
Franklin D. Roosevelt — “The Great Communicator”
The Master Speech Files, 1898, 1910-1945
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File No. 1579

1945 Not dated

**Draft of a Proposed Message to Congress re
Holding Companies**

Manage the big companies

I recommend to the Congress legislation dealing with the disclosed evils of public utility holding companies and other forms of affiliated public utility interests.

In the field of public utilities the holding company has certainly not brought to the American public the advantages claimed for it. The holding device with its pyramided manifestations has been used to give to a few small but powerful groups control of billions of dollars invested in the utility industry. The country's great utility properties have been placed in the control of men who themselves all too frequently have a small stake in their real ownership and who have shown neither prudence nor capacity in the management of other people's property.

This control is exercised through a maze of intercorporate relationships quite confusing to the understanding of ordinary men. Indeed, these arrangements are often made for the very purpose of avoiding the understanding and scrutiny of the common man. The nature and growth of many important holding structures can only be ascribed to the desire of men for economic power to which they are not justly entitled and for profits for which there is no social justification. All too often considerations of business need and sound economy have been neglected.

Few holding companies have been satisfied with the dividends that come to prudent investors in economically and efficiently conducted business enterprise. Too often they have sought through all sorts of ingenious devices to get profits fixed by themselves from companies dominated by themselves. Through intermediate construction and supply companies they have monopolized a large part of the business of their subsidiary and subservient companies.

By so doing they have substantially restricted the field available to competitive enterprise for supplying the needs of the utility industry and have rendered largely impossible any fair comparison of competitive costs. The industry has consequently suffered and the community has suffered even more. Holding company officials have complained of T.V.A. as a yardstick, but they have so managed the utility industry as to make impossible the measurement of their own performance by any private yardstick.

The investor as well as the consumer has been victimized by the manipulative practices of holding companies. Securities have been issued in anticipation of excessive revenues from subsidiaries, and this has necessitated the exaction of unfair revenues from the operating companies. The price is paid by local consumers. The investor has been induced to purchase these watered holding company securities and sometimes to trade them for investments in operating companies which, if they were allowed to be prudently managed, would be good investments. Too much of the investor's money has gone to purchase existing utility securities at inflated values, frequently from corporate insiders, and too little to build up the utility enterprise.

The problems thus created by utility holding companies with all their intercorporate relationships are national in scope. There can be no doubt either as to the need or the basis for federal action. Federal legislation will not oust the states from their jurisdiction over operating companies. Quite contrariwise. Federal legislation is necessary to supplement state legislation, to make it effective in action and workable in practice. For the holding company has obstructed the regulatory mechanism of the states, ~~and~~ even where theoretically state action is possible, practically intercorporate relationships prevent effective state action. The problem must be dealt with comprehensively. The remedies of the law should in their variety and ingenuity be adequate to the intri-

cacy of the problems raised by the holding company and the ingenuity with which those who pursue unfair private profit have exploited the holding company device. It will not do to appear to outlaw abusive practices revealed by the holding company device only to permit their reappearance in more subtle forms.

Evils that have long flourished and have attained deep ramifications cannot be uprooted by one fell swoop. But an adequate and courageous beginning must be made for dealing with the diverse and complicated aspects of utility holding company problems. Therefore, as a minimum program, I deem it necessary that legislation be formulated which will accomplish the following results:

- (1) simplification of unnecessarily complicated holding company structures and the elimination from such systems of unrelated properties;

- (2) confinement of holding company investments to public utility activities and the exclusion of all extraneous or speculative ventures;

- (3) prevention of the pyramiding of holding company securities;

- (4) adequate periodic reports and uniform standardized accounts which shall reveal and not conceal the nature of all intercorporate relationships;

- (5) divestment from common control of electric utility properties and interstate gas transmission;

- (6) establishment of the principle that a holding company shall not profit from dealings with its own subsidiaries and that all service, management and construction contracts in which it is interested shall be performed at cost for its subsidiary companies under an effective arrange-

ment among such companies;

(7) rigid control of intercorporate relations wherever there is an absence of arm's length dealing;

(8) partial removal of exemption provided in the Revenue Act for corporate dividends received by public utility holding companies, with a view to discouraging the use of the holding company where its economic advantage is not plainly demonstrable.

Message Holding Companies

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This control is exercised through a maze of intercorporate relationships quite confusing to the understanding of ordinary men. Indeed, these arrangements are often made for the very purpose of avoiding the understanding and scrutiny of the common man. The nature and growth of many important holding structures can only be ascribed to the desire of men for economic power to which they are not justly entitled and for profits for which there is no social justification. All too often considerations of business need and sound economy have been neglected.

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medies of the law should in their variety and ingenuity be adequate to the intricacy of the problems raised by the holding company and the ingenuity with which those who pursue unfair private profit have exploited the holding company device. It will not do to appear to outlaw abusive practices revealed by the holding company device only to permit their reappearance in more subtle forms.

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ATLAS TACK CORPORATION

Annual Report

1934

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ATLAS TACK CORPORATION

BALANCE SHEET ATLAS TACK CORPORATION—FAIRHAVEN, MASS. December 31, 1934

Fairhaven, Massachusetts, March 5, 1935.

To the Stockholders:

Sanitized herewith are the financial statements of the Company for 1934, as prepared by our auditors. Net current assets at December 31, 1934, amounted to \$370,553.24 as compared with \$352,205.18 at December 31, 1933, an increase of \$18,350.06 notwithstanding an operating loss of \$17,870.58 for the year. The working capital was, therefore, in excess of \$6.00 per share of stock outstanding in the hands of the public. The increase can be accounted for by the liquidation of real estate mortgages and other assets, the decrease in deferred charges, and the excess of depreciation over the actual additions to the plant during the year.

At December 31, 1934, the Company wrote down to the nominal value of \$1.00 the balance in the patent account, so that all intangible assets, including goodwill, trade marks, patents, etc., are now carried at the nominal valuation of \$2.00. The net tangible asset value per share outstanding in the hands of the public at the close of the year was \$14.09.

During the first nine months the Company was on a profitable basis, but there was a substantial decrease in the volume of sales during the last quarter with the result that the loss for that quarter exceeded the profits for the first nine months. It should be stated, however, that the loss of \$17,870.58 shown on the enclosed statement was after debiting depreciation in the amount of \$34,320.00, so that before depreciation there was an actual cash profit of \$16,449.42.

Respectfully submitted,

ROGER D. EDWARDS, President.

BOARD OF DIRECTORS

FRANK J. BUTLER
CECIL DIXON
ROGER D. EDWARDS
GEOFFREY LIVINGSTONE, JR.
DONALD G. ROBBINS
KERRAIT ROOSEVELT
JOHN A. SARGENT
FRANK A. TICHENOR

OFFICERS

ROGER D. EDWARDS, President
H. L. RUNDERLIN, Treasurer
DONALD G. ROBBINS, Secretary
E. A. JANOWSKY, Assistant Secretary

CURRENT

ASSETS

Cash		\$ 170,553.87
Notes and Accounts Receivable	\$ 113,755.86	
Loans on Hand for Bookshelf Ac- count, etc.	13,779.74	
Merchandise Inventories (Lower of Cost or Market)		99,074.12
Raw Materials	\$139,505.40	
Work in Process	53,502.28	
Finished Goods	136,049.07	
		528,652.75

OTHER ASSETS

Miscellaneous Investments, Advances to Salem, etc.		\$ 599,180.74
PREPAID RENT (Written down book value as of December 31, 1934, with addi- tion of \$1,000,000 in 1935)		744.94

Land and Railroad Siding	\$ 22,515.48
Buildings	417,365.45
Machinery and Equipment	609,157.71
Patents, Fixtures and Automobiles	72,505.86
	\$1,121,984.50

LIABILITIES

LESS: Allowance for Depreciation	370,157.16
	751,827.34

PAYMENT AND TRADE MARKS

EXPENSES		9,458.06
Unexpired Insurance Premium, Pay- ment Taxes, etc.		\$1,361,241.08

CURRENT

LIABILITIES

Accounts Payable	\$ 19,512.38
Accrued Expenses	13,125.12
	\$ 28,637.50

Capital Stock—Represented by an an- nounced issue of 150,000 shares of no par value, of which 38,000 were issued in 1934, 11,000 in 1935 and the balance of \$6.00 per share was issued in 1936	\$58,000.00
Less: 3,449 shares in Treasury	20,694.00
	\$37,306.00

Surplus	\$718,321.19
Capital Surplus	
Retained Surplus (Accumulated and except to December 31, 1932)	46,908.39
	765,209.58

	1,332,605.98
	\$1,361,241.08

NOTE: At December 31, 1934, the Corporation was contingently liable as endorser
on foreign drafts discarded in the amount of \$4,997.26.

INCOME, EXPENSE AND SURPLUS ATLAS TACK CORPORATION—FAIRHAVEN, MASS.

For the year ended December 31, 1934

Net Sales		\$1,083,081.05
Cost of Sales		779,062.27
GROSS PROFIT BEFORE DEPRECIATION	\$	304,018.78
Depreciation		34,320.00
GROSS PROFIT AFTER DEPRECIATION	\$	269,698.78
General, Administrative and Selling Expenses		265,065.08
NET PROFIT FROM OPERATIONS	\$	4,633.70
Deductions from Income		
Provision for Bad Debts	\$13,230.86	
Franchise Taxes, Amortization of Patents,		
Development Expense, etc.	11,506.00	
		\$24,736.86
Miscellaneous Income		2,232.58
		22,504.28
NET LOSS FROM OPERATIONS	\$	17,870.58
Writing down Patents to nominal value of \$1.00		15,352.94
NET DEDUCTION FROM EARNED SURPLUS	\$	33,223.52
Earned Surplus		
Balance January 1, 1934		80,131.91
BALANCE DECEMBER 31, 1934	\$	46,908.39

February 14, 1935.

ATLAS TACK CORPORATION
Fairhaven, Mass.

We have made an examination of the Balance Sheet of the Atlas Tack Corporation as at December 31, 1934. In connection therewith we examined or tested accounting records of the Company and other supporting evidence, and obtained information and explanations from officers and employees of the Company; we also made a general review of the accounting methods and of the operating and income accounts for the year, but did not make a complete audit of the transactions.

In our opinion, the allowance for doubtful accounts and notes receivable is sufficient to provide for any losses anticipated at this date. The inventories, valued at the lower of cost or market, were certified to us by a responsible official, and were test checked by us as to prices and computations. Depreciation in the amount of \$34,320.00 was charged to operations during the year, which is the same amount charged off in 1933. At December 31, 1934, the Company wrote down to \$1.00 the balance of its patent account which amounted to \$15,353.94.

In our opinion, based upon our examination, the accompanying Balance Sheet and related statement of Loss and Surplus fairly present the position of the Company at December 31, 1934, and the results of its operations for the year ended at that date. Further, it is our opinion that the statements have been prepared in accordance with accepted accounting principles, and on a basis consistent with the preceding year.

ERNST & ERNST.