owns 56 shares.

Stryker & Brown, investment securities-brokers own in excess of 10% of the outstanding stock, but we are advised this is not entirely owned for permanent investment.

C. Remuneration and Other Transactions with Directors, Nominees, Officers and Others

<u>Name of Individual</u>	<u>Capacity in which Remuneration was Received</u>	<u>Salaries for Fiscal Year ended Jan. 31, 1956</u>	<u>Shares in Profits</u>	<u>Pension Retirement and Similar Payments</u>
Benjamin Graham	Chairman of Board of Directors, Graham-Newman Corp.	\$15,000.	\$ 81,679.23 (1)	None
Jerome A. Newman	President, Graham-Newman Corp.	\$25,000.	\$ 81,679.23 (1)	None
Howard A. Newman	Vice-President and Treasurer, Graham-Newman Corp.	\$25,000.	\$ 25,446.00 (2)	None

No other Director or Officer of the Graham-Newman Corporation received remuneration in excess of \$25,000, for the fiscal year ending January 31, 1956.

All persons, as a group, who were Directors or Officers of the Corporation:

Salaries of Directors and Officers as such	\$ 83,582.33
Additional compensation based on profits	<u>188,804.46</u>
	272,386.79 (3)

- (1) Of these amounts \$65,343.39 is payable after January 31, 1956. Total amount shown is \$63,938.18 less than that received in the previous fiscal year.
- (2) Of this amount \$20,356.80 is payable after January 31, 1956. Total amount shown is \$25,446 - more than that received in previous fiscal year.
- (3) Represents decrease of \$108,814.70 over preceding year.

D. Selection of Independent Public Accountants.

Pursuant to the Investment Company Act of 1940, those members of the Board of Directors of the Corporation who are not officers or employees thereof have selected Messrs. Stern, Porter, Kingston & Coleman as the firm of independent public accountants to audit the accounts and to report on the financial statements of the Corporation for or during the year ended January 31, 1957. This firm has been the independent public accountants for the Corporation since January 31, 1939. This selection will be submitted for ratification or rejection at the Annual Meeting.

E. Other Matters

The management knows of no other matters which are to be brought before the meeting. However, if any other matters, not now known or

determined, properly come before the meeting, it is the intention of the persons named in the enclosed Form of Proxy to vote such proxy in accordance with their judgment on such matter.

All proxies received will be voted in accordance with the instructions and specifications contained therein, as regard selection of auditors and other matters.

F. Expenses.

The cost of preparing, assembling and mailing material in connection with this solicitation of proxies will be borne by the Corporation, and will not exceed \$150.

Very truly yours,

JEROME A. NEWMAN
President.

March 15, 1956.