FIFTEENTH ANNUAL REPORT

JUNE 30, 1946

United States Sugar Corporation

OFFICERS

CHARLES STEWART MOTT
Chairman of the Board

FOREST P. TRALLES .................................. President
CHARLES E. WETHERALD ......................... Executive Vice-President
MALCOLM W. BIGG .............................. Secretary and Treasurer
DR. B. A. BOURNE .......................... Vice-President, Research
R. Y. PATTERSON ......................... Vice-President, Engineering
W. C. PREWITT ......................... Vice-President, Agriculture
H. T. VAUGHN ............................ Vice-President, Clewiston Facilities
O. A. JONES .................. Assistant Secretary and Assistant Treasurer
JOSIAH FERRIS, JR. ...................... Assistant Secretary
FRED C. SIKES .......................... Assistant Secretary
BOARD OF DIRECTORS

ROBERT W. ATKINS
CLARENCE R. BITTING
WILLIAM T. BITTING
ROY E. BROWNELL
PATRICK BUTLER
J. DOUGLAS CASEY
JOHN G. GETZ, JR.

Hamish Mitchell
C. S. Harding Mott
Charles Stewart Mott
Joseph D. Murphy
Thomas Oxnard
N. F. S. Russell
Forest P. Tralles

Charles E. Wetherald

TRANSFER AGENTS

Preferred Stock $5. No Par
LAWYERS TRUST COMPANY,
New York, N. Y.
EQUITABLE TRUST COMPANY,
Wilmington, Del.

Series A 6.4% Preferred & Common Stock
CHEMICAL BANK & TRUST COMPANY,
New York, N. Y.
EQUITABLE TRUST COMPANY,
Wilmington, Del.

REGISTRARS

BANKERS TRUST COMPANY,
New York, N. Y.
THE CORPORATION TRUST COMPANY,
Wilmington, Del.
UNITED STATES SUGAR CORPORATION
CLE WISTON, FLORIDA

September 26, 1946

To the Stockholders:

The 1945-1946 sugar cane crop, harvested during the fiscal year ended June 30, 1946, was the largest of the Corporation’s fifteen years existence. Administration cane ground totalled 930,493 tons and purchased cane 47,467 tons, from which 93,045 tons of 96° raw sugar and 5834,000 gallons of blackstrap molasses were produced.

Decortication and degumming of ramie grown by the Corporation did not materialize during the fiscal year. This operation, for the joint account of the Corporation and Newport Industries, Incorporated, is now in progress and the outlook appears excellent, both as to the quantity and the quality of the crop grown, and as to the efficiency of the decortication machinery.

Starch producing facilities were not completed until December 1945—half way through the fiscal year—and with necessary trial runs and mechanical adjustments thereafter required, less than 700 tons of sweet potato starch were produced, and sales of starch-house products aggregated $113,035. Included in the cost of sales are items of operating costs aggregating $277,318, applicable to starch operations. Potato plantings from 1944 and 1945, ground-stored to await delayed completion of the plant, were either not harvested at all, or when harvested, were found to be of small tonnage yield.
It has been necessary to charge starch operations, not only with $164,283 operating loss ($113,035 total sales, deducted from $277,318 operating costs), but with a crop loss as well, of $556,939. Under the Certificate of Necessity issued by the United States Government, and as permitted by the Internal Revenue Code, the Corporation has elected to amortize the cost of its emergency facilities over a period of sixty months. Six months of this period fell in the past fiscal year. Accordingly, $830,937 amortization of emergency plant facilities has been deducted in the profit and loss statement contained in this report. It will be apparent, therefore, that these items aggregating $1,552,160 have been deducted in arriving at net income of $469,758 shown by the Corporation's consolidated statement of profit and loss.

As heretofore reported to the Stockholders, the expansion and diversification project of the Corporation was partially financed through a mortgage and collateral loan of $7,500,000 from Reconstruction Finance Corporation with fifty percent participation of twelve banks. The first fixed annual principal maturity of $750,000 was paid by the Corporation on its maturity date, June 1, 1946, and interest installments amounting to $273,178 to July 1, 1946 have been regularly met as provided by the terms of the loan contract.

As has been the practice heretofore, attention is directed to the fact that the Corporation is engaged in agricultural pursuits and, therefore, is subject to all the hazards of agriculture in the territory in which its operations are conducted. The properties of the Corporation have been visited at times in the past by tropical disturbances and sub-normal temperatures and may, of course, be so visited in the future.

The attention of the holders of Series A Preferred Stock is directed to the fact that such stock is convertible at the option of the holder, into three shares of Common Stock, prior to the conversion of a total of 100,001 shares, or prior to January 1, 1951, whichever shall be sooner, with such conversion rate changing
in accordance with the provisions of such Series A Preferred Stock. At the close of business June 30, 1946 an aggregate of 11,081 shares of Series A Preferred Stock had been converted into Common Stock.

The annual meeting of the Stockholders is scheduled to be held in accordance with the By-Laws, at 12 o’clock noon, October 15, 1946, at 100 West 10th Street, Wilmington, Delaware.

Among the items of business to be transacted at the annual meeting will be receipt and action upon the annual report (of which this is a copy) and the election of Directors in accordance with the By-Laws of the Corporation.

The Board of Directors has adopted amendments to Article II, Section 1; Article II, Section 2; Article III, Section 1; Article III, Section 2; repealed Article III, Sections 6, 7, 8 and 9; adopted a new Section 6 of said Article III; and amendments to Article IV, Sections 6 and 7; of the By-Laws of the Corporation, which amendments will be submitted at the annual meeting for ratification by Stockholders. The Board of Directors has fixed September 23, 1946 as the record date for the determination of holders of Common Stock and Series A Preferred Stock entitled to notice of and to vote at the annual meeting. Formal notice of the annual meeting will be mailed to all holders of voting stock.

By action of the Board of Directors, the management contract between the Corporation and Bitting, Incorporated, for supervisory management of the Corporation’s business, was terminated as of June 30, 1946, its expiration date. Resignations of Clarence R. Bitting as President and William T. Bitting as Vice President and Secretary of the Corporation were thereafter submitted to and accepted by the Board of Directors.

Charles Stewart Mott, who, with his family and the Mott Foundation, has owned a majority of the Corporation’s stock since its organization, was elected Chairman of the Board, a position theretofore vacant. Forest P. Tralles, Counsel
for the Corporation and a Director during the entire period of the Corporation’s existence, was elected President, and Charles E. Wetherald, formerly Manufacturing Manager, Chevrolet Division, General Motors Corporation, was elected Executive Vice President and General Manager. No changes have taken place in the operating organization and personnel, to whom, for its unvarying loyalty and efficiency the Board of Directors has requested me to express its joint and individual appreciation.

By order of the Board of Directors.

[Signature]

President.
UNITED STATES SUGAR CORPORATION

BALANCE SHEET
STATEMENT OF PROFIT AND LOSS
STATEMENT OF SURPLUS
CONSOLIDATED BALANCE SHEET
CONSOLIDATED STATEMENT OF PROFIT AND LOSS
CONSOLIDATED STATEMENT OF SURPLUS
NOTES TO FINANCIAL STATEMENTS
REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

JUNE 30, 1946
## UNITED STATES STEER SERVICE
### BALANCE SHEET

#### ASSETS

**WORKING ASSETS:**

Current assets:
- Cash (including $170,000 deposited in escrow-Note 1) .............. $1,082,037
- Accounts receivable:
  - Commodity Credit Corporation (Note 2) ............... $416,052
  - Trade ($29,345) and miscellaneous ($25,720) ....... 471,118
- Claim for refund of prior years' Federal taxes on income (Note 3) ... 100,000
- Accounts of drainage districts, less reserve $5,187 ............... 33,594
- Inventories:
  - Commissary merchandise, beef cattle and miscellaneous product—
    at lower of cost or market .................................. $ 231,883
  - By-products—approximate market ................................ 463,761
  - Total current assets ................................... $ 2,150,512
- Other working assets:
  - Operating supplies—cost, principally average cost ........... $ 385,847
  - Cattle-breeding and purebred, at cost or less .............. 114,408
  - Growing crops (Note 4) .......... 3,085,980
  - Total working assets ................................... $ 5,236,501

**INVESTMENTS AND OTHER ASSETS:**

Subsidiaries-100% owned:
- Capital stock (Note 5) ....................................... $ 240,896
- Mortgage notes and accounts receivable .............. 244,720
- Land contracts and mortgages receivable ............. 485,616
- Sundry receivables and investments .................. 1,817
- Membership in New York Coffee and Sugar Exchange, Inc.—nominal
  amount ............................................. 1 569,273

**FIXED ASSETS** (Note 6):

Regular facilities:
- Land ............................................. $5,609,919
- Buildings, machinery, equipment, etc. .............. 8,123,535
- Less reserve for depreciation .................... 3,710,989
- $9,320,909

Emergency facilities:
- Buildings, machinery, equipment, etc. (cost) .......... 8,309,377
- Less reserve for amortization .................... 16,799,349
- $9,320,909

**INTANGIBLE ASSETS:**

- Process rights license—cost, less amortization .......... 92,060
- Patent rights—at nominal amount ..................... 92,061

**DEFERRED CHARGES:**

- Prepaid insurance ............... 61,190
- Refinancing expenses, less amortization .......... 150,397
- $22,847,584

See accompanying notes to financial statements, which are an integral part hereof.
LIABILITIES

CURRENT LIABILITIES:

Payments due within one year on long term debt:
- Reconstruction Finance Corporation loan (Note 7) ........................................ $2,167,877
- Other ................................................................................................................. 24,000
- Total current liabilities ...................................................................................... $2,191,877

Accounts payable:
- Trade and for construction (Note 12-c) .................................................... $797,241
- Miscellaneous .................................................................................................. 7,235
- Subsidiaries ...................................................................................................... 2,171
- Total current liabilities ...................................................................................... $806,648

LONG TERM DEBT (exclusive of portion included above):
- Reconstruction Finance Corporation loan secured by mortgage on fixed and certain other assets (Note 7) ........................................ $4,516,263
- Other .............................................................................................................. 84,381
- Total long term debt ...................................................................................... $4,600,644

PROVISION FOR UNADJUSTED MANAGEMENT COMPENSATION (Note 8) ............................................... 165,000

RESERVE FOR GROWING Cane (Note 4) .......................................................... 95,903

CAPITAL STOCK AND SURPLUS:

Capital Stock (Note 9):
- Preferred, no par value, cumulative dividends $5 per share, callable on not less than 30 days notice at liquidating value of $100 per share plus accrued dividends:
  - Authorized 50,000 shares; unissued 28,378.5 shares; redeemed, or in treasury 181.5 shares; outstanding 21,440 shares at stated value $2,144,000
- Preferred, Series A 6.4% cumulative participating convertible, $25 par value, callable at $27.50 per share (involuntary liquidation $25 per share) plus accrued preferential dividends:
  - Authorized 200,000 shares; unissued 71,586 shares; retired by conversion, or in treasury, 11,371 shares; outstanding 117,043 shares 2,926,075
- Common, par value $1 per share:
  - Authorized 5,600,000 shares; unissued (Note 10) 2,999,777.62 shares; in treasury 124,517.38 shares; outstanding 1,575,705 shares 1,575,705
- Surplus (Note 11):
  - Capital ............................................................................................................ $4,166,768
  - Earned-since June 30, 1933 ............................................................ 3,799,004
- Total surplus .................................................................................................. $7,965,772
- Total capital stock and surplus .................................................................... $14,611,552
- Contingent Liabilities—Note 12. .................................................................. $22,847,584
UNITED STATES SUGAR CORPORATION

STATEMENT OF PROFIT AND LOSS
For the Year Ended June 30, 1946
(cents omitted)

Net Sales and Operating Revenues (including U. S. Government benefit and other subsidy payments of $1,913,865 and starch-house sales of $113,035). $11,569,670

Cost of Sales and Operating Revenues (exclusive of amortization of emergency facilities):
   Purchases, labor! supplies, production expenses, taxes (other than taxes on income), repairs and maintenance, etc., including amortization of growing crops (Note 4); and general and administrative expenses $9,147,096
   Provision for depreciation of regular plant facilities. 361,614

Deduct Amortization of Emergency Plant Facilities (Note 6) $2,060,959

Other Income:
   Discounts and interest earned. $8,256
   Profit on sales of real estate 61,397
   Rental under lease of oil, gas and sulphur rights 25,086
   Miscellaneous income 2,643

Other Deductions:
   Interest expense 318,539
   Amortization of refinancing expenses 36,880
   Crop loss-estimated portion of sweet potato planting and growing costs for non-productive or unharvested fields 556,939
   Miscellaneous deductions 1,922

Net Income (Note 3). $1,230,021

See accompanying notes to financial statements, which are an integral part hereof.

STATEMENT OF SURPLUS
For the Year Ended June 30, 1946
(cents omitted)

Earned Surplus-Since June 30, 1933

Balance at June 30, 1945 $3,385,881
Net income for the year ended June 30, 1946. 413,122
Balance at June 30, 1946 $3,799,004

Capital Surplus

Balance at June 30, 1945 $4,001,003
Additions:
   Excess of par value of Series A 6.4% convertible preferred stock over par value of common stock issued in exchange therefor. 238,528
   Restoration of portion of reserve for option lands (provided in prior years by charges to capital surplus) applicable to acreage sold during year. 69,086
Balance at June 30, 1946 $4,308,618

See accompanying notes to financial statements, which are an integral part hereof.
UNITED STATES SUGAR CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF PROFIT AND LOSS

For the Year Ended June 30, 1946

Net Sales and Operating Revenues (including U. S. Government benefit and other subsidy payments of $1,913,865 and starch-house sales of $113,035). .................. $11,920,549

Cost of Sales and Operating Revenues (exclusive of amortization of emergency facilities):

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchases, labor, supplies, production expenses, taxes (other than taxes on income), repairs and maintenance, etc., including amortization of growing crops (Note 4); and general and administrative expenses.</td>
<td>$ 9,409,585</td>
</tr>
<tr>
<td>Provision for depreciation of regular plant facilities.</td>
<td>385,584</td>
</tr>
<tr>
<td>Deduct Amortization of Emergency Plant Facilities (Note 6)</td>
<td></td>
</tr>
<tr>
<td>Other Income:</td>
<td></td>
</tr>
<tr>
<td>Discounts and interest earned</td>
<td>$ 8,823</td>
</tr>
<tr>
<td>Profit on sales of land by parent company</td>
<td>61,397</td>
</tr>
<tr>
<td>Rental under lease of oil, gas and sulphur rights.</td>
<td>25,086</td>
</tr>
<tr>
<td>Miscellaneous income</td>
<td>3,030</td>
</tr>
<tr>
<td>Total Other Income</td>
<td>$ 1,292,778</td>
</tr>
<tr>
<td>Other Deductions:</td>
<td></td>
</tr>
<tr>
<td>Interest expense</td>
<td>$ 318,569</td>
</tr>
<tr>
<td>Amortization of refinancing expenses.</td>
<td>36,880</td>
</tr>
<tr>
<td>Crop loss—estimated portion of sweet potato planting and growing costs for non-productive or unharvested fields</td>
<td>556,939</td>
</tr>
<tr>
<td>Miscellaneous deductions</td>
<td>2,221</td>
</tr>
<tr>
<td>Total Other Deductions</td>
<td>$ 478,168</td>
</tr>
</tbody>
</table>

Net Income                                                                             $ 469,758

See accompanying notes to financial statements, which are an integral part hereof.

CONSOLIDATED STATEMENT OF SURPLUS

For the Year Ended June 30, 1946

(Earned Surplus—Since June 30, 1933)

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at June 30, 1945</td>
<td>$ 3,405,242</td>
</tr>
<tr>
<td>Net income for the year ended June 30, 1946</td>
<td>469,758</td>
</tr>
<tr>
<td>Balance at June 30, 1946</td>
<td>$ 3,875,000</td>
</tr>
</tbody>
</table>

Capital Surplus

The capital surplus of United States Sugar Corporation and Subsidiaries (consolidated) is identical with that of the United States Sugar Corporation (unconsolidated). See accompanying statement.

See accompanying notes to financial statements, which are an integral part hereof.
### UNITED STATES SUGAR

#### CONSOLIDATED BALANCE SHEET

**ASSETS**

**WORKING ASSETS:**

- **Current assets:**
  - Cash (including $170,000 deposited in escrow—Note 1) .................. $ 1,162,285
  - Accounts receivable:
    - Commodity Credit Corporation (Note 2) ........................ $ 416,052
    - Trade ($31,874) and miscellaneous ($25,831) .................. 57,705 473,758
  - Claim for refund of prior years Federal taxes on income (Note 3) .... 100,000
  - Accounts of drainage districts, less reserve $5,187 .................. 33,719
  - Inventories:
    - Commissary merchandise, beef cattle and miscellaneous product—
      at lower of cost or market ........................................ $ 231,883
    - By-products, at approximate market ................................ 231,878
    - Food, beverages, etc.—at lower of cost or market ............... 17,835 481,597
  - Total current assets ........................................ $ 2,251,360
  - Other working assets:
    - Operating supplies—at cost, principally average cost ............. $ 387,549
    - Cattle-breeding and purebred, at cost or less ..................... 114,408
    - Growing crops (Note 4) .................................. 2,585,734 3,087,692
  - Total working assets ........................................ $ 5,339,053

**INVESTMENTS AND OTHER ASSETS:**

- Land contracts and mortgages receivable .......................... $ 138,224
- Sundry advances, receivables and investments .................... 21,992
- Membership in New York Coffee and Sugar Exchange, Inc.—at nominal
  amount .......................................................... 1 160,217

**REAL ESTATE HELD FOR SALE—at independently appraised values at June 30, 1934,
with subsequent additions at cost, less reserve for depreciation:**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lots, acreage and golf course</td>
<td>$ 429,067</td>
</tr>
<tr>
<td>Dwellings and other buildings</td>
<td>$ 346,798</td>
</tr>
<tr>
<td>Less reserve for depreciation</td>
<td>114,697</td>
</tr>
<tr>
<td>Total</td>
<td>232,100 661,168</td>
</tr>
</tbody>
</table>

**FIXED ASSETS** (Note 6):

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regular facilities:</td>
<td>$5,635,308</td>
</tr>
<tr>
<td>Land</td>
<td>$8,406,968</td>
</tr>
<tr>
<td>Buildings, machinery, equipment, etc.</td>
<td></td>
</tr>
<tr>
<td>Less reserve for depreciation</td>
<td>4,504,402</td>
</tr>
<tr>
<td>Total</td>
<td>3,902,565</td>
</tr>
<tr>
<td>Emergency facilities:</td>
<td>$8,309,377</td>
</tr>
<tr>
<td>Buildings, machinery, equipment, etc. (cost)</td>
<td></td>
</tr>
<tr>
<td>Less reserve for amortization</td>
<td>830,937</td>
</tr>
<tr>
<td>Total</td>
<td>7,478,439 17,016,313</td>
</tr>
</tbody>
</table>

**INTANGIBLE ASSETS:**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Process rights license—at cost, less amortization</td>
<td>$ 92,060</td>
</tr>
<tr>
<td>Patent rights—at nominal amount</td>
<td>1 92,061</td>
</tr>
</tbody>
</table>

**DEFERRED CHARGES:**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prepaid insurance ($63,425) etc.</td>
<td>$ 64,641</td>
</tr>
<tr>
<td>Refinancing expenses, less amortization</td>
<td>89,207 153,848</td>
</tr>
<tr>
<td>Total</td>
<td>$23,422,662</td>
</tr>
</tbody>
</table>

See accompanying notes to financial statements, which are an integral part hereof.
### CORPORATION AND SUBSIDIARIES

**AS OF JUNE 30, 1946**

<table>
<thead>
<tr>
<th>LIABILITIES</th>
<th>Current Liabilities:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payments due within one year on long term debt:</td>
<td></td>
</tr>
<tr>
<td>Reconstruction Finance Corporation loan (Note 7)</td>
<td>$2,167,877</td>
</tr>
<tr>
<td>Other</td>
<td>24,000</td>
</tr>
<tr>
<td>Total current liabilities</td>
<td>$2,191,877</td>
</tr>
</tbody>
</table>

| Long Term Debt (exclusive of portion included above): | |
| Reconstruction Finance Corporation loan secured by mortgage on fixed and certain other assets (Note 7) | $4,516,263 |
| Other | 84,381 |
| Total Long Term Debt | $4,600,644 |

| Provision for Unadjusted Management Compensation (Note 8) | 165,000 |

| Deferred Income | 15,318 |

| Reserve for Growing CANE-(Note 4) | 95,903 |

| Excess of Subsidiaries' Carrying Amounts | 451,309 |

<table>
<thead>
<tr>
<th>Capital Stock and Surplus:</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Capital Stock (Note 9):</th>
</tr>
</thead>
<tbody>
<tr>
<td>Preferred, no par value, cumulative dividends $5 per share, callble on not less than 30 days notice at liquidating value of $100 per share plus accrued dividends:</td>
</tr>
<tr>
<td>Authorized 50,000 shares; unissued 28,378.5 shares; redeemed, or in treasury, 181.5 shares; outstanding 21,440 shares at stated value</td>
</tr>
</tbody>
</table>

| Preferred, Series A 6.4% cumulative participating convertible, $25 par value, callble at $27.50 per share (involuntary liquidation $25 per share) plus accrued preferential dividends: | |
| Authorized 200,000 shares; unissued 71,586 shares; retired by conversion, or in treasury, 11,371 shares; outstanding 117,043 shares | 2,926,075 |

| Common, par value $1 per share: | |
| Authorized 5,000,000 shares; unissued (Note 10) 3,299,777.62 shares; in treasury 124,017.38 shares; outstanding 1,575,705 shares | 1,575,705 |
| Total Capital Stock and Surplus | $6,645,780 |

<table>
<thead>
<tr>
<th>Surplus (Note 11):</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital</td>
</tr>
<tr>
<td>Earned-since June 30, 1933</td>
</tr>
<tr>
<td>Total Surplus</td>
</tr>
</tbody>
</table>

### Contingent Liabilities-Note 12.
UNITED STATES SUGAR CORPORATION
UNITED STATES SUGAR CORPORATION AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS
June 30, 1946

(1) Cash deposited in escrow is available for payment of outstanding accounts payable for construction upon approval of Reconstruction Finance Corporation.

(2) The amount of $416,052 is comprised of a balance of $299,332 due from Commodity Credit Corporation on account of an incentive payment offered for the benefit of producers of 1945-46 Crop Florida Sugarcane, since received, and $116,720 representing the amount of the Corporation's claim for a compensatory payment filed pursuant to an offer made by Commodity Credit Corporation under date of March 28, 1946, to processors of Florida Sugarcane, which claim is subject to audit and approval by Commodity Credit Corporation.

(3) Federal income tax liability of the Corporation for all years through June 30, 1943, has been finally determined and all deficiencies have been paid. Claim for refund of all taxes paid in respect of the fiscal years 1943 and 1944 has been filed under the loss carry-back provisions of the Internal Revenue Code, the amount of the claim being $111,340. Pending approval of this claim by the Bureau of Internal Revenue the estimated amount of $100,000 recorded in the accounts in 1945 has not been adjusted to the actual amount of the claim. It is believed that there is no liability for taxes on income for the year ended June 30, 1946, chiefly for the reason that the valuation of a substantial portion of the fixed assets allowed by the Bureau of Internal Revenue for determining profit or loss on disposition is considerably higher than the corresponding amounts reflected in the accompanying statements. Provision has been made for Federal taxes on income of subsidiaries. While no liability of the Corporation or its subsidiaries for Federal income taxes is believed to have arisen from the liquidation of Clewiston Realty and Development Corporation and the acquisition from it by the Corporation of the entire outstanding capital stocks of five companies, as described in Note 5, the returns covering these transactions are subject to audit and review by the Bureau of Internal Revenue. None of the returns filed in recent years by Clewiston Realty and Development Corporation and the five companies acquired therefrom has been examined by the Bureau of Internal Revenue.

(4) The amount for growing crops relates primarily to sugar cane and sweet potatoes and is comprised of current growing season expenses ($919,297) including between-harvest overhaul and other costs (except general and administrative expenses) chargeable to next year's crops, and sugar cane, sweet potato and other crop planting costs, less amortization ($1,666,436). Sweet potato planting costs are charged to the related harvest. Cane planting costs are amortized over a period of four years. When the life of cane plantings extends beyond four years, charges in lieu of amortization are made to profit and loss and credited to "Reserve for Growing Cane." Losses resulting from abandonment of cane plantings in less than four years and from extraordinarily severe climatic conditions are charged to this reserve to the extent available, the balance of such losses, if any, being chargeable to profit and loss.

The balance of $95,903 in the reserve at June 30, 1946, represents the excess of credits over charges for the year. At June 30, 1945, an amount of $91,464 which would normally have been carried forward in the reserve was credited to costs of that year to apply against losses attributed to low temperatures. If this amount had been left in the reserve the balance at June 30, 1946, would have been correspondingly greater.

(5) As of August 31, 1944, the Corporation acquired from Clewiston Realty and Development Corporation the entire outstanding capital stocks of five companies, in consideration of 40,000 shares of Common Stock in treasury of United States Sugar Corporation. At June 30, 1946, the amount at which the investments in subsidiaries were carried was $527,306 less than the parent company's equity in the net assets of the subsidiaries as shown by their records. This difference was represented by the excess ($451,309) of the net assets at the date of acquisition over the value ($240,000) assigned to the 40,000 shares of Common Stock issued therefor, plus net profits of the subsidiaries, aggregating $75,997, for the period since acquisition (including net profits of $56,635 for the year ended June 30, 1946).

(6) The amounts for land, buildings, machinery, equipment, etc. (other than emergency facilities), of the Corporation are those assigned thereto as of December 8, 1931, with respect to those acquired in the reorganization of the Corporation's predecessor (which amounts were less than those carried on the books of the predecessor), plus subsequent net additions at cost. The Corporation has an option from a wholly-owned subsidiary on certain lands, which option it carries in its accounts at $185,562 with a reserve of like amount. With respect to land, buildings and equipment of subsidiaries, the amount ($308,820) is based on independently appraised reproductive values as of June 30, 1934, with subsequent additions at cost. Construction of emergency facilities (including starch-house and related facilities) was completed in December, 1945. These facilities were constructed under certificate of necessity and as permitted under the provisions of the Internal Revenue Code the Corporation expects to elect in the Federal income tax return to be filed for the year ended June 30, 1946, to amortize the cost thereof over a period of sixty months from January 1, 1946. Provision for amortization on this basis to June 30, 1946, has been made in the accompanying financial statements.

(7) As of July 1, 1945, United States Sugar Corporation entered into a loan agreement with Reconstruction Finance Corporation, under which the Corporation received a loan of $7,500,000, repayable as follows:

(a) $750,000 on or before June 1, 1946 (paid); beginning June 1, 1947, three consecutive annual payments in the amount of $1,675,000 each, and the balance on or before June 1, 1950.

(b) On or before 120 days after the close of the Corporation's fiscal year ending on June 30, 1946, and annually thereafter, additional payments each equal to the amount by which 50% of the Corporation's net earnings (before depreciation but after deduction for income, excess profits and other taxes) for the preceding fiscal year exceeds the amount payable during such preceding fiscal year as set forth in (a) above.

(c) Additional annual payments each in the amount, if any, by which the aggregate amount of depreciation and/or amortization taken by the Corporation as a deduction for income tax purposes
during the preceding fiscal year, exceeds the sum of (1) the aggregate amount of principal payments as set forth in (a) above made during such fiscal year and (2) the amount of the payments then being made on account of the requirement set forth in paragraph (b) above. An additional payment of $492,877 will be due on or before October 28, 1946; this amount, together with the payment of $1,675,000 due June 1, 1947, has been included in the balance sheet under "Current Liabilities" and the balance of the loan is shown as non-current.

Collateral to the loan includes the following:

(a) Mortgage covering all land, buildings, machinery and equipment owned by the Corporation, subject in all respects to any crop mortgage on growing crops prior to foreclosure proceedings accompanied by lis pendens or bankruptcy proceedings.
(b) Pledge of all the stock of the Corporation's wholly-owned subsidiaries.
(c) Assignment of all the Corporation's right, title and interest in and to (1) note, in the amount of $75,000, executed by Clewiston Hotels Company (a subsidiary), together with a mortgage securing said note covering all the property of the hotel company, and (2) note, in the amount of $100,000 executed by Sugarland Park Corporation (a subsidiary), together with a mortgage securing said note covering all the property of Sugarland Park Corporation; provided that all payments received on account of said assignments shall be applied on account of the installments of principal falling due on the loan in the inverse order of maturity.
(d) All the right, title and interest of the Corporation in and to a certain oil and gas lease to The Ohio Oil Company, dated June 15, 1944.

Among other things, the agreement provides for restrictions on borrowings, expenditures for fixed capital additions, etc. The agreement further provides that without the prior written consent of Reconstruction Finance Corporation, the Corporation will not permit its liabilities (including the liability on account of the loan) and the subsidiaries of the Corporation to exceed the sum of (1) working assets of the Corporation and subsidiaries, and (2) $3,500,000.

In connection with the loan agreement, the Corporation's indebtedness at June 30, 1945, of $1,250,000 plus interest amounting to $18,750, to a Stockholder-Director was satisfied through the issuance to such Stockholder-Director of 14,097 shares of no par value $5 Preferred Stock of the Corporation.

(8) Provision for unadjusted management compensation, $165,000, has been set up as provision for amounts claimed but not conceded in respect of services rendered by Bitting, Incorporated, prior to June 30, 1946 (effective date of termination of contract). These claims are now under negotiation and any amount agreed upon as due Bitting, Incorporated, is subject to an agreement with Reconstruction Finance Corporation, and so long as the indebtedness to that corporation exists may not be claimed or paid without the prior written consent of such corporation. The amount, charged to operations during the year ended June 30, 1946, includes provision for supervisory management services not covering the ordinary routine operations of the corporation rendered from June 30, 1944, to the time of termination of services in 1946.

(9) Cumulative dividends in arrears on the preferred stocks of the Corporation at June 30, 1946 amounted to $300,341 as follows:

<table>
<thead>
<tr>
<th>Series</th>
<th>Shares</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>$5 Preferred</td>
<td>7,343</td>
<td>$5.4167 per share</td>
</tr>
<tr>
<td>Series A 6.4% Preferred</td>
<td>14,097</td>
<td>$1.60 per share</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>$300,341</strong></td>
</tr>
</tbody>
</table>

Under the terms of the loan agreement referred to in Note 7, the Corporation may not, without prior written consent of Reconstruction Finance Corporation, declare or pay any dividend or make any distribution upon its capital stock, or purchase or retire any of its capital stock. The Certificate of Incorporation provides for the application annually on or before December 1 of a portion of the net income (consolidated) for the preceding fiscal year, "after all accumulated and unpaid dividends upon Series A Preferred Stock shall have been paid, or declared and funds set apart for payment thereof, including the dividends for the fiscal year immediately preceding," as a sinking fund for the retirement of the Series A Preferred Stock. However, the dividend is not presently operative. At June 30, 1946, there were in the treasury 290 shares of Series A Preferred Stock, purchased prior to July 1, 1945, (date of loan agreement) in anticipation of sinking fund requirements. Dividends on Common Stock are further subject (a) to prior dividend rights of both classes of Preferred Stock; (b) to no default existing with respect to the sinking fund for Series A 6.4% Preferred Stock; and (c) to the consolidated net working assets (as defined in the Certificate of Incorporation, as amended) of the Corporation and subsidiaries after the payment of dividends on the Common Stock being not less than $2,000,000 and the aggregate capital stock (other than Preferred Stock, $25 par value, of all series), capital surplus and earned surplus being not less than $7,500,000.

(10) 491,757 shares of Common Stock are reserved for conversion of Series A 6.4% Preferred Stock issued and unissued.

(11) Surplus is restricted to the extent of $18,501 with respect to 9,801 shares of Common Stock, 290 shares of Series A 6.4% Preferred Stock, and 14.5 shares of Preferred Stock, $5 cumulative, in the treasury.

(18) The Corporation is contingently liable as guarantor of Sugarland Drainage District bonds in the principal amount of $174,500 with 4% interest thereon. The sugar-house and certain other facilities of the Corporation are situated in this district. No payments have been required under this guarantee.

(b) Clewiston Hotels Company, a subsidiary which operates the Clewiston Inn primarily for the benefit of United States Sugar Corporation, is to be indemnified by the last named for any loss, sustained annually, in the operation of the Inn. No payment was required for the year ended June 30, 1946, under this agreement.

(c) Accounts payable include an estimated amount in respect of outstanding liabilities (in dispute) to the general contractor and certain of the sub-contractors who constructed a substantial portion...
UNITED STATES SUGAR CORPORATION
UNITED STATES SUGAR CORPORATION AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS- (Continued)

of the emergency facilities. The general contractor has filed a lien against the property and is a party to a suit instituted against the Corporation to recover amounts alleged to be owing for work performed and materials furnished by the contractor and for damages, the total sum claimed being $850,000, which is substantially more than the corresponding amount provided. The amount to be ultimately paid to the contractors is not presently determinable. Any payment in excess of the amount provided will be chargeable to emergency facilities as an additional cost thereof.

d) In connection with the issuance of 14,097 shares of no par value $5 Preferred Stock referred to in Note 7, the Corporation has agreed, upon request of the stockholder concerned, within five years from July 1, 1945, to register and qualify such shares for sale to the public and to pay the expenses of such registration and qualification.

e) On July 2, 1946, the Corporation agreed with Ritta Drainage District, subject to approval of Reconstruction Finance Corporation, to deposit with the fiscal agent for $430,000 of Ritta Drainage District serial water control bonds dated October 1, 1945, to be issued, the sum of $24,000 to be used as a special reserve fund to guarantee the payment of principal and interest on the bonds. The Corporation also agreed to reimburse this reserve fund for any withdrawals during the life of the bonds. Important properties of the Corporation are located in this drainage district.

(13) Sweet potato costs have been segregated in the statement of profit and loss as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Charged to cost of sales</td>
<td>$84,052</td>
</tr>
<tr>
<td>Crop loss</td>
<td>556,940</td>
</tr>
</tbody>
</table>

$640,992

These amounts represent the cost of a crop planted in the summer of 1944 and a second crop planted in the summer of 1945. It was anticipated that these crops would be harvested and processed upon completion of the new starch-house. However, the starch-house was not ready for operation until December 1945 and the greater part of both crops was non-productive or unharvested.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To THE BOARD OF DIRECTORS,
UNITED STATES SUGAR CORPORATION,
CLEWISTON, FLORIDA.

We have examined the balance sheet of United States Sugar Corporation and the consolidated balance sheet of the Corporation and its Subsidiaries as of June 30, 1946, and the related statements of profit and loss and surplus for the year then ended, have reviewed the system of internal control and the accounting procedures of the companies and, without making a detailed audit of the transactions, have examined or tested accounting records of the companies and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary.

In our opinion, the accompanying balance sheets and related statements of profit and loss and surplus present fairly the position of United States Sugar Corporation and of United States Sugar Corporation and its subsidiaries (consolidated) at June 30, 1946, and the results of the operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year, except for the change, which we approve, in the treatment of the reserve for growing cane set forth in Note 4 to the Financial Statements.

PEAT, MARWICK, MITCHELL & CO.

New York, N. Y.,
September 10, 1946.