

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. 4½% 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	Alleghany 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>

COMMON STOCKS - INDUSTRIALS

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 Patroero S.A.	-	-
1,000	Cuban American Manganese Corporation	5-1/4	5,250.00
2,200	Electric Boat Company	24-1/8	53,075.00
2,200	L. H. Gilmer Company	3-1/2	7,700.00
200	Gisholt Machine Company	22	4,400.00
625	W. F. Hall Printing Company	31-1/4	19,531.25
300	International Match Realization Company, Ltd.	25-1/4	7,575.00

Forward

\$363,718.75

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>			
	Forward		\$363,718.75
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>		<u>\$457,559.25</u>
<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>		<u>\$320,075.00</u>
<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>		<u>\$122,192.00</u>
<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>		<u>\$42,696.50</u>
<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>		<u>\$187,852.50</u>

GRAHAM-NEWMAN CORPORATION

NEW YORK

INVESTMENTS IN SECURITIES

JANUARY 31, 1946

SUMMARY

BONDS

Railroads
Industrials
Utilities
Real Estate
Holding Companies
U. S. Government

Total Bonds

MARKET VALUE

\$1,366,746.39
291,500.00
56,330.00
75,250.00
80,137.50
307,593.75

\$2,177,557.64

PREFERRED STOCKS

Industrials
Investment Companies
Utilities

Total Preferred Stocks

721,155.00
68,625.00
73,312.50

\$ 863,092.50

COMMON STOCKS

Industrials
Investment Companies
Railroads
Utilities
Insurance Companies
Real Estate

Total Common Stocks

457,559.25
320,075.00
122,192.00
42,696.50
187,852.50
1,015.00

\$1,131,390.25

TOTAL

\$4,172,040.39