Frank comments by the president on general business conditions, the decline in the backlog of unfilled orders and the immediate outlook for the Company.

Gives Frank Report

Mr. Jones, who became president and chief executive officer last spring, minces no words about the "extent of disorganization of the Company's records" when he took over and the "chaotic conditions" encountered "in all phases of the Company's operations.

Mr. Jones points out that,

"The net effect has been a severe loss to stockholders, both in terms of the realized loss reflected in the financial statements, as well as the loss of profits that would have been earned had the affairs of the Company been properly administered. The particulars of the rebuilding program are being dealt with on a crash basis and substantial progress has been made."

$18.6 Million Sales

The company reported consolidated net sales volume of $18.6 million for the six months ended Nov. 30, 1960, compared with $14.0 million for the previous five months. The Company's loss from operations, before taxes on income, amounted to $902,336 for the six months. This represented a substantial improvement from the large operating loss of $3,633,234 for the first five months of 1960.

The Company reported a net loss of $1,427,436 for the six months ended Nov. 30, 1960 compared with a net loss of $1,884,469 for the preceding five months. However, it was pointed out that these two net loss figures are not really comparable because the five month period benefited by a tax credit of $2.1 million arising from carry-back of operating losses.

No such carry-back tax credit was available to reduce the loss for the six month period, it was reported. However, future operating statements will benefit by substantial tax credits because provisions of the Internal Revenue Code permits losses to be carried forward for five years and a large part of the loss reported for the six months ended Nov. 30, 1960 and a part of the prior period loss will be used by the Company to reduce federal income taxes otherwise payable on income of future years.

Strong Financial Position

The company was in a strong financial position at Nov. 30, 1960. Liquid assets consisting of cash and accounts receivable amounted to more than $8.5 million compared with total current liabilities of $5.4 million. Total current assets amounted to $19.7 million which is 3.7 times the total of current liabilities. Working capital at Nov. 30, 1960 amounted to $14.3 million and the stockholders' equity was $19.8 million at that date.

Disorganization Cited

Mr. Jones said that the disorganized state of the Company's affairs which he inherited had a significant adverse effect upon operating results for the first half

Mr. Jones emphasized that the corporate personnel, product engineering, manufacturing, sales, and finance and accounting staffs are now working together under his direction in Jamestown, where the company was originally founded and attained its prominent position in the metal furniture industry.

The President's message said, "Construction of the new plant of Knoll Associates, Inc. at East Greenville, Pa., which was authorized by the board in August, 1960, is progressing on schedule, and when completed in June, 1961, will combine several operations of the subsidiary into a completely modern and highly efficient manufacturing unit. Sales and earnings of this consolidated subsidiary continue at satisfactory levels".

In commenting on financing Mr. Jones explained that, "Short term bank notes totalling $4,000,000 at Nov. 30, 1960, were paid off on Jan. 25, 1961, when the company borrowed $5,000,000 pursuant to the terms and conditions of a $5,000,000 three-year revolving Credit Agreement with the Mellon National Bank & Trust Company and The Marine Trust Company of Western New York. The borrowing of the additional $1,000,000 will provide additional working capital and funds for construction of the Knoll plant. The loans mature on Jan. 25, 1964, and bear interest at an annual rate of 5¼%. The Company enjoys the privilege of repaying and subsequently reborrowing part or all of the unused portion of the credit during the three year period."

Litigation Contested

In reference to anti-trust actions Mr. Jones said, "You may have read news accounts of the legal proceedings by the Federal Government against the Company and certain of its competitors for alleged price fixing in restraint of trade. The Company is contesting these actions and its Management and Legal Counsel believe that the ultimate disposition of the matter will not adversely affect the financial position of the Company reported herein."

The Report continues:

"In January, 1961, the Company introduced its comprehensive "500 Group," being a fully coordinated series of metal desks, files, chairs, and credenzas. The first of a series of public announcements appeared in the January issue of Fortune Magazine and the second in the Jan. 21 issue of Business Week. During the months of February and March, the announcement will also appear in three other national magazines, Architectural Forum, Interiors, and Purchasing. Permanent tooling for the production of this furniture has been completed and the Company is in a position to take advantage of favorable customer acceptance of this new product line, which was designed under the direction of Florence S. Knoll. The necessary merchandising aids have now reached dealers

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