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Nineteenth
Annual Report
of
HARDING CARPETS LIMITED
and
Consolidated Statement
of
Harding Carpets Limited
and
**The Guelph Carpet and Worsted
Spinning Mills Limited**



For the Fiscal Year ended
31st October, 1946

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NINETEENTH ANNUAL REPORT
of
HARDING CARPETS LIMITED

President
JOHN S. DICKSON

Executive Vice-President
CHAS. V. BANKS

General Manager
C. MALIM HARDING

Secretary-Treasurer
A. R. WYNN

Directors

CHAS. V. BANKS	Brantford, Ontario
C. GORDON COCKSHUTT	Brantford, Ontario
JOHN S. DICKSON	Toronto, Ontario
C. MALIM HARDING	Brantford, Ontario
H. J. McLAUGHLIN	Toronto, Ontario
H. QUARMBY	Guelph, Ontario

Stock Transfer Agent and Registrar
MONTREAL TRUST COMPANY
Toronto, Ontario

Head Office
BRANTFORD, ONTARIO

DIRECTORS' REPORT

TO THE SHAREHOLDERS:—

Your Directors submit herewith Consolidated Balance Sheet, Profit and Loss and Earned Surplus Statement of HARDING CARPETS LIMITED and its subsidiary, THE GUELPH CARPET & WORSTED SPINNING MILLS LIMITED, for the year ending October 31st, 1946, together with Auditors' Report to the Shareholders.

Because of the nature of certain letters and the issuance of a Writ against the Company and the President, I propose as President of your Company to deal with important phases of our operations more fully than is generally the custom, and therefore would respectfully ask your careful reading and consideration of the report which follows.

EARNINGS

In spite of operating and raw material difficulties, the shortage of skilled employees and the problems incidental to the transition from a war to a peace-time economy, the Financial Statement for the year ending October 31st, 1946, shows the best earning record since the inception of your Company.

Earnings amounted to \$178,299 (after all charges including Income, Excess Profits and Refundable Taxes) or the equivalent of 77c per share on the outstanding Capital Stock of the Company.

DIVIDEND POLICY

Dividend #20 of 15c per share was paid on January 2, 1946, and Dividend #21 of 15c per share was paid on July 2, 1946, totalling 30c per share for 1946. As the results from July 1946 to the end of the fiscal year continued favorable your Directors felt justified in raising the semi-annual dividend payable January 2, 1947, to 20c per share. This is a new high in your Company's semi-annual dividend policy, but in your Directors' opinion within your Company's capacity to pay.

It has been the policy of the Company to establish dividend rates which the Directors believed could continue to be paid from year to year and which at the same time would provide additional working capital for business expansion.

PRESENT OPERATING CONDITIONS

The general industrial problems created by the re-conversion of our national economy to a peace-time basis are well known. Our recently closed fiscal year has been one of more than usual concern due to a number of circumstances over which we had little or no control. This applied to the replacement and purchase of new equipment, the securing of raw materials, and general labour conditions.

The plants and equipment have been kept in good operating condition and throughout the year many repairs and improvements have been effected, which were not possible during the war years. Generally speaking, every effort is being made to equip the plants for the more competitive post-war years.

The world markets for your principal raw materials, namely carpet wool, tops, cotton and jute are unsettled. Nevertheless, it is expected that supplies will be adequate for the forthcoming year although there may be severe fluctuations in price.

One of our serious problems is the shortage of skilled employees. Consequently production, particularly in the worsted spinning mill, suffered to a considerable extent. This difficulty is gradually being overcome, and we have reason to expect a substantial increase in production during 1947.

During the year the members of the Brussels Weavers Union throughout the Canadian carpet industry were on strike for a period of eleven weeks. The strike was then settled on a mutually satisfactory basis, although production for that period was lost. The Company negotiated new labour contracts with the United Textile Workers of America (A.F. of L.), Textile Workers Union of America (C.I.O.) and the Canadian Brussels Carpet Weavers Benefit Association, all of which expire on January 31, 1947.

There has been an impression that the Canadian carpet industry might be penalizing itself in the long run by its concentration on contract business to the detriment of its regular trade. While we cannot speak for the industry as a whole your Directors feel that it should be pointed out that Harding's volume of carpet yardage for 1946 was 72% regular and 28% contract, which is a normal relationship.

Imports, mainly from the United Kingdom and British India, are coming into the country in greater volume. Although there is still a very large demand for carpets, which should continue for at least the next year, these imports will undoubtedly affect the carpet trade in Canada in the future.

It has just been announced that price controls have been lifted on all domestic carpets. It will be the policy of your Company to put into effect only such moderate price increases as have been necessitated by recent rising costs.

OUTLOOK

Generally speaking, the outlook for 1947 would appear to be better than that for 1946. Greater numbers of skilled employees and more efficient working conditions should result in improved production. Nevertheless, it is not expected that production will catch up with the present large demand and customers will still continue on a quota or ration basis during this year.

THE GOLDMAN ACTION

While this is the situation insofar as the operations of your Company are concerned, the Company and its Directors are being attacked by a dissatisfied shareholder through a series of letters to other shareholders and by the issue of a writ of summons in the Supreme Court of Ontario against the Company and its President. The plaintiff, Mr. H. Goldman, became a registered shareholder of the Company in December, 1944. The action is to set aside the sale of Six Thousand Three Hundred and Thirty-four (6,334) shares of the Company's stock in 1945 to myself, the President of the Company. In the past, at the Annual Meetings of Shareholders, you have always approved of all acts of the Directors in the preceding year and will be asked again to approve of all acts of your Directors at the Annual Meeting now being called. In view of this attack I am setting out below some of the outstanding facts in the history of the Company:

1. In the year 1934, the Company, which was incorporated in 1927, and which had not been able, up to that time, to pay any dividends on its preferred or common stock, was re-organized with one class of stock.

2. In the following year options to purchase stock were given to the three principal executives of the Company at the then market price with interest and less dividends. This was shown thereafter in the Annual Statements of the Company. The said options covered an aggregate of 14,500 shares. Said options were extended and all eventually exercised with the exception of slightly over 8,200 shares being the balance of the option granted your late President and General Manager, Mr. A. E. Cuthbertson, which option was cancelled by agreement with the Executors of the Estate of Mr. Cuthbertson for a consideration that proved advantageous to the Company.
3. The said options were granted with a view to providing incentive to the Management, so that they would prosper as the Company prospered. Whether through this incentive plan or otherwise, the Company's profits improved and by 1936 commenced payment of dividends and has continued ever since.
4. After about two years of war during which the carpet business had been satisfactory, it became apparent to your Directors that the business the Company was in was a non-essential war business and that serious recessions in volume and profits through shortage of materials and labour were bound to ensue. When, therefore, in the late summer of 1941, one of your Directors brought to the attention of the Board the opportunity of acquiring the control of THE GUELPH CARPET & WORSTED SPINNING MILLS LIMITED this opportunity was seized. Subsequently, further shares and eventually all of the outstanding shares of that Company were purchased. The total price was in excess of Seven Hundred and Twenty-thousand Dollars (\$720,000). This purchase was possible by reason of the conservative dividend policy of the Company but did result in a serious reduction in the Company's working capital.
5. This reduction in working capital was emphasized as the Company prepared for the eventual end of the war, for conversion to peacetime industry and for normal expansion. After full consideration your Board decided in the early part of 1945, that a further Two Hundred and Fifty Thousand Dollars (\$250,000) should be provided for the purposes of the two Companies and announced their decision to raise these funds in a letter to all Shareholders dated February 24th, 1945. I quote the plan from that letter, as follows:

"THE BOARD OF DIRECTORS have decided to raise approximately \$250,000.00 further capital by:

1. *The granting of Stock Purchase Rights to all Shareholders of the Company entitling each Shareholder to purchase one share at the price of \$5.00 for every five shares held by such Shareholder, and totalling about 36,200 shares. Shareholders of record as of March 15th, 1945, will be entitled to subscribe for the above shares, following which date purchase warrants will be forwarded to registered Shareholders.*
2. *The sale of an aggregate of about 13,800 shares at the same price, to key Employees in the Harding-Guelph Companies in order that such members of the Staff might have a greater stake in their successful operations.*

These Rights and Sales will result in an increase of 50,000 in the Company's issued shares".

In the further circular sent to all Shareholders under date of March 15th, 1945, it was also said:

"To the extent that the subscription privileges are not exercised by the Shareholder the Board of Directors of the Company will deal with the shares in such manner as to them appears advisable".

The plan was designed both to raise the required moneys and to provide incentive to the Staff of the Companies. The plan covered a larger number of personnel than had been provided in the earlier incentive scheme and is in accordance with the widely established industrial practice of providing incentive for employees responsible for the success of their companies. Six thousand shares were offered to the President, who had not previously participated in any incentive plan, and this offer was accepted. All shares, whether covered by the Rights to Shareholders or sold to personnel, were to realize the same price of Five Dollars (\$5.00) per share.

In determining the selling price of the shares to both Shareholders and Company personnel, the Directors had in mind the market record of the Company's stock in the years from its listing to the settlement of the plan, which was as follows:

Year	High	Low
1935	\$ 3 1/2	\$ 2 1/8
1936	6	2 3/4
1937	7	3 1/2
1938	4	2 1/2
1939	4 3/8	2 1/2
1940	4 3/8	2 3/4
1941	3 7/8	2 1/2
1942	3 1/2	2 1/4
1943	4 3/4	2 1/2
1944	6 3/4	4 3/4
1945 (January only) . .	7 3/8	6 1/2

The above records were taken from The Financial Post Corporation Service with the exception of the figures for the month of January, 1945, which were obtained from the Toronto Stock Exchange.

- At the time of the said offerings Canada was still at war; both Companies were experiencing difficulty securing raw materials and labour. A few months earlier the Harding factory at Brantford had reached a raw material situation caused by the shortage of Atlantic shipping following "D" Day where it had only one week's supply of raw wool on hand. It did not seem to your Directors at that time that the Company could successfully offer shares at more than \$5.00 per share. It also seemed to your Directors to be in the interest of the Company that all personnel should pay the same price for their shares as the Shareholders.

Of the total shares offered to Shareholders (36,200) all were taken up by Shareholders with the exception of 2,633. Pursuant to the circular of March 15, 1945, quoted above, the Directors exercised their discretion by the sale of such balance to key personnel who were Directors to the extent of 933 shares and to Directors who were not otherwise employed by the Company to the extent of 1,700 shares. The President was offered and purchased an additional 334 shares of the said 2,633 shares. All shares were sold for cash at the offering price of Five Dollars (\$5.00) per share.

- The following is a list of all sales of the Company's shares in the said offering of 50,000 shares to Officers and Directors of the Company and which did not result from the exercise of rights:

J. S. Dickson, Director and President	6,334
C. V. Banks, Director and General Manager of Harding Carpets Limited	1,200
H. Quarmby, Director and General Manager of The Guelph Carpet & Worsted Spinning Mills Limited	1,200
A. R. Wynn, Secretary-Treasurer, Harding Carpets Limited	1,000
B. F. Griggs, Secretary-Treasurer, The Guelph Carpet & Worsted Spinning Mills Limited	750
E. A. Mott, Director and Vice-President, Harding Carpets Limited	200
D. Keefe, Assistant Manager, The Guelph Carpet & Worsted Spinning Mills Limited	750
Col. C. M. Harding, Director (on leave of absence for service in the Canadian Army)	500
C. G. Cockshutt, Director	750
H. J. McLaughlin, Director	750
F. Harding, Director	200
26 other employees of the Harding-Guelph Companies	2,799
TOTAL	16,433

8. While objecting to the sale of shares to the President, Mr. Goldman has said that he approved of the sale of shares to members of the staff and employees, that this was to the interest of the Shareholders and that he did not ask that such members of the staff and employees pay more for their shares than the Shareholders of the Company.
9. After the letter of February 24th, 1945, and circular of March 15th, 1945, Mr. Goldman continued to buy shares, substantially increasing his holdings in the Company, registered in his name, before the end of the year 1945. Your Directors first heard of Mr. Goldman as a Shareholder of this Company shortly before his letter to the Shareholders of May 6th, 1946, on behalf of a self-appointed Shareholders' Representative Committee consisting of himself, Mr. Ernest Lloyd and Mr. E. G. Black, both of whom became registered Shareholders to the extent of 220 and 20 shares respectively, on the 29th day of April, 1946, approximately one week before Mr. Goldman's letter of May 6th went out. I quote from the so-called Representative Committee letters as follows:

From the letter of May 6th, 1946:

"We wish to make it clear that we find no fault with the management in their efforts in conducting the affairs of the Company. We believe they are most efficient and deserve praise from our Shareholders for their efforts in that line, BUT we are not satisfied with the dividend payments being made, as earnings have been such that larger returns to the Shareholders could be made without interfering with the funds required for the business".

From the letter of June 3rd, 1946:

"It is not the intention of this Committee to interfere in the management of the Company. All gossip or rumours to the contrary are false. All we ask and expect is fair treatment as earnings permit".

He still maintained this position in his last letter to the Shareholders of the Company sent out about the 7th of December, 1946.

Notwithstanding the protestations of these letters, Mr. Goldman admits sending a letter dated the 2nd of August, 1946, to the President of a large American carpet manufacturing corporation. In this letter he made overtures to that company to participate in and take over the management of your Company. I quote two extracts from that letter as follows:

1. *"If your Company would realize an opportunity of importance, I think it a rare chance in that respect. Our Committee would be willing to work with those who we feel would benefit the shareholders' interests. We believe under your capable management, as shown in * they would gain such benefits".*

* Name of company omitted.

2. *Please keep this matter strictly confidential and we can assure you the same will be done with any decisions you may make to this proposal. The Chairman will call upon you at a place you choose, to discuss further if interested".*
10. I should like to add this one further comment, which is that the earnings and dividend record of your Company during the last half of the war years were due not to the carpet business but to the action of your Directors in acquiring first, control and then, complete ownership of the Guelph Company, predominantly a worsted spinning business and an essential industry in war time. In that development of the Harding Company all of your Directors played an important part.

This letter is accompanying the Notice of Annual Meeting of the Shareholders of the Company. It is hoped that as many Shareholders as possible will attend when the Directors will be glad to discuss their policies in the direction of the Company.

The Directors wish to express on your behalf their appreciation for the loyal service of the staff and employees in all departments.

If you are unable to attend, please sign and return the enclosed proxy promptly.

ON BEHALF OF THE BOARD.

JOHN S. DICKSON,
President.

Harding Carpets Limited and The Guelph

CONSOLIDATED BALANCE SHEET

ASSETS

Current Assets:

Cash on hand and in bank		\$	4,250.12	
Accounts receivable	\$ 470,834.73			
Less — Reserves for doubtful accounts	43,465.62			
			427,369.11	
Inventories of stocks on hand, valued on the basis of cost or market prices, whichever were lower — as determined and certified to by responsible officials of the companies			1,669,489.33	
				\$2,101,108.56
Cash Surrender Value of Life Insurance Policies				56,722.58
Sundry Investments — at cost, less amounts written off				94,140.00
Deferred Account Receivable:				
Refundable portion of Excess Profits Tax				78,015.09

Fixed Assets:

Land		\$	45,870.00	
Buildings, plant and equipment	\$2,638,210.25			
Less — Reserve for depreciation	1,592,605.48			
			1,045,604.77	
				1,091,474.77

Deferred Charges:

Insurance premium deposits and unexpired taxes			21,537.31	
Goodwill			1.00	
				<u>\$3,442,999.31</u>

NOTE: Land and buildings of Harding Carpets Limited carried at \$581,219.30 are valued on the basis of depreciated reproductive values as reported by Canadian Appraisal Company Limited, in 1927, plus subsequent additions at cost; the balance of the fixed assets of that company, comprising machinery and equipment carried at \$642,456.65, are valued on the basis of cost. The fixed assets of The Guelph Carpet & Worsted Spinning Mills Limited are carried at values as recorded on the books at the inception of that company in 1929, plus subsequent additions at cost.

Approved on behalf of the Board.

JOHN S. DICKSON, Director.

C. MALIM HARDING, Director.

Carpet & Worsted Spinning Mills Limited

OCTOBER 31, 1946

LIABILITIES

Current Liabilities:

Bank advances — secured	\$ 249,086.75	
Accounts payable and accrued liabilities	130,538.89	
Reserve for income and excess profits taxes	165,170.80	
Serial Debentures — 4% due December 15, 1946	20,500.00	
		\$ 565,296.44

Reserves Against Future Decline in Inventory Values	354,383.48
Serial Debentures — 4% due December 15, 1947-1960	388,500.00

Note: Amount due December 15, 1946 — \$20,500.00
included under Current Liabilities.

Capital Stock and Surplus:

Capital Stock:

Authorized — 300,000 shares without nominal
or par value

Issued and outstanding — 231,204 shares	\$1,069,542.36
Earned Surplus — per statement attached	785,881.42

Capital Surplus — excess of book value of net assets
of The Guelph Carpet & Worsted Spinning Mills
Limited at date of acquisition over cost of shares
of that company

279,395.61	2,134,819.39
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\$3,442,999.31

AUDITORS' REPORT TO THE SHAREHOLDERS OF HARDING CARPETS LIMITED

We have made an examination of the consolidated balance sheet of Harding Carpets Limited and its subsidiary, The Guelph Carpet & Worsted Spinning Mills Limited, as at October 31, 1946, and of the consolidated statement of profit and loss for the year ending on that date. In connection therewith we examined or tested the accounting records of Harding Carpets Limited and other supporting evidence and made a general review of the accounting methods and of the operating and income accounts for the year, but our examination of the detailed transactions was confined to tests thereof. We have been furnished with the accounts of The Guelph Carpet & Worsted Spinning Mills Limited for the year ending October 31, 1946, with the appended report of Mr. J. Clare Wilcox, C.A., the auditor of that company, and we have consolidated these accounts with the accounts of Harding Carpets Limited.

We report that we have received all the information and explanations which we have required and that, in our opinion, the attached consolidated balance sheet and consolidated statement of profit and loss and surplus are properly drawn up so as to exhibit a true and correct view of the state of the affairs of the combined companies as at October 31, 1946, and of the results from operations for the year ending on that date, according to the best of our information and the explanations given to us and as shown by the books of Harding Carpets Limited which we examined, and the accounts of The Guelph Carpet & Worsted Spinning Mills Limited submitted by the auditor of that company.

All our requirements as auditors have been complied with.

PRICE, WATERHOUSE & Co.,
Chartered Accountants.

Toronto, January 3, 1947.

HARDING CARPETS LIMITED
AND
THE GUELPH CARPET & WORSTED SPINNING
MILLS LIMITED

CONSOLIDATED STATEMENT OF PROFIT AND LOSS
AND EARNED SURPLUS

FOR THE YEAR ENDING OCTOBER 31, 1946

Particulars	Amount
Combined profits from operations for the year after charging all administrative, selling and general expenses, but before the undernoted charges and credits	\$418,600.08
Deduct — Provision for depreciation of buildings, plant and equipment	95,018.98
	<u>\$323,581.10</u>
Add:	
Profit on sale of investments and disposal of machinery	14,352.65
Income from investments	5,402.06
	<u>\$343,335.81</u>
Deduct — Interest on 4% Serial Debentures	16,455.08
	<u>\$326,880.73</u>
Deduct — Increase in reserve against future decline in inventory values during the year	14,580.90
	<u>\$312,299.83</u>
Deduct — Provision for income and excess profits taxes (after deducting \$1,100.00 representing refundable portion of excess profits tax)	132,900.00
	<u>\$179,399.83</u>
Net profit for the year	<u>\$179,399.83</u>
Add:	
Consolidated Earned Surplus as at October 31, 1945	\$681,217.36
Net adjustments for taxes, etc., applicable to prior years	3,766.77
	<u>\$684,984.13</u>
Deduct — Portion of rebate arising from renegotiation of war business for the four years ending October 31, 1944, representing amount in excess of tax credits arising therefrom	9,141.34
	<u>675,842.79</u>
	<u>\$855,242.62</u>
Deduct — Dividend paid during the year	69,361.20
Consolidated Earned Surplus as at October 31, 1946	<u><u>\$785,881.42</u></u>

