PRIVATE INVESTORS' BEHAVIORAL RESPONSE TO FINANCIAL FORECASTS AND RELATED AUDITOR'S REPORTS

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Salvatore Thomas Anthony Cianciolo

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Hugo Nurnberg
Major professor

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ABSTRACT

PRIVATE INVESTORS' BEHAVIORAL RESPONSE TO FINANCIAL FORECASTS AND RELATED AUDITOR'S REPORTS

by

Salvatore Thomas Anthony Cianciolo

In recent years there has been a vast amount of research on the objectives of financial reporting. These effects have reaffirmed the belief that the small investor should have access to financial information sufficient to make informed investment decisions. Moreover, there is a trend favoring the publication of forecasted financial statements, as well as conventional historical statements. Concurrent with this trend, commentators have suggested extending the attest function to include forecasted financial statements.

However, at least one very important area has been neglected. Little is known about how the small investor makes his decisions, and nothing is known about how he reacts to forecasted information and attestation thereto. This study attempts to determine what significance the small investor places on forecasted financial statements and the inclusion of an auditor's report. The study is in the form of a behavioral field experiment, using a sample of small investors as test subjects. Investors are randomly assigned to twenty-two cells in the design. Each investor within a given cell receives a data packet of financial information about two hypothetical firms. In addition to

broker advice, each data packet contains for each of the firms a simulated annual report. Based on the data packet, the investor is asked to determine in which of the two firms he would prefer to invest, and the strength of his preference. These investment decisions and preferences are the dependent variables used in the study. The independent variables are broker advice (two levels), and one-year financial forecasts (three levels), and auditor's reports (ten levels), with five types of auditor's reports nested within two forecast levels. The factors of greatest interest are forecast levels and auditor's report levels; the broker levels are included as an independent variable to add mundane reality. The technique of analysis of variance is used to measure the effect of the factors on the dependent variables.

The empirical results suggest that broker advice dominates all other forms of financial information. Forecasts and auditor's reports have some influence on the investor, depending on the company, type of forecast and type of auditor's report. In addition, there appears to be a systematic misinterpretation of the various types of auditor's reports employed. The generalization of the sample results to the total population is limited because of bias in the sample selection and responses. However, it appears that the individuals in the sample should be at least as capable as the total population of small investors in their understanding of financial information. Therefore, to the extent that the sample results suggest a lack of understanding of the independent variables, these results can be attributed to the total population of small investors.

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The usual caveat regarding errors applies.

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CHAPTER I

INTRODUCTION

Purpose of the Study

This study examines the reactions of small private investors to attestation of one-year financial forecasts. More specifically, it examines the hypothesis that the type of auditor's report on one-year financial forecasts is associated with small private investors' investment decisions. This hypothesis is examined within two levels of financial forecasts and across two levels of broker's advice.

Attestation to forecasts is a complex issue because of the myriad forms of attestation that are possible. Attestation could be limited to the accuracy of compilations and consistent application of accounting principles. It could be expanded to include, in addition to the above, an opinion on care employed in the selection of assumptions and/or on the reasonableness of the assumptions themselves. Still further expansion is conceivable by attesting to the achievability of the forecast itself.

Objection to the publication of forecasts has been based on several contentions. Corporate managers feel that publication of forecasts will put them at a competitive disadvantage, generate additional insurmountable legal problems, and be misunderstood by the

typical investor.[1] Others feel that since the earnings of a typical firm for one year are only a small part of the total expected return on investment in that firm, that knowledge of this amount should not overly affect investor decisions; and that investors will overreact to changes in estimates of one-year earnings.[2] Still others argue that investors themselves should make the projections; management should simply supply facts of past events to be used as a basis for these projections.[3]

Forecast publication could also be objected to on the basis that the stockmarket is already efficient. That is, it could be argued that publication of forecasts has little or no effect on market prices because the data reported in forecasts is already reflected in market prices by actions of large, sophisticated investors.[4]

Because forecasts are published occasionally, and attestation may follow, it appears judicious to examine on an experimental basis, the reaction of small private investors to attestation of one-year

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[1]A. T. Kearney, Inc. and Sidley & Austin, Public Disclosure of Business Forecasts, Financial Executives Research Foundation (New York: 1972), pp. 41-51.

[2]Leonard Spacek, "No Benefits Flow to Public Stockholders from One-Year Earnings Forecasts," Paper read before the meeting of the Financial Executives Institute, Milwaukee, Wisconsin, December 12, 1972, pp. 6, 21.

[3]Harvey Kapnick, "Before the Securities and Exchange Commission: In the Matter of the Hot Issues Securities Market," File No. 4-148 (March 22, 1972), p. 3.

[4]For a detailed analysis of how the efficient market hypothesis affects accounting data see William H. Beaver, "The Behavior of Security Prices and its Implications for Accounting Research (Methods)," Chapter II in "Report of the Committee on Research Methodology in Accounting," The Accounting Review, Supplement to Vol. XLVII (1972), pp. 407-437, esp. pp. 426-427.

financial forecasts.

Other research of a survey nature indicates that the small private investor relies much more heavily on stockbroker advice than on any other source of information.[5] Because of its apparent significance to the private investor, broker advice is included in this study to add mundane reality.

Scope of the Study

This study is not concerned with the usefulness of published forecasts per se. Forecasts are being published, and it appears that the number of firms publishing forecasts will increase.[6] Only three levels of forecasts were employed in the study: (1) no forecast, (2) a material positive forecast, and (3) a material negative forecast. These levels were selected because they represent the reasonable extremes possible, and therefore allow for greater generalization of the auditor's report effects than, say, only levels (1) and (2) or (1) and (3).

The main focus of the study is on user reactions to auditor's reports. Five levels of attestation are employed within the positive and the negative forecast levels. These levels represent the major alternative forms of attestation which have been proposed. The standard two paragraph audit report format is used. In addition,

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[5] H. Kent Baker and John A. Haslem, "Information Needs of Individual Investors," Journal of Accountancy, CXXXVI, No. 15 (November 1973), pp. 64-69, esp. p. 68.

[6] Frank T. Weston, "Ideas for Action: Prepare for the Financial Accounting Revolution," Harvard Business Review, LII, No. 5 (September-October 1974), p. 7.

one level represents an adverse opinion. Although this type of opinion is rarely seen, its inclusion increases the generalizability of the study concerning auditor's report effects.

Methodology of the Study

The study is empirical and behavioral in nature. Small private investors are asked to select one of two companies in basically the same industry for investment. Their investment decision is to be based on any and all of the following three factors: (1) detailed forecasted financial statements, (2) related auditor's report, and (3) broker advice. The relative importance of each factor is measured in the study through observation of the dependent variable (the investors' decisions) as these factors are manipulated.

The technique of analysis of variance (ANOVA) is used to analyze this three-way ANOVA model. Graphing the dependent variable and post hoc comparisons are used to investigate main effects and interactions. In addition, investors are asked to complete a questionnaire concerning investor characteristics such as age, education, income, etc. Chi-square tests are used to compare the characteristics of test subjects with those of private investors in general. These techniques are widely accepted and routinely applied to this type of research problem.

Plan of the Study

In the discussion that follows, Chapter II outlines the positions of important authoritative bodies and others regarding the role of forecasts, their attestation, and the investors' right to know. Chapter III contains two major sections. The first section outlines prior studies dealing specifically with small private investor use and

understanding of forecasts with related attestation and other perceptions about relevant information for making investment decisions. The second section outlines prior behavioral research studies in accounting which employ the same basic methodology as the current research.

The design of the experiment is discussed in Chapter IV. The independent and dependent variables are described along with the rationale for their selection. The testing procedures are briefly described, and the hypotheses to be tested are stated.

The test results are presented and analyzed in Chapter V. The basis for logical inference to the total population of small private investors is examined and overall conclusions are stated.

Chapter VI discusses the limitations of the present study and possible areas for further research.

Summary

To the extent that the three-way ANOVA model results in significance for the main effects (auditor's reports, forecasts, and broker advice), the null hypotheses stated in Chapter IV are rejected. However, if interaction exists, nothing can be said about main effects. If any or all of the factors show no significance, then several conclusions are possible. These possibilities are discussed in Chapters V and VI.

Regardless of the research findings, statistical generalization to other levels of the independent variables cannot be made because a fixed effect model is employed. However, since the levels selected are of specific interest to the researcher, this loss of generalization is expected and unimportant.

CHAPTER II

STATEMENT OF THE PROBLEM

The development of financial reporting has been a slow process. It has evolved and changed in order to address itself to new and different requirements by decision makers.

The Role of Published Financial Forecasts

In recent years both the American Institute of Certified Public Accountants (AICPA)[1] and the Securities and Exchange Commission (SEC)[2] have recognized what financial and economic theoreticians have been stating for some time; namely, that investors' investment decision-models are based on a judgment about the expected future economic performance of the company under consideration.

Until February 1973, the SEC did not officially recognize the need for the inclusion of projections with prospectuses and reports.[3] After extensive hearings in the latter part of 1972, the SEC came to the conclusion that "management's assessment of a company's future

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[1] Accounting Objectives Study Group, Objectives of Financial Statements (New York: American Institute of Certified Public Accountants 1973), pp. 19-20.

[2] U. S., Securities and Exchange Commission, Statement by the Commission on the Disclosure of Projections of Future Economic Performance, Securities Act of 1933, Rel. No. 5362 and Securities Exchange Act of 1934, Rel. No. 9984, February 2, 1973.

[3] Ibid.

performance is information of significant importance to the investor, [and] that such assessment should be able to be understood [by the investor] in light of the assumptions made..."[4] In 1975, the SEC proposed amendments to various registration forms and periodic reports to provide for voluntary publication of forecasts of future earnings. The latter proposal permits reference to third-party review of the forecast information;[5] this constitutes a reversal of earlier pronouncements prohibiting attestation of published forecasts.

In addition, publishing forecasts has been given formal recognition by the Objectives Study Group of the AICPA in its report, "Objectives of Financial Statements." One of the primary conclusions of this report is that the basic objective of financial statements is to provide information useful for making economic decisions.[6] It is noted that user needs for information are not known with any degree of certainty, and that the specific role played by financial statements in the economic decision-making process has not been precisely identified. Given the above uncertainties and based on its underlying research, the Objectives Study Group makes the following assumptions:[7]

> Users of financial statements seek to predict, compare, and evaluate the "cash consequences" of their economic decisions.

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[4] Ibid.

[5] U. S., Securities and Exchange Commission, Proposed Rules to Implement the Statement by the Commission on the Disclosure of Projections of Future Economic Performance, Securities Act of 1933, Rel. No. 5581 and Securities Exchange Act of 1934, Rel. No. 11374, April 28, 1975.

[6] Accounting Objectives Study Group, op. cit., p. 13.

[7] Ibid., pp. 13-14.

> Information about the cash consequences of decisions made by the enterprise is useful for predicting, comparing, and evaluating cash flows to users. . . .
>
> Financial statements are more useful if they include but distinguish, information that is primarily factual, and therefore can be measured objectively, from information that is primarily interpretive.

One specific objective derived from the above assumptions is as follows:

> An objective of financial statements is to provide information useful for the predictive process. Financial forecasts should be provided when they will enhance the reliability of users' predictions.[8]

Although these pronouncements by the SEC and AICPA concur in calling for the presentation of forecasted financial statements, both are cautious pronouncements. For example, the SEC does not plan to require forecasts;[9] the Objectives Study Group believes that forecasts should only be presented when extrapolation of prior revenue and cost trends is not valid for the coming year.[10]

On the other hand, a survey sponsored by the Financial Executives Institute indicates that corporate managements generally oppose public disclosure of forecasts for the following reasons:[11]

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[8] Ibid., p. 46.

[9] U. S., Securities and Exchange Commission, loc. cit., February 2, 1973.

[10] This belief was related to the researcher in a conversation with Martin S. Gans, Administrative Director of the Objectives Study Group.

[11] A. T. Kearney, Inc., and Sidley & Austin, Public Disclosure of Business Forecasts (New York: Financial Executives Research Foundation, 1972), p. 41.

(1) Public disclosure of forecasts would be disadvantageous to corporate interests due to the release of information to competitors and others.

(2) The lack of credibility of forecasts would have destabilizing effects on the stock market.

(3) There is a conflict in the use of projections for internal and external purposes.

(4) There are legal problems with regard to the release of forecasts.

(5) There are gamesmanship-type problems inherent in the release of forecasts.

Some empirical evidence bears on the validity of at least two of the five objections listed above, although inconclusively. The second objection consists of two parts, (1) credibility of forecasts and (2) the destabilizing effects. Regarding the credibility of forecasts, McDonald found that 49% of the corporations included in his study predicted earnings within 10% of actual and, further, that 35% were within 5%. On the other hand, he found that 40% missed their forecasted figure by more than 15%.[12] He also found that overprediction occurred more frequently than underprediction.[13] Daily found similar results in his study.[14] Therefore, the credibility of forecasts remains an unresolved empirical question.

The fourth objection concerns legal problems. Presently the

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[12] Charles L. McDonald, "An Empirical Examination of Published Predictions of Future Earnings" (unpublished Ph.D. dissertation, Department of Accounting and Financial Administration, Michigan State University, 1972), p. 57.

[13] Ibid., p. 68.

[14] R. Austin Daily, "The Feasibility of Reporting Forecasted Information," The Accounting Review, XLVI, No. 4 (October 1971), pp. 686-92.

American Law Institute is engaged in a project to recodify securities laws, in part with the expectation of limiting accounting liability.[15] In addition, case law appears to indicate that corporations need not fear civil action when forecasts are not achieved, as long as they are properly prepared.[16]

The forecasting controversy even extends to the representatives of major accounting firms and their managing partners. Kapnick of Arthur Andersen & Co. states that forecasts and related auditor's reports would not give investors useful data,[17] whereas Defliese of Coopers & Lybrand states that forecasts may ultimately be useful to the investing public, "but only when the relative degree of certainty and uncertainty entailed in financial forecasts can be clearly defined, expressed, and understood by the investing public."[18]

Obviously, both the usefulness of forecasts and the role of accountants in their preparation are far from settled issues.

The Need for Attestation

An important issue related to forecast publication is the effect on reliability of attestion by an independent certified public

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[15]Lee Barton and James P. Roscow, "Annual Reporting: Braced for Improvements," Financial World, CXLII, No. 17 (October 30, 1974), p. 98.

[16]See for example, Levy v. Douglas Aircraft Company, Inc., Federal Supplement, Volume 374 (West Publishing Co., St. Paul, 1974), p. 345.

[17]Harvey Kapnick, "Before the Securities and Exchange Commission: In the Matter of the Hot Issues Securities Market," File No. 4-148 (March 22, 1972), p. 3.

[18]Philip L. Defliese, "Forecasting; The Lybrand Position," testimony provided to the Securities and Exchange Commission (December 12, 1972), p. 1.

accountant. Bevis states that "the social importance of the attest function and the changing economic environment strongly suggest the expansion of its use."[19] Consistent with this line of reasoning, Wilkinson and Doney (W&D) advocate extension of attestation to include forecasted financial statements; they suggest comparison between historical statements and prior forecasted statements, along with explanation of differences in a long-form type of report.[20]

In a 1968 article, Ijiri distinguishes between the determination of generally accepted forecasting principles and procedures and the development of generally accepted forecasting audit standards and procedures.[21] Ijiri favors the presentation of comparative historical and forecast financial statements in adjoining columns on the same page, arguing that this presentation facilitates comparison and assessment of reliability of prior forecasts.[22] He points out that auditing of forecasts is essentially a review of management's forecasting work and determining whether or not management's inferences about the future are reasonable.[23] A schemata implied by the forecasting principles Ijiri suggests follows:[24]

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[19]Herman W. Bevis, "The CPA's Attest Function in Modern Accounting," The Journal of Accountancy, CXIII, No. 2 (February 1962), p. 35.

[20]James R. Wilkinson and Lloyd D. Doney, "Extending Audit and Reporting Boundaries," The Accounting Review, XL, No. 4 (October 1965), pp. 753-56, esp. p. 753.

[21]Yuji Ijiri, "On Budgeting Principles and Budget-Auditing Standards," The Accounting Review, XLIII, No. 4 (October 1968), pp. 662-67.

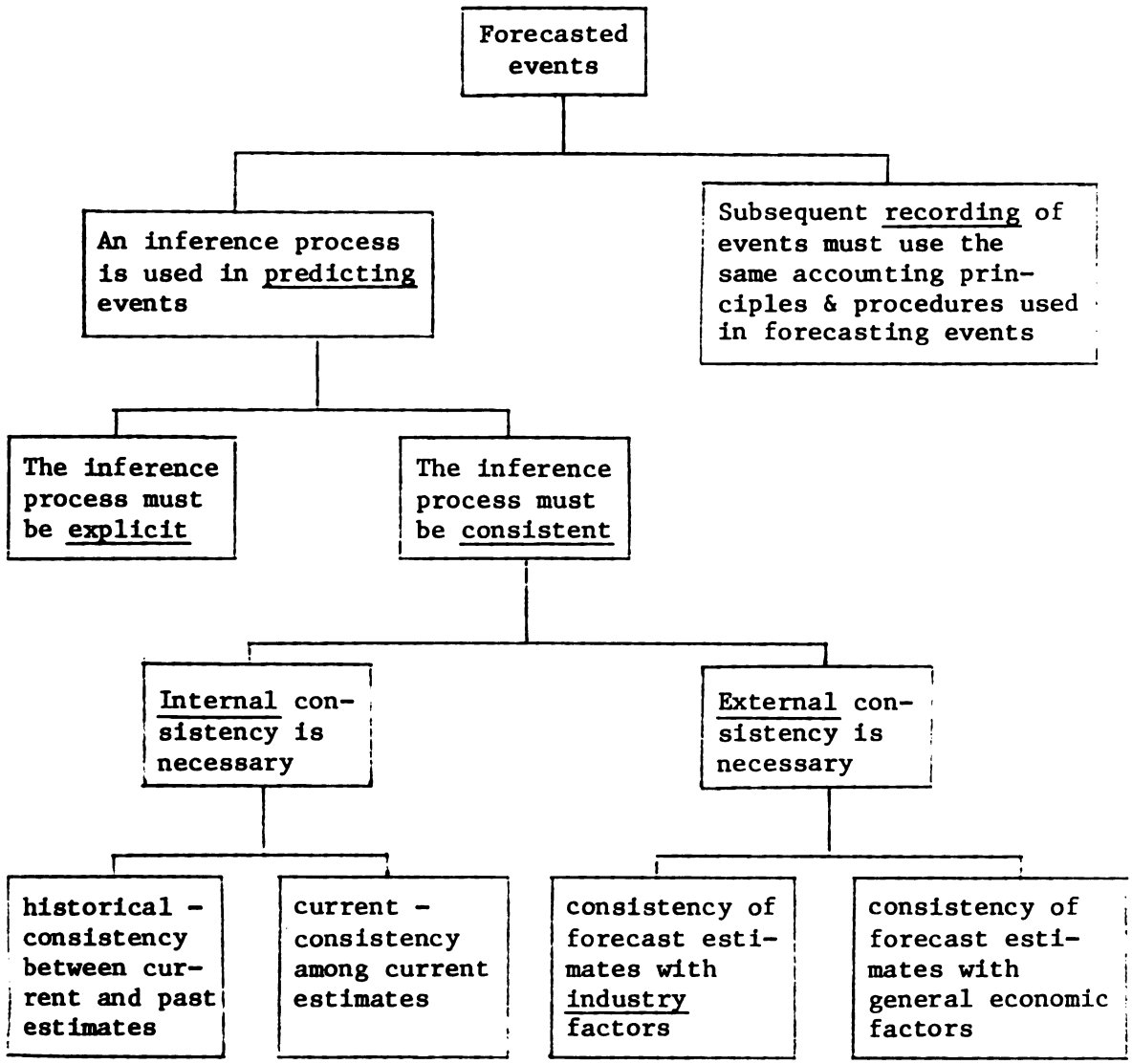
[22]Ibid., p. 663.

[23]Ibid., p. 664.

[24]Ibid., pp. 664-65.

FIGURE I

FORECASTING PRINCIPLES SUGGESTED BY IJIRI



The schemata infers three major areas of importance in the development of forecasted financial statements: (1) explicitness of the inference process, (2) consistency of the inference process, and (3) consistency of the application of accounting principles between the forecasted and historical statements. Explicitness is akin to the concept of

disclosure. In order to judge the quality of management's forecasting efforts and to assess the reasonableness of resulting revenue and profit estimates, detailed knowledge of the basis for the forecasted statements is indispensible. Consistency of the inference process depends on both its internal and external consistency. Internal consistency is concerned with the relationship of current estimates to past estimates and current estimates to one another. This concept of consistency is referred to throughout the rest of this study as "internalities." External consistency is concerned with the relationship of company estimates with industry general economic factors. This concept of consistency is referred to throughout the rest of this study as "externalities."

Like audits of historical statements, audits of forecasts should determine whether or not the forecasting process and forecasted statements are in conformity with generally accepted forecast reporting principles. And the audit must be conducted in accordance with generally accepted forecast auditing standards and procedures. Ijiri suggests that forecast auditing standards are like generally accepted auditing standards and procedures for conventional historical financial statements; both should define (1) the methods of examination, (2) the related evidence, (3) the extent of audit scope, and (4) the reporting standards.[25]

Even where the need for some form of forecast attestation is generally recognized, controversy would remain concerning the nature of that attestation. Stone suggests that attestation should consist

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[25] Ibid., p. 665.

of a statement as to whether (1) a budget system exists, and (2) whether the forecast was prepared comprehensively and carefully.[26]

On the other hand, Cooper, Dopuch, and Keller suggest that

> . . .the test of budgetary adequacy would consist of (a) a procedural test in advance--i.e., a review of the procedures followed in the preparation of the budget--and (b) a comparison of the budgeted figures against the documented results.[27]

Wilkinson and Doney go further and suggest that the auditor additionally should express an opinion on the reasonableness of management's forecasts for the coming year.[28] However, this concept of reasonableness was not defined in the article. After summarizing the literature through 1970, Nurnberg concludes that forecasts will be published eventually, and, once published, auditors will be called upon to attest to them.[29]

The SEC has also considered the feasibility of attestation in the hearings mentioned earlier. The Commission is concerned with the meaningfulness of attestation, since the current state of the art is such that there are no generally accepted forecast auditing standards. However, the Commission has indicated that progress has been made

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[26]Williard E. Stone, "Depth Auditing: (Appraisal of Management Performance)," The New York Certified Public Accountant, XXI, No. 8 (August 1961), pp. 521-28, esp. p. 525.

[27]W. W. Cooper, N. Dopuch, and T. F. Keller, "Budgetary Disclosure and Other Suggestions for Improving Accounting Reports," The Accounting Review, XLIII, No. 4 (October 1968), pp. 640-48, esp. p. 646.

[28]Wilkinson and Doney, op. cit., p. 755.

[29]Hugo Nurnberg, "The Independent Auditor's Attest Function: Its Prospects For Extension," The New York Certified Public Accountant, XLI (October 1971), pp. 727-32, 783-8, esp. p. 786.

toward the development of standards regarding the preparation and presentation of forecasts. Moreover, efforts are also being expended toward the development of auditing standards. Consequently the Commission plans to allow third-party review.[30]

The position of AICPA is reflected by Rule 204 of its Code of Professional Ethics, which states that:

> [a] member shall not permit his name to be used in conjunction with any forecast of future transactions in a manner which may lead to the belief that the member vouches for the achievability of the forecast.[31]

The official interpretation of Rule 204 states that AICPA members are not prohibited from preparing or assisting in the preparation of forecasts, but that they should presume that forecasted data may be used by outside parties; accordingly, full disclosure must be made of information sources, major underlying assumptions, the character of the audit work performed, and degree of responsibility taken by the auditor.[32] Therefore it would appear that as far as the AICPA is concerned, the auditor is free to report on forecasts and can, in fact, enhance the credibility of published forecasts by giving users assurance on those elements of a forecast, but cannot attest to its achievability.[33] The Accountants International Study Group, made up

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[30] U. S., Securities and Exchange Commission, loc. cit., April 28, 1975.

[31] American Institute of Certified Public Accountants, Code of Professional Ethics (New York: The Institute 1973).

[32] Ibid.

[33] D. R. Carmichael, "Financial Forecasts -- The Potential Role of Independent CPAs," The Journal of Accountancy, CXXXVIII, No. 3 (September 1974), p. 86.

of professional Accounting bodies in Canada, the United Kingdom and the United States has issued a report which recommends that profit forecasts be reported on by independent public accountants.[34]

On the other hand, the Committee on Basic Auditing Concepts of the American Accounting Association maintains that auditors should not attest to forecasts.[35] However, the Committee appears to object to attestation of forecast achievability, a form of attestation that no one has seriously suggested. Moreover, the Committee appears to be concerned with limitations of the current state of the art; the latter will be eliminated in time. It is noteworthy that academic spokesmen oppose this extension of the attest function, whereas practitioner spokesmen favor it; usually, the reverse situation prevails, with academic spokesmen favoring and practioner spokesmen opposing extention of audit boundaries.

A survey of attitudes was conducted by Asebrook and Carmichael.[36] Twenty-four hundred questionnaires were sent to randomly selected members of the Institute of Chartered Financial Analysts, the Financial Executives Institute and the American Institute of CPA's. A response rate of 36% was obtained. Among other things, the survey attempted to measure the attitude of the members of the three groups relative to attestation of earnings forecasts by CPA's. Two approaches

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[34]"News Report," The Journal of Accountancy, CXXXIX (March 1975), pp. 18-20, esp. p. 18.

[35]Joseph A. Silvoso, "The Role of Auditing," Chapter II in "Report of the Committee on Basic Auditing Concepts," The Accounting Review, supplement to Vol. XLVII (1972), pp. 24-34, esp. p. 31.

[36]Richard J. Asebrook and D. R. Carmichael, "Reporting on Forecasts: A Survey of Attitudes," The Journal of Accountancy, CXXXVII, No. 2 (August 1973), pp. 38-48.

to attestation were presented to the survey participants.

The first approach dealt with attestation of compilations only.[37] In this context the CPA has four responsibilities. First, he must determine that there is adequate disclosure of important assumptions, estimates and information supporting the forecast. Second, he must evaluate the above items, but make no explicit attestation on their reasonableness. Third, he should attest to the proper compilation of the forecast and the consistent use of accounting principles. Fourth, the CPA must make an explicit disclaimer of responsibility for the achievability of the forecast.

The second approach differs from the first in only one respect, the second responsibility previously enumerated. Under the second approach, the CPA explicitly attests to the appropriateness and care exercised by management in the preparation of the forecast, including assumptions, estimates and underlying information.[38]

The results indicated that a small majority of CFA's and CPA's agree that attestation serves a useful purpose, whereas a majority of FEI members disagree.[39] All three groups believe that the average user would place excessive reliance upon the accuracy of the forecasts, even if the first approach to attestation is used, and would not distinguish it from the second approach.[40]

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[37] Ibid., p. 42.

[38] Ibid.

[39] Ibid., p. 45, 47.

[40] Ibid.

The Small Investor's Right to Know

With the advent of the modern corporation, financial reporting has become increasingly concerned with a large number of individuals making relatively small investments--the so-called small investors. The importance of the small investor cannot be ignored. The private investor group amounts to over 31,000,000 individuals, and accounts for approximately 23% of the annual volume on the New York Stock Exchange.[41] Although the size of individual investors relative to other investors has decreased recently, the absolute size of the former group has increased dramatically in the last fifteen years.

Concurrent with the recognition of a need for reporting to the small investor, concern has been expressed for providing financial information that is relevant to his investment decisions. As discussed earlier, it is generally agreed that the most relevant information is future-oriented. Forecast information available to investors can be divided into two groups, direct and indirect. Direct information is given to the investor by management, such as the "President's Letter" in the annual report. Indirect information is given to the investor by other sources such as investment services, brokers' advice, and the financial press.

Small investors usually have neither the time nor the money to obtain direct forecast information other than that mentioned above. Moreover, indirect forecast information is typically overly condensed and sprinkled with too many personal biases to be as useful as

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[41] New York Stock Exchange, Share-ownership - 1970 (New York: The Exchange, 1970), p. 1.

forecast information received directly from the reporting company. Unlike small investors, major creditors, investors, and underwriters receive other direct forecast information. The SEC and the AICPA recognize this inequity in the distribution of direct forecast information. The Commission is concerned that all investors do not have equal access to forecasts,[42] and proposes to require that companies which disclose forecasts to the public through the financial press and financial analysts also file such forecasts with the Commission.[43]

A major objective of financial reporting enumerated by the AICPA Objectives Study Group

> . . .is to serve primarily those users who have limited authority, ability, or resources to obtain information and who rely on financial statements as their principal source of information about an enterprise's economic activities.[44]

The Asebrook and Carmichael survey found that the majority of the three groups queried believe that "disclosure of earnings projections to financial analysts without the simultaneous release to stockholders is prejudicial to stockholders' interests"; somewhat inconsistently, however, they found that the most widely held argument against the publication of earnings forecasts is that the typical investor would misinterpret such forecasts.[45]

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[42] U. S., Securities and Commission, loc. cit., February 2, 1973.

[43] Ibid.

[44] Accounting Objectives Study Group, op. cit., p. 17.

[45] Asebrook and Carmichael, op. cit., p. 43.

Summary

The recent pronouncements of SEC and the AICPA have added to the controversy over forecasting, rather than resolve it. There appear to be four major positions on the issues of publishing forecasts and related attestation:

(1) No forecasts should be published;

(2) Publish forecasts without attestation;

(3) Publish forecasts with attestation limited to internalities of the forecasts;

(4) Publish forecasts with attestation to both internalities and externalities of the forecasts.

The evaluation of the arguments favoring and opposing these four positions will not be explored here, since that is beyond the scope of this research. This research assumes the feasibility of publishing forecasts for the following reasons:

(1) The SEC, as stated earlier, proposes to allow forecasting;

(2) The AICPA Objectives Study Group believes that there are times when forecasts are helpful; and

(3) Some forecasts are in fact published.

Indeed, in Great Britain and Ireland, forecasts have been included in prospectuses for many years and are attested to in some form by independent auditors.[46] The problem to which this study is addressed is how the small private investor reacts to published financial forecasts in conjunction with various forms of attestation. The next chapter will review prior research directly related to this problem.

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[46] See John P. Grenside "Accountants' Reports on Profit Forecasts in the U.K.," The Journal of Accountancy, CXXXIX, No. 5 (May 1970), pp. 47-53, esp. p. 48.

CHAPTER III

EARLIER STUDIES

Introduction

The purpose of this chapter is (1) to review previous empirical studies dealing with small private investor use and understanding of forecasts and related attestation by independent auditors: and (2) to review previous behavioral research in accounting which employ the same basic methodology used in this research.

There are several data collection methods available in the behavioral sciences that are applicable to accounting research.[1] Two of particular interest to this study are questionnaires and field experiments.

When used with large samples, questionnaires are economical and offer two types of information: factual and opinion. When the questionnaire method is used to survey opinion, it has the disadvantage of possibly not accurately reflecting how respondents will be affected by real-life situations. This lack of isomorphism with real-life reaction can occur because people often do not realize that what they do is different from what they say they do.

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[1]See John Grant Rhode, "Behavioral Science Methodologies with Application for Accounting Research: References and Source Materials," Chapter VII in "Report of the Committee on Research Methodology in Accounting," The Accounting Review, supplement to Vol. XLVII (1972), pp. 494-504.

On the other hand, field experiments place test subjects in simulated life-like situations. Observation of test subjects' reactions (the dependent variable) is then made as predetermined independent variables are manipulated. The major advantages of this type of investigation are that the observations are made of what test subjects do, not what they say they do; and exogenous variables may be more readily excluded; its major disadvantages include a possible lack of realism in the experimental setting, and the relatively high cost of running the experiment.

Empirical Studies

At least three earlier empirical studies addressed themselves to the subject area encompassed by this dissertation. The first study, conducted by Baker and Haslem (B & H), investigated the information needs of individual investors.[2] In addition, the study attempted to identify "important sources of information used by investors in their analyses of common stock."[3]

The test subjects were individual common stock investors in the greater Washington D.C. area. They were sent a questionnaire containing 33 factors used in investment analysis, and were asked to specify the relative importance of each factor on a five-point scale as follows:

Point value	Importance scale
1	of no importance
2	of slight importance
3	of moderate importance
4	of great importance
5	of maximum importance

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[2]H. Kent Baker and John A. Haslem, "Information Needs of Individual Investors," Journal of Accounting, CXXXVI, No. 15 (November 1973), pp. 64-69.

[3]Ibid., p. 65.

Eight hundred and fifty-one responses were obtained out of a systematic sample of 1623 individual investors. B & H arbitrarily divided the factors into three categories: great importance, moderate importance and little importance. A listing of the factors by importance is shown in Table I.[4]

B & H also examined the sources of information used by investors in making investment decisions, and found that brokers command an overwhelming influence with investors; 47% of the respondents listed stockbrokers as the most important source of information. Other sources receiving more than 5% were advisory services - 16%; newspapers - 11%; friends and/or relatives - 10%; and financial statements - 8%.[5] Note the lowly position of financial statements.

The following conclusions are offered by B & H:

(1) Individual investors used many different factors in the analysis of common stock, but expectational factors dominate.

(2) The findings support a recent action which permits companies to include voluntary sales and earnings forecasts in reports filed with the SEC. However, more meaningful information than will be provided only by forecasts of sales and earnings is needed by investors in their analyses of common stock.

(3) User information requirements for investment analysis may very well differ. Comparisons with other research findings suggest that individual investors may have different information needs than professional analysts.[6]

Because of the nature of their study, B & H recognize that their conclusions are tentative. Nevertheless they feel that their conclusions

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[4] Ibid., p. 67.

[5] Ibid., p. 68.

[6] Ibid., pp. 68, 69.

TABLE I

FACTORS USED IN INVESTMENT ANALYSIS

Rank	Factor	Mean	Standard deviation	Coefficient of variation
Of great importance				
1	Future economic outlook of the company	4.34	.72	.16
2	Quality of management	4.13	.97	.23
3	Future economic outlook of the industry in which the firm is a part	4.05	.82	.20
Of moderate importance				
4	Expected future growth in sales	3.93	.86	.21
5	Financial strength of the company	3.81	.86	.22
6	Expected future percentage growth in the company's earnings per share	3.78	.99	.26
7	Reputation of the company	3.76	.97	.25
8	General business outlook in the United States	3.67	.97	.26
9	Risk of losing money on the stock	3.62	.94	.25
10	Price behavior of the stock during the past 12 months	3.58	.92	.25
11	Current price-earnings ratio of the stock	3.56	.95	.26
12	Past percentage growth of the company's earnings per share	3.56	.97	.27
13	Stability of company's earnings per share	3.29	1.02	.31
14	Rate of return the company earns on its assets	3.27	1.01	.30
15	Stability of the market price of the stock	3.15	.99	.31
16	Ease with which the stock can be sold	3.12	1.09	.34
17	Portion of the firm's assets financed by debt (leverage)	3.11	1.01	.32
18	Involvement of the firm in active research and development	3.03	1.07	.35
Of slight importance				
19	Listing of the stock on a stock exchange	2.99	1.15	.38
20	Expected percentage growth of the company's future dividends	2.96	1.09	.36
21	Expected future percentage return from dividends (yield)	2.91	1.12	.38
22	Activity of the stock in terms of trading volume	2.88	1.05	.36
23	Effect of personal long-term capital gains taxation	2.88	1.17	.40
24	Percentage of earnings the company uses for reinvestment	2.84	1.05	.36
25	Past percentage growth of dividends per share	2.77	1.04	.37
26	Current percentage return from dividends (yield)	2.76	1.03	.37
27	Stability of past dividends	2.75	1.06	.38
28	Past percentage return from dividends (yield)	2.66	1.02	.38
29	Portion of the company's annual earnings paid out in dividends	2.61	.97	.37
30	Value of a share of stock based on the company's accounting records (book value)	2.55	1.05	.41
31	Expected future level of long-term interest rates on corporate bonds	2.48	1.08	.43
32	Size of the company	2.31	.92	.39
33	Ease with which the company can sell its assets in case of failure	2.23	1.15	.51

have several important implications. They believe that providing investors with more meaningful financial statements and earnings forecasts alone is not sufficient. Because expectational factors dominate in investment decisions, investors also need information on the general business outlook for the firm and industry, along with projections of growth rates for sales, earnings and dividends.[7] B & H recognize that management cannot supply all of this information. But without such disclosures, they feel that imperfections in the securities market may exist.

The second study was conducted by Nickerson, Pointer and Strawser (N,P, & S) and investigated the current attitude of investors toward published forecasts.[8] N,P, & S were especially interested in (1) forecast accuracy anticipated by investors, (2) investors' beliefs about factors affecting forecast accuracy, and (3) investors' beliefs about possible methods for improving forecast accuracy. The population of interest was the shareholders of Fuqua Corporation, from which a sample of 2,000 was drawn. This population was selected because Fuqua was the first publicly-owned company to provide forecasts of sales and earnings in a formal report directed to its shareholders. A questionnaire solicited investors' opinions concerning the issues above; there was a 23.3 per cent response rate.

The results of the N,P & S study on attitudes on forecast accuracy are presented in Table II.[9]

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[7] Ibid., p. 69.

[8] Charles A. Nickerson, Larry G. Pointer, and Robert H. Strawser, "Published Forecasts: Choice or Obligation?" Financial Executive, XLII, No. 2 (February 1974), pp. 70-73.

[9] Ibid., pp. 71, 72.

TABLE II

PERCENT OF RESPONDENTS INDICATING BELIEF IN SELECTED VARIANCE RANGES FOR FORECASTED DATA

Anticipated Percent Variance of Forecast From Actual	Percent of Respondents Indication Maximum Variance of Forecast From Actual	
	Sales	Earnings
±10%	93%	94%
± 5%	64%	62%
± 3%	16%	21%

Note the seemingly strong confidence in forecast data; for example, 94% of the respondents believe that actual earnings will not vary by more than 10% from forecasted earnings. In addition, N,P & S asked respondents whether CPAs should comment on the fairness of forecasts. About 66% of the respondents favored this practice.[10] N,P & S conclude that investors regard published forecasts as a part of the regular management reporting process implied in the stewardship theory of responsibility.[11]

The N,P & S study is the first to deal directly with the attitudes of individual investors concerning forecasts. However, its results lack generalizability for several reasons. First, investors were asked about their beliefs on Fuqua's forecasting accuracy; accuracy beliefs about forecasting in general may be substantially different from those concerning a forecast by Fuqua. Second, the sample was not selected

[10] Ibid., p. 72.

[11] Ibid., p. 73.

randomly from the population of all private investors, but only from Fuqua Corporation shareholders. Moreover, the attitudes concerning the relationship of auditors to forecasted statements were obtained from a very general statement concerning whether CPAs should comment on the fairness of forecasts. There is no way to determine whether Fuqua investors feel attestation should cover internalities, externalities, or both.

Although investors indicate that forecasts and some form of attestation are useful, there is no indication of when they would be useful. That is, when does a forecast and/or the type of attestation cause an investor to change his investment decision? In fact, there is nothing in the N,P & S study to indicate whether or not investors even understood the implications of the various possible forms of attestation.

The third study was conducted by Corless and Norgaard (C & N).[12] The emphasis was placed on the examination of user reactions to attestation of forecasts. The research addressed itself to the following questions:

(1) How does the report of a CPA affect users' confidence in the reliability of forecast data?

(2) What role do users of forecast data assume the CPA plays when he reports on such data?

(3) What should the CPA's legal liability be when he reports on forecasts?

(4) What are the perceived effects on the CPA's independence when he reports on forecasts?

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[12] John C. Corless and Corine T. Norgaard, "User Reactions to CPA Reports on Forecasts," Journal of Accountancy, CXXXVIII, No. 2 (August 1974), pp. 46-54.

(5) Would a change in the style of the CPA's forecast report affect the responses to questions 1 through 4?

(6) Would different types of users of the CPA's forecast report respond differently to questions 1 through 4?[13]

C & N used two types of test subjects: financial analysts, to represent the sophisticated investors; and MBA students, to represent the less sophisticated investors.[14] Questionnaires were sent to 750 financial analysts who were members of the Financial Analysts Federation. In addition, 80 students enrolled in the evening MBA program at the University of Connecticut participated in the study.

Each participant received one of three types of audit reports. After studying the auditor's report, the test subject was asked a series of questions. Three types of auditor's reports were used. The first type is used in the United Kingdom. The report is a single paragraph, and indicates that the auditors have reviewed accounting bases and calculations. The auditor's opinion is limited to the compilation of forecast data based on management's assumptions and presented in a manner consistent with accounting practices followed in preparing conventional historical statements. The second type is labeled "positive assurance." Its form is two paragraphs, one for scope and the other for opinion. The scope paragraph differs little from the specifications of scope in the United Kingdom type report, but the opinion paragraph includes an explicit statement about the care with which management has selected its assumptions in addition to those areas attested to in the

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[13] Ibid., p. 46.

[14] Ibid., p. 47.

United Kingdom report. The third type is labeled "negative assurance." The scope paragraph is similar to that of the other two types, but in the opinion paragraph, only negative assurance is given concerning the reasonableness of assumptions. The opinion paragraph states in part that

> . . .nothing came to our attention as a result of our study that caused us to believe that such assumptions, which have been selected by management, do not constitute reasonable bases for the preparation of the estimates in the projected statement of operations.[15]

C & N found that differences among responses given by respondents of different report types and differences between the responses of analysts and MBA students were generally insignificant.[16]

C & N also investigated how attestation to forecast data would affect user confidence by asking that test subjects to "compare a forecast accompanied by a CPA's report with (1) a forecast not accompanied by a CPA's report, and (2) a forecast generated by a financial analyst."[17] Fifty-eight percent of the respondents indicated that they had greater confidence in the forecast when accompanied by a CPA's report. On the other hand, 42% indicated that they had greater confidence in a forecast when prepared by a financial analyst. It appears that confidence remains generally constant between an attested forecast and a forecast generated by a financial analyst.

Test subjects were also asked to compare their confidence in audited forecasts with their confidence in audited historical financial statements; 14% indicated equal confidence, while 86% indicated

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[15] Ibid., pp. 47, 48.

[16] Ibid., p. 48.

[17] Ibid.

that they had less confidence in the forecasted statements.[18] Test subjects who indicated that they did not have equal confidence in forecasted financial statements as compared to historical financial statements were asked to state the reasons for their lack of confidence in the former. About 75% of the respondents indicated that the reason for their lack of confidence in forecasts was due to their tentative nature.[19] Additionally, several respondents indicated that, in judging the reliability of forecast data, the nature of the company itself, its industry and the period covered by the forecast are much more important than the presence or absence of the CPA's report. C & N concluded that the presence of an auditor's report has very little effect on increasing investor confidence.

Several questions were included in the questionnaire to determine user perceptions of the role which the auditor assumed in relation to forecast data. Users of auditor's reports on forecasted financial statements appear to assume that the auditor has reviewed the assumptions and verified computational accuracy, regardless of type of report issued; the U.K. report type involved the least ambiguity regarding the role of the auditor in attesting to forecasts.[20]

The C & N study suffers from several limitations. First, the auditor's reports are really quite vague and, therefore, are not meaningful to the user. Second, the test subjects may not have considered the situation realistic, since it appears that they were only

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[18] Ibid.

[19] Ibid., p. 49.

[20] Ibid., p. 51.

given the audit report and asked to imagine the related forecasted and historical financial data. Third, the test subjects were asked for an opinion, rather than required to face a decision situation.

Behavioral Studies

Several studies have been made in accounting of a behavioral nature employing the same basic methodology used in this study. The citation of these previous studies is intended solely to demonstrate that behavioral studies have been used to explore financial reporting hypotheses, and that the method of analysis (analysis of variance) used in this study is generally accepted.

One of the earliest studies was made by Jensen, who examined the responses of security analysts to alternative methods of accounting for inventories and depreciable assets, using analysis of variance techniques.[21] The analysts were provided with detailed information on two hypothetical firms which were identical, save for inventory and depreciation accounting methods. For a hypothetical investor with a fixed dollar amount to invest and stated investment objectives, the analyst's task was to indicate the advice he would offer as to how much of each security should be purchased.

There were sixteen experimental classes representing combinations of inventory and depreciation methods, with twenty-one analysts randomly assigned to each class. Analysts expressed substantial differences in investment advice, differences attributed solely to

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[21] Robert E. Jensen, "A Study of Effects of Alternative Accounting Systems on Security Analysis and Portfolio Selection Decisions" (Unpublished Ph.D. dissertation, Stanford University, Palo Alto, 1966).

inventory and depreciation accounting methods. Jensen concluded that:

(1) Accounting variations give rise to substantial differences in various financial attributes;

(2) The apparent income differences caused by reporting differences affect the decisions made by professional financial analysts;

(3) Greater uniformity in basic accounting statements should be initiated.

In a subsequent study, Dyckman investigated the effects on investment analysis of alternate reporting methods related to general price level changes.[22] The test subjects, financial analysts, were asked to select between two hypothetical firms. Each analyst was given one of three sets of reports, as follows: (1) both firms reporting in terms of conventional unadjusted historical cost; (2) both firms reporting in terms of conventional unadjusted historical cost with supplementary statements in terms of general price level adjusted historical cost; and (3) both firms reporting in terms of general price level adjusted historical cost. The null hypothesis was that price-level adjustments do not influence investment evaluations. Dyckman concluded that price-level statements influenced investment evaluation, but that the effect was not very strong. Again, analysis of variance was employed.

Still another important study was made by Abdel-Khalik.[23] He investigated the effect of linear aggregation of accounting data on

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[22] T. R. Dyckman, Investment Analysis and General Price Level Adjustments: A Behavioral Study ("Studies in Accounting Research," Vol. I; American Accounting Association, 1969).

[23] Ahmed Rashad Abdel-Khalik, "The Effect of Linear Aggregation of Accounting Data on the Quality of Decisions" (Unpublished Ph.D. dissertation, University of Illinois at Urbana-Champaign, 1972).

business loan decisions made by commercial loan officers of commercial banks. The major purpose of his study was to systematically evaluate the effect on some specified decisions of aggregation of data contained in external reports. Abdel-Khalik analyzed decisions in terms of the information loss due to aggregation. Using two pairs of firms of comparable size from the same industry and in the same risk class, data were aggregated at three different levels. The loan officers were asked to allocate scarce loanable funds between the firms and to estimate the probability of default on the loan. Analysis of variance was used to test for differences in attributes between levels. Abdel-Khalik concluded that disaggregated data is more useful whenever the firm is a marginal or high-risk customer.

It is interesting to note that Rhode classified the first two studies as laboratory experiments although the authors referred to them as field experiments.[24] There is an obvious overlapping between laboratory and field experiments. However, for all three studies, the better classification appears to be field experiments, because the respondents completed questionnaires in the field at their own convenience rather than in a controlled setting.

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[24]Rhode, op. cit., p. 499.

CHAPTER IV

THE EXPERIMENT METHODOLOGY

The empirical study is in the form of a behavioral field experiment, using a sample of individual private investors as test subjects. Three factors (independent variables) are incorporated into the design of the experiment: (1) one-year financial forecasts; (2) auditor's reports; and (3) broker advices. The underlying financial statements for the hypothetical firms, broker advices, and auditor's reports are found in Appendices A, B, and C respectively. The number of levels used for these three factors are as follows: three levels for forecasts; ten levels for auditor's reports, and two levels for broker advices.

Forecast Variable

The one-year financial forecast variable is included in the experiment at three levels, F_0, F_{++}, and F_{-+}. These levels represent the following situations:

F_0 A one-year financial forecast is not included in the information packet given the investor (See Appendix A--Exhibit I).

F_{++} A one-year financial forecast projecting a $.77 (30%) increase in earnings per share for Carter Communications Company (Appendix A--Exhibit II), and a one-year financial forecast projecting a $.17 (10%) increase in earnings per share for SRN, Inc. (Appendix A--Exhibit IV).

F_{-+} A one-year financial forecast projecting a $.33 (13%) decrease in earnings per share for Carter Communications Company (Appendix A--Exhibit III), and a one-year

financial forecast projecting a $.17 (10% increase in earnings per share for SRN, Inc.--the same forecast included in F_{++}.

Two reasons underlie the choice of these levels. First, comparing the F_0 level with the F_{++} and the F_{-+} levels allows for a general comparison of the present state of the art with the proposed forecast state. Second, comparing the F_{++} and F_{-+} levels, because they involve changes in direction for one firm while the other is held constant, allows for a more sensitive test than comparing the F_{++} and F_{--} levels.

The absolute and relative magnitudes of earnings per share for the two firms under the three forecast levels are shown in Table III.

TABLE III

ABSOLUTE AND RELATIVE EARNINGS PER SHARE

	EPS Prior Year	F_0	F_{++}	F_{-+}
Carter	$2.53	X	$3.30	$2.20
	100%	X	130%	87%
SRN	$1.63	X	$1.80	$1.80
	100%	X	110%	110%

Of course, the magnitude of forecast variations in the F_{++} and F_{-+} levels could have been much more extreme. The concept of materiality as applied to accounting information is not a settled issue.[1] The

[1]For a summary of relevant issues and suggestions for research in this area see; Melvin C. O'Connor and Daniel W. Collins, "Toward Establishing User-oriented Materiality Standards," Journal of Accountancy, CXXXVIII, No. 6 (December 1974), pp. 67-75.

magnitudes were selected because they represent reasonably significant, but not extreme variations. It is hoped that by avoiding extreme variations, respondents will find the experiment to be realistic.

Variations in the magnitude of forecasts are obviously infinite. Limiting the variations to those which are thought to be representative of magnitudes important to the decision-maker provides for a clearer analysis of the experimental results and is a common practice in statistical experiments. It is to be recognized, however, that there is an off-setting limitation to this design: when the levels of a factor are fixed, the statistical inferences are limited to only those levels of the factor; all inferences to other levels of the factor are logical inferences, not statistical inferences. Therefore, any conclusions are statistically generalizable only to the specific F_{++} and F_{-+} levels, although the latter are shown to maximize the reasonableness of logical inferences to other forecast levels.

Auditor's Report Variable

The auditor's report variable is included in the experiment at ten levels, A_1, A_2, A_3, A_4, A_5, A_6, A_7, A_8, A_9 and A_{10}, with A_1 through A_5 nested in F_{++} and A_6 through A_{10} nested in F_{-+}. These levels represent auditor's report combination types as follows:

A_1 and A_6 - a standard unqualified auditor's report for both companies.

A_2 and A_6 - a standard unqualified auditor's report with a middle paragraph disclaimer on the forecasted data for both companies.

A_3 and A_8 - a standard unqualified auditor's report whose scope and opinion paragraphs are expanded to mention the examination of and include an unqualified opinion on internalities of one-year financial forecasts for both companies.

A_4 and A_9 - a standard unqualified auditor's report whose scope and opinion paragraphs are expanded to mention the examination of and include an unqualified opinion on the internalities and externalities of the one-year forecasts for both companies.

A_5 and A_{10} - for SRN, the same type of report as used in A_4 above. For Carter, an adverse opinion based on an examination of both the internalities and externalities of the one year financial forecast.

The auditors' reports wording was developed with the help of Mr. Ralph F. Bonanata, an audit partner in the Detroit office of Arthur Andersen & Co. Note that there are actually five levels of auditor's reports, but 10 subscript designations. This occurs because the audit factor is nested in the forecast factor. The nested design, one in which all the levels of one factor are included within a level of another factor, is used because the dependent variable, expressed as the percentage of respondents who select Carter for investment, is pushed in opposite directions by some of the audit report levels under each forecast level. For example, consider the hypothetical values of the dependent variables in Table IV.

TABLE IV

HYPOTHETICAL CELL MEANS

	F_{++}					F_{-+}				
	A_1	A_2	A_3	A_4	A_5	A_6	A_7	A_8	A_9	A_{10}
B_{+-}	.7	.7	.8	.9	.3	.5	.5	.4	.3	.2
B_{-+}	.5	.5	.6	.7	.2	.3	.3	.2	.2	.1
Ave.	.6	.6	.7	.8	.25	.4	.4	.3	.25	.15

	A_1A_6	A_2A_7	A_3A_8	A_4A_9	A_5A_{10}
Combined Average	.5	.5	.5	.5	.2

Levels A_3 and A_4 of the auditor's report factor are expected to favor Carter, whereas levels A_8 and A_9 are expected to favor SRN, Inc. Levels A_1, A_2, A_6 and A_7 are expected to be neutral. Note that the nested factor is expected to show an increasing average under F_{++} and a decreasing average under F_{-+}, although no change is readily observable when the columns under each forecast level are combined, except for level $A_5(A_{10})$. This latter phenomenon could result, if a crossed design were used for analysis.

However, nesting of the audit factor within the forecast factor does not allow for separate statistical analysis for main effects. This occurs because the audit report levels, although nested, are not independent of the forecast levels. Therefore one overall P-value is computed in order to determine the significance of the nested factors.

The $A_1(A_6)$ level is used for two reasons. First, it represents the type of audit report usually seen in the F_0 state. Second, it is included in the F_{++} and F_{-+} states as a comparison with $A_2(A_7)$. The ordering of the annual report varied for $A_1(A_6)$ and $A_2(A_7)$. For A_1F_{++} and A_6F_{-+}, the forecasted statements followed on separate pages after the historical statements and auditor's report; it would not be realistic for an auditor to omit mention of a forecast in his report on historical data if the forecasted data were presented in columnar form alongside the attested historical data. For A_2F_{++} and A_7F_{-+}, A_3F_{++} and A_8F_{-+}, A_4F_{++} and A_9F_{-+}, and A_5F_{++} and $A_{10}F_{-+}$, however, the historical and forecasted information are presented next to each other in columnar form, consistent with the columnar format recommended by Ijiri, Wilkinson and Doney, and Cooper, Dopuch and Keller, discussed in Chapter II.

The $A_2(A_7)$, $A_3(A_8)$, and $A_4(A_9)$ levels represent each of three possible auditor reports that could be issued on forecasted financial statements, also discussed in Chapter II.

Level $A_5(A_{10})$ is included to determine whether the audit report has any significance whatsoever for the investor. Individual private investors may not comprehend distinctions between $A_2(A_7)$, $A_3(A_8)$, and $A_4(A_9)$. On the other hand, an adverse opinion, such as $A_5(A_{10})$, should have significance to even the most naive investor. Therefore, even though an adverse opinion is almost never issued in practice, it is included in the experiment to see if auditor's reports are at least read with some understanding. Because the $A_5(A_{10})$ level involves an adverse opinion only for Carter, whereas an unqualified report relating to both internalities and externalities is presented for SRN, Inc.; it should provide for optimum sensitivity.

Level F_0 does not include a one-year financial forecast. The only auditor's report level which can be used with F_0 is $A_1(A_6)$, since the remaining four audit report combinations $A_2(A_7)$, $A_3(A_8)$, $A_4(A_9)$, and $A_5(A_{10})$ include attestations to forecasted statements.

Broker Advice Variable

The broker advice variable is included at two levels B_{+-} and B_{-+}. These levels represent the following situations:

B_{+-} Broker gives a favorable recommendation for Carter over SRN (Appendix B -- Exhibit I); and

B_{-+} Broker gives a favorable recommendation for SRN over Carter (Appendix B -- Exhibit II).

The broker factor is included in the experiment for two reasons. First, its inclusion increases mundane reality. The investor

participating in the experiment could look at the broker advice instead of the annual report, if this is how he typically makes investment decisions. That is, the investor is not forced to look at the annual report. Second, a recent questionnaire-type study by Baker and Haslem (B&H) discloses that the broker is by far the single most influential factor in the investment decision of the private investor.[2] The present study should additional evidence concerning the validity of the results of the B&H study.

The cell combinations formed by these variables are shown in Table V.

TABLE V

FACTOR COMBINATIONS

B_{+-} F_0 $A_1(A_6)$	B_{+-} F_{++} A_1	B_{+-} F_{-+} A_6
	B_{+-} F_{++} A_2	B_{+-} F_{-+} A_7
	B_{+-} F_{++} A_3	B_{+-} F_{-+} A_8
	B_{+-} F_{++} A_4	B_{+-} F_{-+} A_9
	B_{+-} F_{++} A_5	B_{+-} F_{-+} A_{10}
B_{-+} F_0 $A_1(A_6)$	B_{-+} F_{++} A_1	B_{-+} F_{-+} A_6
	B_{-+} F_{++} A_2	B_{-+} F_{-+} A_7
	B_{-+} F_{++} A_3	B_{-+} F_{-+} A_8
	B_{-+} F_{++} A_4	B_{-+} F_{-+} A_9
	B_{-+} F_{++} A_5	B_{-+} F_{-+} A_{10}

[2] H. Kent Baker and John A. Haslem, "Information Needs of Individual Investors," Journal of Accounting, CXXXVI, No. 15 (November 1973), p. 68.

Data Packets

Investors are randomly assigned to twenty-two cells in the design. Each investor within a given cell receives a packet of financial information about the two hypothetical firms. In addition to broker advice, each financial data packet contains for each of the firms, simulated annual reports which include the following items:

(1) a letter to stockholders from the president;

(2) a five-year financial summary;

(3) historical and, where indicated, forecasted statements of financial position, income and retained earnings, changes in financial position, and appropriate footnotes;

(4) an auditor's report.

Copies of all items included in the data packet appear in Appendices A through F.

Based on the financial data packet, the investor is asked to determine in which of the two firms he would prefer to invest and the strength of his preference. These investment decisions and preferences are the dependent variables used in the study.

Dependent Variables

The investment decision choice dependent variable is expressed as a proportion and labeled the investment choice proportion (ICP). The ICP, for each of the 22 cells is computed as follows:

$$ICP_j = \frac{\sum_i ICP_{ij}}{n_j}$$

ICP_{ij} = investment choice, coded as 1, if Carter was chosen or 0, if SRN was chosen;

n_j = the number of respondents in cell j.

WHERE $i = 1,2,\ldots,n_j$

$j = 1,2,\ldots,22$

If there are no significant differences in the twenty-two ICP_j dependent variables, then the independent variables have no bearing on investor investment decisions.

The second or alternative dependent variable is an investor preference index for the two companies. After selecting one of the two companies for investment, the investor is asked to indicate his preference for the company selected. The choices available are strong, moderate, and weak. These are coded as follows to develop the investor preference index (IPI):

Code	Response
6	Carter strong
5	Carter moderate
4	Carter weak
3	SRN weak
2	SRN moderate
1	SRN strong

This coding procedure is common in applied psychology.[3] The average of the coded responses ($\overline{IPI}_j$) is determined for each cell as follows:

$$\overline{IPI}_j = \frac{\sum_i IPI_{ij}}{n_j}$$

IPI_{ij} = coded preference expressed by each investor;

n_j = number of respondents in cell j.

WHERE $i = 1,2,\ldots,n_j$

$j = 1,2,\ldots,22$

The IPI variable is used because it might be a more sensitive dependent variable than the ICP variable. In addition, ICP is dichotomous whereas

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[3]See, for example, Paul Slovic, "Analyzing the Expert Judge: A Descriptive Study of a Stockbroker's Decision Process," Journal of Applied Psychology (August 1969), pp. 255-63.

IPI is not. Use of dichotomous dependent variables in an ANOVA design raises questions about the validity of the homoscedasticity assumption underlying the procedure.

The Questionnaire

The questionnaires are shown in Appendix D. Two questionnaires were required because no forecasted data were presented under F_0. Accordingly, there was no mention of forecasts in the first paragraph and in question five for F_0 packets. The questionnaires were designed with the help of Professor Charles G. Eberly of the Evaluation Services Office at Michigan State University. They were pre-tested on an informal basis by several associates of the researcher in order to reduce the possibility of misinterpretation of questions by study participants.

There are seventeen questions for the investor to answer. The first two questions deal with the selection of the alternative dependent variables ICP and IPI respectively.

The third question is included to test for consistency in the specifications of the ICP and IPI. That is, for example, the specified share value for Carter should be higher than that for SRN when Carter is selected for investment. Unfortunately, the respondents misunderstood the question and it could not be used.

The fourth question is included to determine whether or not the test subject spent a reasonable amount of time reviewing the financial data packet.

Questions 5 and 6 are included for two reasons. Responses to the fifth question can be compared to the significance testing of the independent variables on the dependent variable in order to determine

the consistency between what the investor did versus what he says he did. Comparison of questions 5 and 6 should give an indication of how the investors reacted in this study compared to what they usually do when making investment decisions. Question 6 can also be compared with a recent study by Baker and Haslem,[4] to determine the representativeness of the investment decision influences of the sample population as compared with all private investors. Question 7 was included to help explain differences between questions 5 and 6. Questions 8 through 12 were included to gain an understanding of the investing experience of the participants and to test for homogeneity of the respondents across the cells used in the design.

Questions 13 through 17 were included in order to determine the representativeness of the sample population to the total population of individual private investors; in Chapter V, the responses to these questions are compared to a study done by the New York Stock Exchange.[5]

The Experimental Population

The population of interest is all individual private investors. It is not practical to obtain a listing of this population from which a random sample could be drawn. As a substitute, an important subgroup of this population was used. The National Association of Investment Clubs (NAIC) provided its membership list. The NAIC represents approximately 25 percent of all investment clubs whose total membership

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[4]Baker and Haslem, loc. cit.

[5]New York Stock Exchange, Share-ownership - 1970 (New York: The Exchange, 1970).

is about 200,000 individuals.[6] There is no a priori reason to believe that this group is not typical of private investors generally.

Since the club is national, a random sample could have been selected which would have been representative of the population of all NAIC members. However, a nationally drawn random sample would have introduced another variable into the problem, geographic location, which might be a significant factor in investor behavioral patterns. In addition, response follow-up is potentially more effective and less costly if the sample is drawn from a more limited geographical region, particularly if the use of a telephone is necessary to generate responses.

Accordingly the Detroit Metropolitan area is chosen, for the following reasons: (1) 77 percent of all shareowners live in metropolitan areas; (2) among the top twenty-five metropolitan areas in the United States Detroit is ranked sixth in terms of absolute numbers of investors and fifteenth in terms of percent of shareowners to area population;[7] (3) this area is readily accessible to the researcher for follow-up procedures. Although statistically not generalizable beyond Detroit NAIC members, the study should be interesting per se and logically generalizable to the entire population of investors throughout the United States.

The NAIC has approximately 6,000 members in the Detroit Metropolitan area. Of these, 1,540 were selected at random and randomly

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[6]Richard A. Stevenson, "Investment Clubs and Their Importance to Management," MSU Business Topics, XX (Winter 1972), p. 30.

[7]New York Stock Exchange, op. cit., p. 10.

assigned to one of the twenty-two cells described earlier in the chapter. This procedure provided for a cell size of 70. Multivariate analysis by cell of respondents' profiles and firm selection as disclosed by the questionnaire indicated that the cells are homogeneous.

Response Rates

Returned usable responses totaled 360 or 23.4% of the total sample. An additional 1.5% were returned but are not usable. Initial response was 15%. After two weeks, a reminder was sent and an additional 10% of the questionnaires were returned; see Appendix E, Exhibit II. Use of a telephone to generate responses was found unnecessary.

Response rates for individual cells varied from 17% to 31%, as indicated in Table VI.

TABLE VI

RESPONSE RATES FOR INDIVIDUAL CELLS

	F_0	F_{++}					F_{-+}				
	$A_1(A_6)$	A_1	A_2	A_3	A_4	A_5	A_6	A_7	A_8	A_9	A_{10}
B_{+-}	23%	19%	24%	21%	24%	19%	26%	26%	19%	30%	23%
B_{-+}	24%	23%	30%	24%	17%	27%	20%	31%	19%	23%	21%

The return of 23.4% appears reasonable. Whether the lack of response by the 76.6% of the test subjects indicates a response bias is an open question characteristic of this type of research.

When the response rates are grouped by the various independent variables they show almost no variation as compared to the investor

choice proportion discussed in Chapter V. The investor choice proportion showed greater variation but the significance of the independent variables was largely marginal. Therefore, the response rates across cells appear to indicate only random variation.

The respondents, on average, spent 1.2 hours reviewing the data packet. One respondent indicated that he had spent sixteen hours. Most spent between one-half and one and one-half hours. The amount of time spent tends to indicate that the respondents made a reasonable attempt to study data packet information.

The Testing Process - General Comments

Since the independent variables (1) broker advice (B),(2) forecast combination levels (F),(3) Auditor's reports (A) are qualitative, the technique of analysis of variance is used to measure the effect of these factors on the dependent variable (ICP or IPI). The multifactor analysis of variance models should disclose whether there are interactions among the factors and which factors are significant. There are basically three analysis of variance models which could be selected, 1) fixed effects, 2) random effects, and 3) mixed effects. As mentioned previously, the fixed effects model is used in this research because the factor levels chosen are of specific interest. This limits statistical generalization to only these levels[8] but, since they represent levels of interest, this limitation is reasonable; additionally, logical inference to other levels appears reasonable.

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[8]Gene V. Glass and Julian C. Stanley, Statistical Methods in Education and Psychology (Englewood Cliffs, N.J.: Prentice-Hall, Inc., 1970), p. 473.

Analysis of variance procedures are based on three statistical assumptions.[9] These assumptions are as follows:

(1) Independence, observations randomly chosen.

(2) Normality, the within-cell distributions of the errors are normal.

(3) Homoscedasticity, i.e., variances of within cell distributions are equal.

The homoscedasticity assumption is likely to be violated in the case of dichotomous dependent variables. In order to alleviate this problem, at least two possible courses of action exist, and both are used in this study:

(1) The data are transformed, using either a log transformation or Bartlett's arcsin transformation;[10]

(2) (IPI) is studied, as well as (ICP), since the former is not dichotomously scored data.

Because this research design has three independent variables (B,F,A), interactions may exist. An interaction exists when the factor effects are not additive. One of several techniques for the interpretation of interactions is the graphing technique.[11] When the factor level lines in a graph are not parallel, an interaction exists. When an interaction exists, the main effects cannot be interpreted.

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[9] Ibid., p. 340.

[10] For in depth discussion of this problem see M. S. Bartlett, "The Use of Transformations," Biometrics, III (1947), pp. 39-53; G. H. Lunney, "Using Analysis of Variance with a Dichotomous Dependent Variable: An Empirical Study," Journal of Education Measurement (Winter 1970), pp. 263-269; and Ralph B. D'Agostino, "A Second Look at Analysis of Variance on Dichotomous Data," Journal of Educational Measurement (Winter 1971), pp. 327-333.

[11] Glass and Stanley, op. cit., p. 408.

Post hoc Procedures

Incidental or post-hoc comparisons in data are a common technique in this type of experimentation.[12] When the overall F-test is significant, post-hoc comparisons can be used to find the sources of the effect and determine their meaning. Any comparison $\hat{\Psi}$, independent or not, can be made. The Scheffe´ method is used because it can handle cells of unequal size, and is fairly insensitive to violations of the normality and homogeneity of variance assumptions.[13] The significance of a comparison is determined by constructing a confidence interval around the comparison value. The comparison is not significant if the confidence interval at a specified significance α level includes zero. Two formulas are used for constructing confidence intervals,[14] one for comparison of interaction effects and the other for comparison of cell means within a row or column. The formula used to calculate the confidence interval for comparison of interaction effects is:

$$\hat{\Psi}_{AB} \pm \sqrt{(I-1)(J-1)\,{}_{1-\alpha}F_{(I-1)(J-1),\nu}} \quad \sqrt{VAR\ (\hat{\Psi}_{AB})}$$

WHERE

$$\sqrt{VAR\ (\hat{\Psi}_{AB})} = \sqrt{(\text{MS error})\ (\Sigma_i \Sigma_j \frac{c_{ij}^2}{n_{ij}})}$$

and i = rows, j = columns; c_{ij} = cell weight, $\Sigma c_{ij} = 0$; n_{ij} = number of observations per cell

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[12] William L. Hays, Statistics (New York: Holt, Rinehart, Winston, 1963), pp. 483-485.

[13] Ibid., p. 484.

[14] Linda Glendening, "Posthoc: A Fortran IV Program for Generating Confidence Intervals Using Either Tukey or Scheffe´ Multiple Comparison Procedures," Occasional Paper No. 20, Office of Research Consultation, School of Advanced Studies, College of Education (East Lansing, Michigan: Michigan State University, 1973), esp. p. 6-7.

The formula used to calculate the confidence interval for comparisons of cell means within a row of column is:

$$\hat{\Psi} \pm \sqrt{(IJ-1)_{1-\alpha} F_{(IJ-1),v}} \sqrt{VAR\ (\hat{\Psi})}$$

WHERE

$$\sqrt{VAR\ (\hat{\Psi})} = \sqrt{(\text{MS error})\ (\Sigma_i \Sigma_j \frac{c_{ij}^2}{n_{ij}})}$$

and i = rows $\quad c_{ij}$ = cell weight, $\Sigma c_{ij} = 0$

j = columns $\quad n_{ij}$ = number of observations per cell

These confidence intervals are interpreted differently from the usual confidence interval. That is, if all possible comparisons are determined and, for each comparison a confidence interval at α significance level is calculated, the chances are $1-\alpha$ that every one of these confidence intervals would contain the true value for that comparison. In other words, the probability of committing a Type I error for one or more comparisons is exactly α. There must be some comparison $\hat{\Psi}$ significant at or beyond the α level used in the overall F-test when the overall F-test is significant.[15] However, finding a statistically significant comparison does not necessarily indicate that the comparison is meaningful to financial reporting.

These post hoc procedures will be employed to explore the sources of the effect whenever the overall F-test is significant at $\alpha = 0.10$ level. Typically an α level of .05 is used. However, since this study is exploratory in nature, observations that are significant at $\alpha = 0.10$ are explored because of their possible importance to financial

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[15] Hays, op. cit., p. 484.

reporting, although they are only marginally significant from a statistical point of view.

Research Hypotheses

This research is concerned with investor reaction to (1) broker's advice, (2) one-year financial forecasts and (3) auditor's reports. Therefore the research hypotheses relate to these factors. To the extent that the following null hypotheses are rejected, broker advices, one-year financial forecasts and auditor's reports are shown to be relevant to private investor decision models. The general term μ is used, since each hypothesis tested uses the dependent variable ICP and IPI. Each hypothesis is expressed verbally in the null form.

(1) Broker's advices have no effect on investors' decisions.

H_0^1: $\mu_{B+-} = \mu_{B-+}$

H_1^1: $\mu_{B+-} \neq \mu_{B-+}$

2(A) Variations in one-year financial forecasts have no effect on investors' decisions.

H_0^{2A}: $\mu_{F++} = \mu_{F-+}$

H_1^{2A}: $\mu_{F++} \neq \mu_{F-+}$

2(B) One-year financial forecasts added to historical financial statements have no effect on investors' decisions.

H_0^{2B}: $\mu_{F++} = \mu_{F0} = \mu_{F-+}$

H_1^{2B}: $\mu_{F++} \neq \mu_{F0} \neq \mu_{F-+}$

3(A) Auditor's attestation to one-year financial forecasts, when both forecasts are positive (F_{++}), has no effect on investors' decisions.

H_0^{3A}: $\mu_{A1} = \mu_{A2} = \mu_{A3} = \mu_{A4} = \mu_{A5}$

H_1^{3A}: $\mu_{A1} \neq \mu_{A2} \neq \mu_{A3} \neq \mu_{A4} \neq \mu_{A5}$

3(B) Auditor's attestation to one-year financial forecasts, when one forecast is negative (F_{-+}), has no effect on investors' decisions.

H_0^{3B}: $\mu_{A6} = \mu_{A7} = \mu_{A8} = \mu_{A9} = \mu_{A10}$

H_0^{3B}: $\mu_{A6} \neq \mu_{A7} \neq \mu_{A8} \neq \mu_{A9} \neq \mu_{A10}$

4(A) Various combinations of broker advice and forecast levels have no effect on investors' decisions.

H_0^{4A}: No interaction exists between broker advice and forecast levels.

H_1^{4A}: An interaction exists.

4(B) Various combinations of broker advice and forecast levels, including no forecast, have no effect on investors' decisions.

H_0^{4B}: No interaction between broker advice and forecast levels exists.

H_1^{4B}: An interaction exists.

(5) Various combinations of broker advice and auditor's report within each forecast level have no effect on investors' decisions.

H_0^5: No broker by audit within forecast interaction exists.

H_1^5: An interaction exists.

Analysis of test results, including conclusions and implications, is found in Chapter V.

CHAPTER V

ANALYSIS AND CONCLUSIONS

The purposes of this chapter are 1) to describe and analyze the test results of the experiment, and 2) to state the overall conclusions.

Hypothesis Testing and Test Results

Hypotheses related to the more general three factor model will be discussed first, followed by the two factor model. A schematic of the test design used to examine the three factor model hypotheses outlined in Chapter IV follows:

Forecast / Auditor's Report / Broker	F_{++}					F_{-+}				
	A_1	A_2	A_3	A_4	A_5	A_6	A_7	A_8	A_9	A_{10}
B_{+-}										
B_{-+}										

The observed cell means for each of the dependent variables, investor choice proportion (ICP) and investor preference index (IPI) appear in Tables VII and VIII.

TABLE VII

OBSERVED CELL MEANS - ICP VARIABLE

	F_{++}						F_{-+}					
	A_1	A_2	A_3	A_4	A_5	Avg.	A_6	A_7	A_8	A_9	A_{10}	Avg.
B_{+-}	.54	.77	.53	.77	.39	.60	.50	.50	.62	.43	.35	.48
B_{-+}	.13	.29	.24	.25	.16	.21	.36	.23	.23	.25	.13	.24
Average	.335	.53	.385	.51	.275	.405	.43	.365	.425	.34	.24	.36

TABLE VIII

OBSERVED CELL MEANS - IPI VARIABLE

	F_{++}						F_{-+}					
	A_1	A_2	A_3	A_4	A_5	Avg.	A_6	A_7	A_8	A_9	A_{10}	Avg.
B_{+-}	3.85	4.41	3.66	4.29	2.92	3.83	3.33	3.56	3.85	3.19	3.06	3.40
B_{-+}	1.94	2.67	2.29	2.75	2.05	2.34	2.79	2.64	2.46	2.56	2.07	2.50
Average	2.90	3.54	2.98	3.52	2.49	3.09	3.06	3.10	3.16	2.88	2.57	2.95

Analysis of variance (ANOVA) techniques were applied separately to each of these dependent variables. The three-way ANOVA results are shown in Tables IX and X.

TABLE IX

THREE-FACTOR MODEL
ANOVA RESULTS - INVESTOR CHOICE PROPORTIONS,
CELL MEANS (ICP_j)

Sources	d.f.	Original Data*			Log Transformation Data*		
		MS	F	P	MS	F	P
B - Broker	1	.4898	82.99	.0001	3.952	110.78	.0001
F - Forecast	1	.0099	1.69	.2305	.008	.22	.6530
A - Audit in Forecast	8	.0179	3.03	.0688	.150	4.21	.0290
B x F	1	.0269	4.56	.0652	.137	3.83	.0862
B x A(F)	8	.0059			.036		

*In this and in the following tables "Original Data" refers to ANOVA results based on the original cell proportions and "Log Transformation Data" refers to ANOVA results based on cell proportions transformed by log.

TABLE X

THREE - FACTOR MODEL
ANOVA RESULTS - INVESTOR PREFERENCE INDEX (IPI_{ij})

Sources	d.f.	MS	F	P
B - Broker	1	116.305	45.98	.0001
F - Forecast	1	1.948	.77	.3809
A - Audit in Forecast	8	4.192	1.66	.1083
B x F	1	8.027	3.17	.0759
B x A (F)	8	1.0716	.42	.9066
R: B x A (F)	307	2.5297		

Hypotheses 5 and 4 concerning interaction effects will be considered prior to hypotheses 1, 2, and 3 concerning main effects. The reason for this ordering of the discussion is that nothing can be said about main effects when interaction exists.

Hypothesis 5: Various combinations of broker advice and auditor's reports within each forecast level have no effect on investors' decisions.

H_0^5: No broker by audit within forecast interaction exists.

H_1^5: An interaction exists.

The ANOVA tables for IPI_{ij} above indicate that H_0^5 is not rejected because the computed P-value of .9066 exceeds the critical P-value of .10. It is concluded, therefore, that there is no broker by audit within forecast interaction.

Hypothesis 4(A): Various combinations of broker advice and forecast levels have no effect on investors' decisions.

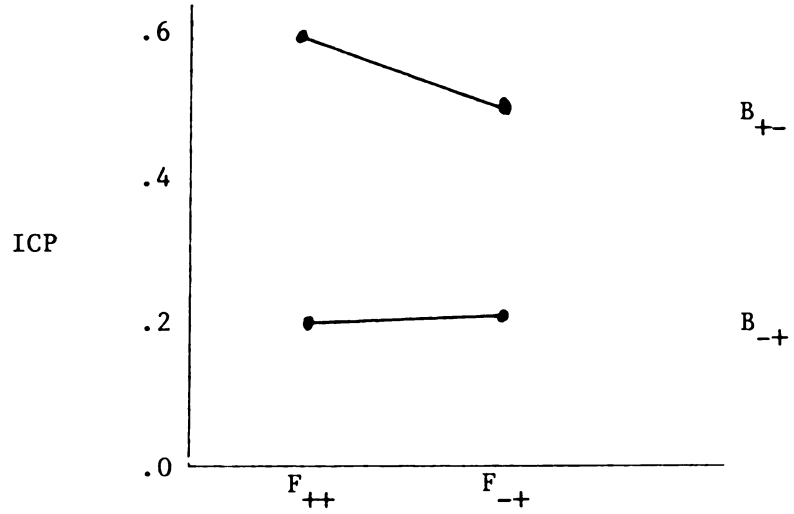
H_0^{4A}: No interaction exists between broker advice and forecast levels.

H_1^{4A}: An interaction exists.

Since the computed P-values are, .0652, .0862 and .0759 for the B X F interaction in Tables IX and X, H_0^{4A} is rejected at the .10 level but not at the .05 level. Therefore, this interaction deserves further investigation because of its marginal statistical significance. A graph of the relationship between broker advice and forecast levels for the ICP variable appears in Figure II.

FIGURE II

OBSERVED COMBINED CELL MEANS
ICP - VARIABLE

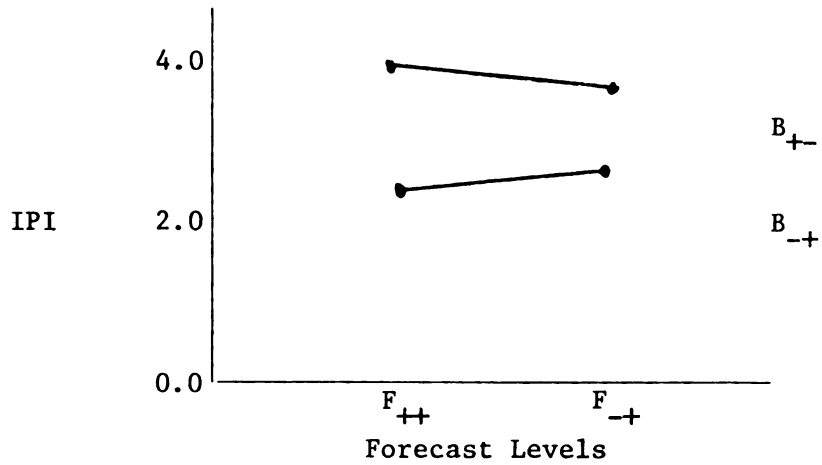


The larger difference between observed cell means under F_{++} as compared to F_{-+}, indicates the interaction, and it occurs because of the strange values obtained for cells ($F_{++}B_{-+}A_1$) and $F_{-+}B_{-+}A_6$) shown circled in Table VII. If these values had been more in line with other cell values, this marginally significant interaction would not exist. Post hoc comparisons (Tables G-I and G-II of Appendix G) support this conclusion. Within column variation is significant for both columns. However, within row variation is not significant for either row, but borders on significance for the ($B_{+-}F_{++}$) - ($B_{+-}F_{-+}$) contrast. The accounting significance of this interaction may be that when a published forecast differs from broker advice for a speculative company such as Carter, investors' decisions are affected by the forecast, whereas in the absence of such differences, investors' decisions are not affected by the forecast.

The analysis of the interaction for the IPI dependent variable is similar. A graph of the broker-forecast relationship appears in Figure III.

FIGURE III

OBSERVED COMBINED CELL MEANS
IPI - VARIABLE



As before, if it were not for the unusual values observed in cells $(B_{-+}F_{++}A_1)$ and $(B_{-+}F_{-+}A_6)$, shown circled in Table VIII, the marginal interaction would not exist. On the other hand, post hoc comparisons of observed cell means (Table G-III of Appendix G) within each broker level, indicate that the only significant difference in forecast levels occurs within broker level B_{+-}. Therefore, the preceding conclusions and implications for the ICP variable also apply here to the IPI variable. But since H_0^{4A} is not rejected at the .05 level, discussion of main effects follows:

Hypothesis 1: Broker advices have no effect on investors' decisions.

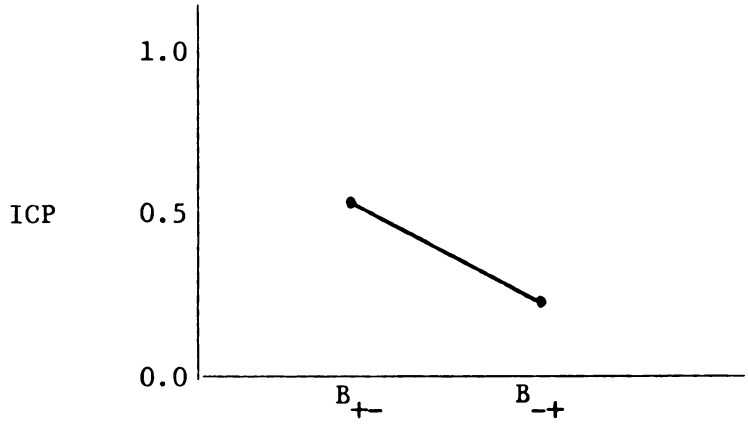
H_0^1: $\mu_{B+-} = \mu_{B-+}$

H_1^1: $\mu_{B+-} \neq \mu_{B-+}$

H_0^1 is soundly rejected in all the testing, given a P value of <.0001. A graph of the ICP variable by broker's advice appears in Figure IV.

FIGURE IV

OBSERVED COMBINED CELL MEANS
ICP - VARIABLE



Broker Advice Levels

Results using IPI as the dependent variable are similar. The influence of this factor on the dependent variables supports the results of Baker's study.[1]

Hypothesis 2(A): Variations in one-year financial forecasts have no effect on investors' decisions.

H_0^{2A}: $\mu_{F++} = \mu_{F-+}$

H_1^{2A}: $\mu_{F++} \neq \mu_{F-+}$

The null hypothesis is not rejected in the three-way analysis of variance model with P<.2305, P<.6530, and P<.3809. Investors do not

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[1]H. Kent Baker and John A. Haslem, "Information Needs of Individual Investors," Journal of Accountancy, CXXXVI, No. 15 (November 1973), p. 68.

appear to recognize the difference between F_{++} and F_{-+} as important. However, if one considers the interaction mentioned earlier and reviews Tables VII and VIII as summarized in Table XI, it is apparent that the interaction of F_{++} and F_{-+} with B_{-+} tends to smooth out the forecast factor effect.

TABLE XI

SUMMARY OF OBSERVED CELL MEANS

	ICP			IPI		
	F_{++}	F_{-+}	Diff.	F_{++}	F_{-+}	Diff.
B_{+-}	.60	.48	.12	3.83	3.40	.43
B_{-+}	.21	.24	.03	2.34	2.50	.16
Average	.405	.36	.05	3.09	2.95	.14

Additionally, the post hoc analysis (Table G-III of Appendix G) indicates that the within-row (B_{+-}) variation for the IPI dependent variable is significant at the .05 level.

Another factor affecting the significance of forecasts in this study is that the particular forecast levels chosen for this research may not have been extreme enough, given the two companies from which the investor was forced to choose. Therefore, because of the possible effect of interaction and the fixed effects design, generalization to all levels of forecasts may be capricious.

Hypothesis 3: (A) Auditor's attestation to one-year forecasts, when both forecasts are positive (F_{++}), has no effect on investors' decisions.

H_0^{3A}: $\mu_{A_1} = \mu_{A_2} = \mu_{A_3} = \mu_{A_4} = \mu_{A_5}$

H_1^{3A}: $\mu_{A_1} \neq \mu_{A_2} \neq \mu_{A_3} \neq \mu_{A_4} \neq \mu_{A_5}$

(B) Auditor's attestation to one-year forecasts, when one forecast is negative, (F_{-+}) has no effect on investors' decisions.

H_0^{3B}: $\mu_{A_6} = \mu_{A_7} = \mu_{A_8} = \mu_{A_9} = \mu_{A_{10}}$

H_1^{3B}: $\mu_{A_6} \neq \mu_{A_7} \neq \mu_{A_8} \neq \mu_{A_9} \neq \mu_{A_{10}}$

The three-way ANOVA model was used to test these hypotheses on a combined basis. The ANOVA results are shown in Tables IX and X. A summary of the P values for audit within forecast follows,

	ICP		IPI
	Original Data	Log Transformed Data	
Audit within forecast	P<.0688	P<.0290	P<.1083

The results are generally consistent and appear to indicate that the null hypotheses should be rejected. However, it is necessary to apply post hoc procedures to discover the cause of this rejection.

First, let us review the auditor's report levels used within each level of the forecast factor which were originally described in Chapter IV and summarized in Table XII below:

TABLE XII

AUDITOR'S REPORT LEVELS

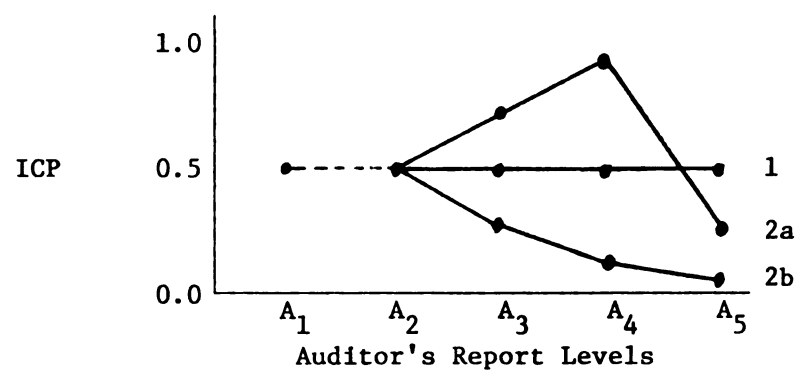
F_{++}	F_{-+}	Nature of Auditor's Report
A_1	A_6	Unqualified on historical statements for both companies
A_2	A_7	Unqualified on historical statements for both companies with disclaimer on forecasted statements for both companies.
A_3	A_8	Unqualified on historical statements for both companies with attestation to internalities only of forecasted statements for both companies.
A_4	A_9	Unqualified on historical statements for both companies with attestations to internalities and externalities of forecasted statements for both companies.
A_5	A_{10}	Unqualified on historical statements for both companies. Attestation to internalities and externalities of forecasted statements for one company and an adverse opinion on the forecasted statements of the other company.

Since report combinations $A_1(A_6)$ and $A_2(A_7)$ are essentially the same, the only real differences are in the ordering of the report and an explicit disclaimer on the forecasted statements in A_2 and A_7, but not in A_1 and A_6. Therefore, a priori, the ICP and IPI variables should not change significantly. On the other hand, auditor's report combinations $A_3(A_8)$ and $A_4(A_9)$ should tend to reduce uncertainties about both companies. It is impossible to say in which direction the ICP and IPI variables will go for either company but, a priori, they should continue in the same direction through A_4. That is, as indicated in Figure V, the auditor's report combination levels A_1 through A_4 should result in either (1) no change in the ICP variable, if they had no

significance to the investor, such as line 1; or (2) a continual positive or negative trend when they were significant, such as lines 2a or 2b. The A_5 auditor's report combination should go in an opposite direction from the first four reports if the investors favor Carter Communications, such as line 2a; and in the same direction if investors favor SRN, Inc., such as line 2b.

FIGURE V

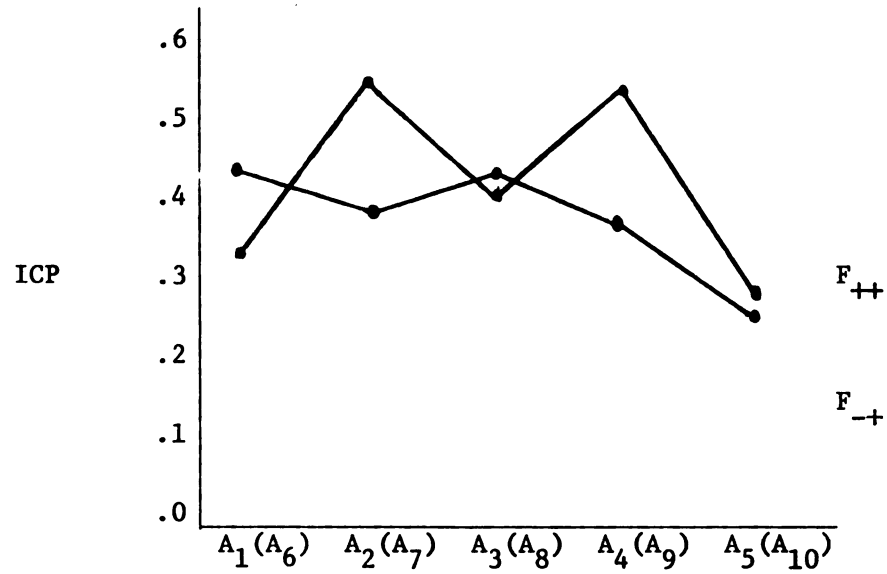
POSSIBLE ICP OR IPI RESPONSE PATTERNS UNDER F_{++}



The observed values of the ICP and IPI variables are shown in Table VII and VIII; a graph of the combined ICP values under F_{++} and F_{-+} appears in Figure VI.

FIGURE VI

ORIGINAL DATA
OBSERVED ICP VALUES

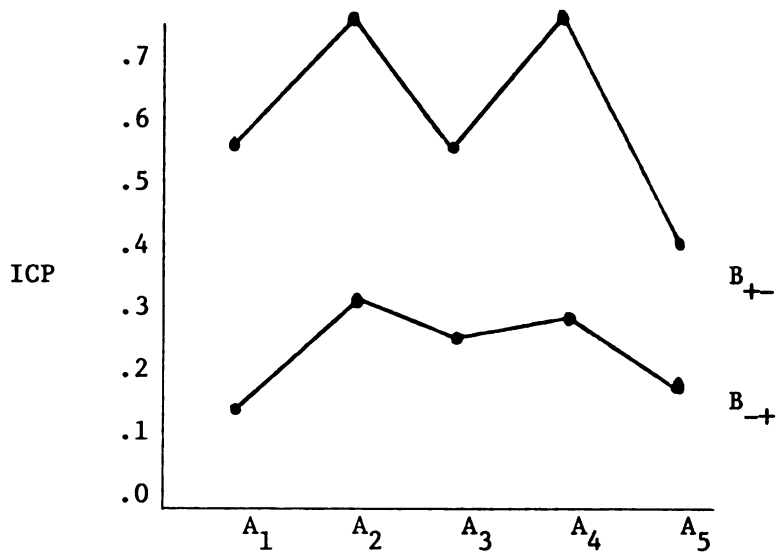


Note that the observed values do not resemble any of the a priori patterns. Level $A_2(A_7)$ appears to be out of line. It was not expected to differ significantly from level $A_1(A_6)$. Levels $A_3(A_8)$ through $A_5(A_{10})$ were expected to differ significantly from $A_1(A_6)$ and $A_2(A_7)$, and from each other, provided that each auditor's report combination level had an effect on investors' behavior. Examination of the graph indicates the greatest difference within each forecast level occurred between A_2-A_5 and between A_6-A_{10}. This difference is understandable, since $A_5(A_{10})$ is the only level containing an adverse opinion. Tables G-IV and G-V show all possible pairwise contrasts of audit in forecast levels. These post hoc comparisons indicate that significant variation occurs between $A_5(A_{10})$ and a few other auditor's report levels. But the accounting importance of these contrasts is obscure, as discussed

above. Nevertheless, within the context of this study, examination of the underlying patterns is enlightening. The dependent variable, ICP, observed under each auditor's report levels within F_{++} classified by broker advice is presented in Figure VII.

FIGURE VII

OBSERVED ICP VALUES UNDER F_{++} BY BROKER ADVICE LEVEL



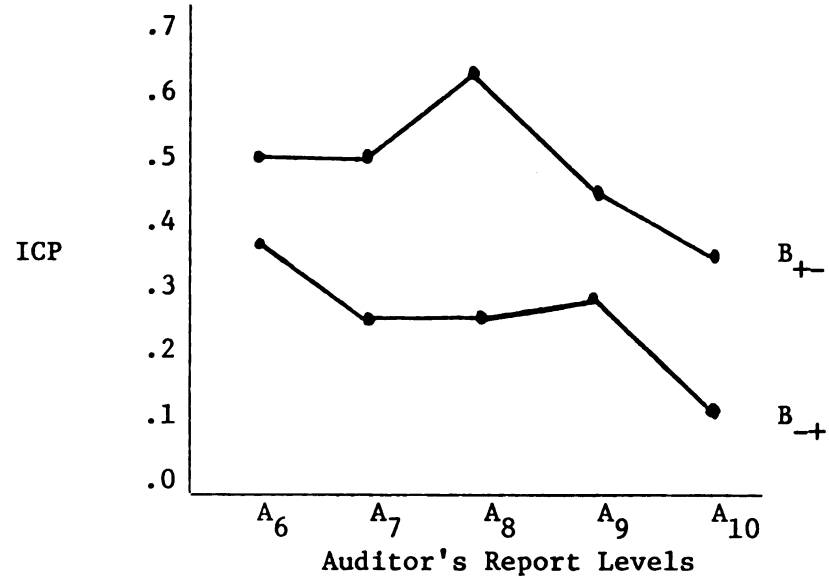
The patterns are very similar for F_{++} under each broker level, but somewhat puzzling. Level A_2 (disclaimer) has the same effect as level A_4 (attestation to both externalities and internalities). Level A_1 (no opinion on forecasts) has the same effect as level A_3 (opinion on internalities). A possible explanation for these results is that the investors interpret the auditor's reports incorrectly. This hypothesis was tested using IPI as the dependent variable, with results that are the same as those for the ICP variable.

The dependent variable, ICP, observed under auditor's report

levels within F_{-+} classified by broker advice follows in Figure VIII:

FIGURE VIII

OBSERVED ICP VALUES UNDER
F_{-+} BY BROKER ADVICE LEVEL



Although not significant, note the striking difference in pattern, both from a comparison to the F_{++} values shown in previously in Figures VI and VII, and for the two broker levels with F_{-+} in Figure VII. The only similarity of effect on the ICP values by auditor's report levels under F_{++} and F_{-+} appears to be report level $A_5(A_{10})$, the adverse opinion.

In summary, the audit report levels within F_{++} and F_{-+} cause a statistically significant, but possibly meaningless variation in the ICP values. The underlying patterns suggest that auditor's reports have an effect which defies explanation; perhaps investors do not fully comprehend the informational content of auditor's reports.

Since cell proportions under F_{-+} were erratic and unintelligible, the randomness of investor assignment to cells became suspect. A

multivariate one-way analysis of variance test was performed on investor profiles. These profiles (dependent variables) are a composite of ten characteristics as follows:

(1) time spent reviewing the data packet;
(2) number of years as an investment club member;
(3) investments held in addition to club holdings;
(4) number of years making personal investments;
(5) length of time securities are typically held;
(6) major investment purpose, dividends or price appreciation;
(7) portfolio market value;
(8) amount of education;
(9) age; and
(10) income level.

The mean value of each of these characteristics is computed and included in a vector for each cell (the independent variables). The multivariate test of equality of mean vectors with 210 and 2535.4, degrees of freedom resulted in a P-value of .4865, indicating that the cells are not statistically different.

Hypothesis 4(B): Various combinations of broker advice and forecast levels, including no forecast, have no effect on investors' decisions.

H_0^{4B}: No interaction between broker advice and forecast levels exists.

H_1^{4B}: An interaction exists.

In order to test this hypothesis, the experimental design is modified to include three levels of the forecast variable and eliminate the auditor's report variable. The additional forecast level needed is F_0 (i.e., no forecast, only historical financial statements). Since F_0 does not include forecasted financial statements, the auditor's report variable is dropped from the design. However, there are two ways to change the design. The first method is to include only those observations which incorporated the $A_1(A_6)$ auditor's report level,

since these are exactly the same type of auditor's report. The design would then be:

	$F_{++}(A_1)$	$F_0(A_1)(A_6)$	$F_{-+}(A_6)$
B_{+-}			
B_{-+}			

The second method is to consider the various auditor's report levels as replications within each forecast level F_{++} and F_{-+}. That is, the various auditor's report levels included under $F_{++}(A_1,A_2,A_3,A_4,A_5)$ were considered simple replications of the F_{++} experiment. The treatment of each of the auditor's report levels as replications of each forecast level is possible because (1) each level of the auditor's report is nested under each forecast level, and (2) the auditor's reports were only marginally significant. Thus the design would then be:

	F_{++}	F_0	F_{-+}
B_{+-}	five replications	one replication	five replications
B_{-+}	five replications	one replication	five replications

The observed cell means for each model using both dependent variables were generally similar. These values are presented in Appendix H, Table H-I. The results of application of analysis of variance techniques are shown in Tables XIII through XVII. Table XIII presents

the results for the ICP dependent variable for the non-replicated model.

TABLE XIII

TWO-FACTOR MODEL ANOVA RESULTS
ICP-VARIABLE, INDIVIDUAL OBSERVATIONS (ICP_{ij})
NON-REPLICATED

Sources	d.f.	MS	F	P-Value
B - Broker	1	3.8404	19.31	.0001
F - Forecast	2	.3886	1.95	.1479
B x F	2	.4978	2.50	.0877
R : BF	88	.1989		

Table XIV presents the results of using IPI as the dependent variable, and is consistent with Table XIII.

TABLE XIV

TWO-FACTOR MODEL ANOVA RESULTS
IPI-VARIABLE
NON-REPLICATED

Sources	d.f.	MS	F	P-Value
B - Broker	1	53.90	22.96	.0001
F - Forecast	2	6.86	2.92	.0591
B x F	2	5.63	2.40	.0969
R: BF	87	2.348		

Tables XV, XVI, and XVII present the results for both dependent variables (ICP and IPI) when the replicated model is used. Note the general consistency of the results disclosed in these tables, and consistency with Tables XIII and XIV.

TABLE XV

TWO-FACTOR MODEL ANOVA RESULTS
ICP-VARIABLE, INDIVIDUAL OBSERVATIONS (ICP_{ij})
REPLICATED

Sources	d.f.	MS	F	P-Value
B - Broker	1	10.5341	51.12	.0001
F - Forecast	2	.5732	2.78	.0634
B x F	2	.6795	3.30	.0382
R: BF	354	.2061		

TABLE XVI

TWO-FACTOR MODEL ANOVA RESULTS
ICP-VARIABLE, CELL MEANS (ICP_j)
REPLICATED

Sources	Original Data				Arcsin Transformation Data		
	d.f.	MS	F	P-Value	MS	F	P-Value
B - Broker	1	.6460	54.29	.0001	.8527	49.91	.0001
F - Forecast	2	.0323	2.71	.0968	.0653	3.82	.0441
B x F	2	.0378	3.17	.0691	.0723	4.23	.0335
R: BF	16	.0119			.0171		

TABLE XVII

TWO-FACTOR MODEL ANOVA RESULTS
IPI-VARIABLE, REPLICATED

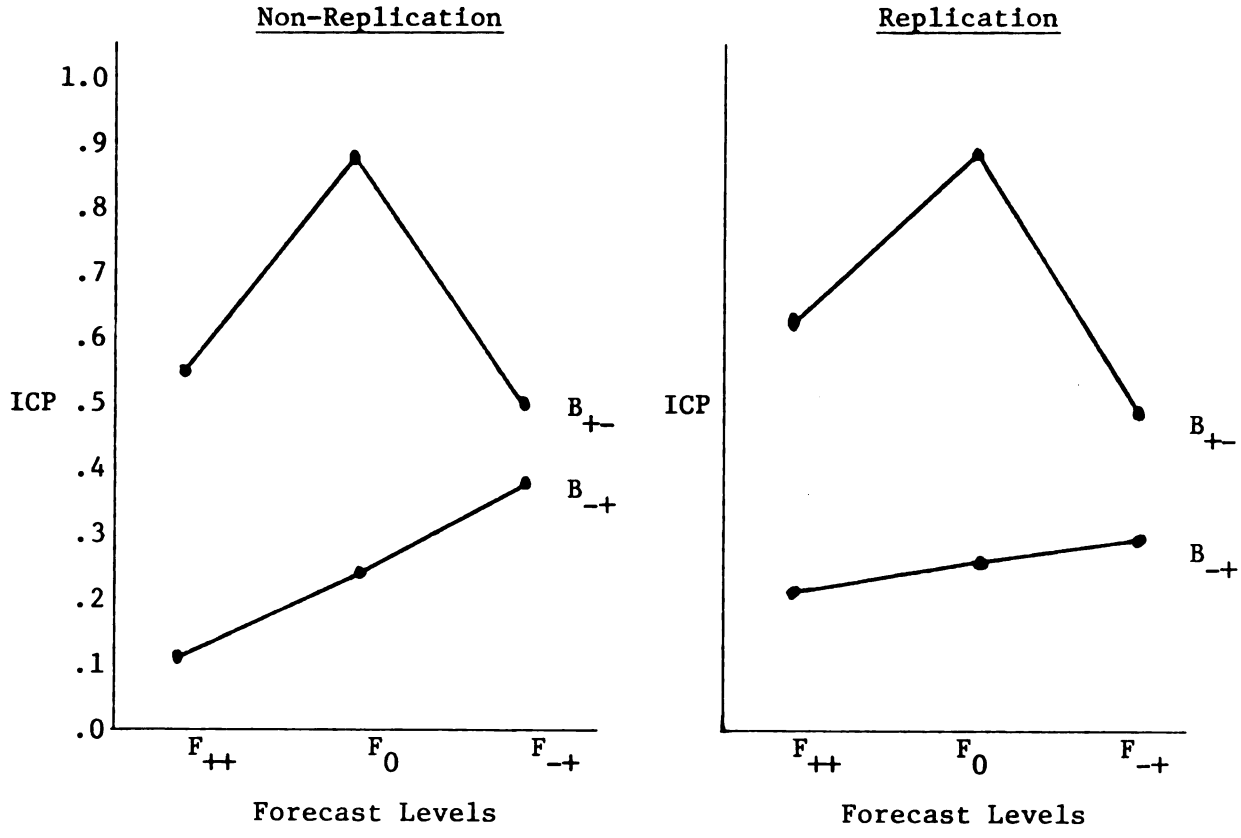
Sources	d.f.	MS	F	P
B - Broker	1	145.07	58.13	.0001
F - Forecast	2	8.37	3.35	.0361
B x F	2	7.80	3.12	.0453
R: BF	353	2.50		

Review of the ANOVA tables indicates that the non-replicated 2-way model was less sensitive than the replicated 2-way model. The null hypothesis 4(B) is rejected as the $\alpha = .05$ level in most cases under the replicated 2-way model, while it is not rejected at the $\alpha = .05$ level in the non-replicated model. Increased sensitivity occurs in the replicated model because of the replications, while cell values remain approximately the same. The general consistency of the broker by forecast factor across these ANOVA tables and the consistency of these results with the results in the 3-way model, tend to indicate the presence of an interaction. Further examination of the interaction is carried out by graphical and post hoc techniques.

In Figure IX, the cell means of the ICP variable are graphed using both the non-replication and replication methods of collapsing the three-way ANOVA model into a two-way ANOVA MODEL.

FIGURE IX

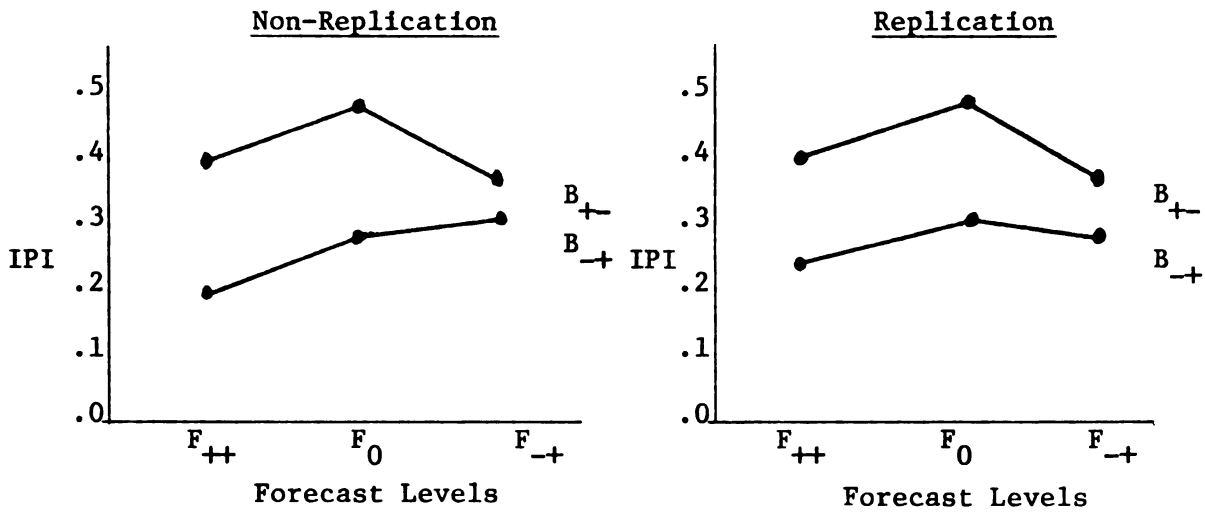
OBSERVED CELL MEANS FOR NON-REPLICATION
AND REPLICATION MODELS
ICP-VARIABLE



The relationship between the IPI variables is similar, as indicated in Figure X.

FIGURE X

OBSERVED CELL MEANS FOR NON-REPLICATION
AND REPLICATION MODELS
IPI-VARIABLE



It is interesting to note that the F_0 forecast level (no forecast) resulted in more respondents selecting Carter than when a positive forecast (F_{++}) was presented within broker level B_{+-} (broker advice favoring Carter over SRN). Within broker level B_{-+} (broker advice favoring SRN over Carter) the negative forecast for Carter (F_{-+}) appears to encourage more people to select Carter than either the F_{++} or F_0 forecast levels, thus the interaction is indicated.

Post hoc comparisons (Tables G-VI through G-XI) further emphasize these relationships. Generally, interaction occurs between the F_0 and the F_{-+} levels. Post hoc comparisons within rows generally indicate the only significant variation occurs between $B_{+-}F_0$ and $B_{+-}F_{-+}$. The various forecast levels within B_{-+} are not significantly different from each other. Post hoc comparisons within columns indicate that the broker has a significant effect under F_{++} and F_0, but not under F_{-+}.

Interpretation of the relative cell values under positive broker

advice is quite simple. The investors had greater expectations for Carter, based on the broker advice than they had when presented with a one-year financial forecast for that firm. However, the F_{++} level was slightly favored over the F_{-+} level.

Interpretation of the relative cell values under B_{-+} is baffling. Two possible explanations are: (1) there is no real difference in these cell values (i.e., the negative broker advice eliminated any effect the forecast might have); or (2) somehow, investors felt that a negative forecast combined with a negative broker's advice was too pessimestic, and therefore believed the stock to be undervalued. This resulted in a higher ICP and IPI value for F_{-+} than F_{++} within B_{-+}. But it is important to recognize that these findings are situation-specific due to the expression of ICP and IPI variables in terms of Carter. A negative broker advice for Carter is equivalent to a positive broker advice for SRN. Therefore, if the ICP or IPI variable is stated in terms of SRN instead of Carter, the forecast has a greater effect when combined with negative broker advice than when combined with positive broker advice, which is outwardly the reverse of the above. The result is that generalizations cannot be made about the interaction effects of broker advice and forecasts.

Hypothesis 2(B): One-year financial forecasts added to historical financial statements have no effect on investors' decisions.

H_0^{2B}: $\mu F_{++} = \mu F_0 = \mu F_{-+}$

H_1^{2B}: $F_{++} \neq F_0 \neq F_{-+}$

Nothing can be said about this main effect, since interaction is present at the .10 level for the non-replicated model and at the .05

level for the replicated model.

Respondent Beliefs

It is interesting to note that 50.3% of the respondents stated that the financial statements were the single most influential source in their hypothetical investment decision. Also 29.9% of the respondents stated that financial statements are the single most influential source of investing information that they normally use in making actual security selection decisions. These statements are at odds both with what the respondents actually did in the present study and with what respondents said they did in the Baker and Haslem study.[2]

Inference from the Sample to the Population

In Chapter IV the method of drawing the sample is described. A summary of that description is repeated here. The sample was randomly drawn from Metropolitan Detroit members of the National Association of Investment Clubs (NAIC). Because the NAIC is national, but the sample was limited to Detroit, the results of the study are not statistically generalizable to the national membership. In addition, by the same reasoning, the experimental results are not statistically generalizable to the total population of private investors. But if certain characteristics of the sample population are shown to be similar to those of the total population, a strong case for logical inference could be made.

Several characteristics of the investor which might affect his investment behavior are: (1) Education, (2) Income, (3) Age, (4) Portfolio size, and (5) Occupation. In 1970, the New York Stock Exchange

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[2] *ibid.*

(NYSE) accumulated statistics on these five characteristics in a survey of shareholders of public corporations with more than 300 shareholders of record and $1,000,000 in assets.[3] The questionnaire sent to the NAIC members in the present study also included questions on these five characteristics.

A chi-square goodness of fit test at the $\alpha = .05$ significance level was performed on the distribution of each of these characteristics in both the NYSE survey and the present study. The expected frequency used in the chi-square tests is obtained by taking the percentage that each of the various levels of the characteristic occur in the NYSE survey and multiplying this by the total number of respondents in the present study. The expected frequency indicates the number of respondents in the present study who should exhibit these characteristics, if they have similar characteristics to respondents of the NYSE survey which in turn are used as surrogates of the population of all investors. Table XVIII (a) indicates that the sample population is better-educated than the total population. There is a large shift out of the two lowest levels into the highest level. Table XVIII (b) indicates that the income of the sample population is skewed upward toward the two highest levels. There are probably two factors responsible for this variation. First, money income levels have risen since the NYSE study in 1970. Frequencies based on real incomes would be better, but that data is not available. Second, given the higher education level of the sample population, one would expect incomes to be higher. Table XVIII (c) indicates that the age of the sample population also is skewed toward the upper levels.

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[3] New York Stock Exchange, op. cit., p. 25.

TABLE XVIII

CHI-SQUARE TESTS FOR SIGNIFICANT DIFFERENCE IN INVESTOR CHARACTERISTICS

Characteristic	Observed Frequency	Expected Frequency	χ^2
Education			
Less than four years of high school	11	44	24.75
High school completed	49	107	31.44
Less than four years of college	87	73	2.68
Four years college or more	200	123	48.20
Total χ^2 = 107.07 significant	347	347	107.07
Significant level $\chi^2_{.05\ 3d.f.} \geq 7.82$			
Income			
Under $5,000	5	30	20.83
$ 5,000 - $9,999	8	71	55.90
$10,000 - $14,999	21	102	64.32
$15,000 - $24,999	233	94	82.92
$25,000 and over	80	50	18.00
Total χ^2 = 241.97 significant	347	347	241.97
Significant level $\chi^2_{.05\ 4d.f.} \geq 9.49$			
Age			
Under 21 years	1	26	24.03
21 through 34 years	51	52	.02
35 through 44 years	62	66	.24
45 through 54 years	112	86	7.86
55 through 64 years	97	69	11.36
65 years and over	25	49	11.76
Total χ^2 = 55.27 significant	348	348	55.27
Significant level $\chi^2_{.05\ 5d.f.} \geq 11.07$			
Portfolio Size			
Under $5,000	86	43	43.00
$ 5,000 through $9,999	70	104	11.16
$10,000 through $24,999	95	70	8.93
$25,000 and over	86	120	9.63
Total χ^2 = 72.72 significant	337	337	72.72
Significant level $\chi^2_{.05\ 3d.f.} \geq 7.82$			
Occupation			
Professional and technical	164	79	91.46
Clerical and sales	34	55	8.02
Managers, officials and proprietors	64	50	3.92
Craftsmen and foremen	28	17	7.12
Operatives and laborers	2	10	6.40
Service workers	4	8	2.00
Housewives, retired persons and non-employed adults	53	128	43.95
Farmers and farm laborers	-	2	2.00
Total χ^2 = 164.87 significant	349	349	164.87
Significant level $\chi^2_{.05\ 7d.f.} \geq 14.07$			

There appears to be a concentration of members in the 45 through 64 year range. Table XVIII (d) indicates a greater number of portfolios in the smaller classification and fewer in the highest classification. Table XVIII (e) indicates fewer housewives, retired persons and non-employed adults and more professional and technical respondents in the present study than in the NYSE study.

In summary, as compared to investors surveyed by the NYSE, the respondents in the present study (1) are better-educated, (2) earn higher incomes, (3) are more concentrated in age, (4) are more professionally oriented, and (5) have a higher concentration of smaller-sized portfolios. With the possible exception of portfolio size, the evidence suggests that the respondents in the present study are at least as well-qualified to make investment decisions as investors in the NYSE study which is used as a surrogate for the total population of investors.

Although the results of the chi-square analyses indicate that the sample population is different from the population of total investors, and therefore broad generalization of the results of the study cannot be made, some important implications remain. First, since the sample population of better-educated and higher income earning individuals does not understand the differences in audit report levels A_1 through A_4, the total population of investors most likely would not understand them. Second, since these respondents rely so heavily on broker advice, the total population of investors most likely also relies on broker advice. Third, because the respondents are better-educated, they are more likely to examine financial information on the firms under consideration for investment, than investors in general.

Overall Conclusions

The study addresses itself to three major questions. First, are small private investors influenced by broker advice? Second, are they influenced by one-year financial statement forecasts? Third, are they influenced by auditor's reports on the one-year forecast?

The results of the experiment indicate that broker advice is a highly significant factor. This result is consistent with a previous questionnaire study and the a priori beliefs of the researcher.

Financial forecasts have some influence on investor decisions, but do not appear to be a cogent factor in the participants' investment decision models. The direction and the amount of significance of the forecast are difficult to predict. It depends in part on its relationship to broker advice, the type of company being evaluated, and investment alternatives.

Auditor's reports appear to be of little significance except when an adverse opinion is given on a positive forecast. However, the lack of auditor report significance may also be due to the experimental design. Each test subject was given the same type of audit report for both firms, except those receiving combination level $A_5(A_{10})$, which contained an adverse opinion for Carter and an unqualified opinion (the same as $A_4(A_9)$) for SRN. Therefore, within audit levels $A_1(A_6)$ through $A_4(A_9)$, the inability of the investor to discriminate on a basis of audit reports might be due to the fact that the same type of report were used by both firms. Perhaps the audit reports would only influence investors who might otherwise have serious reservations about the forecast of one of the two firms. Investors appear to lack an intelligent understanding of the significance of audit reports. This conclusion

raises several policy questions for the AICPA. Enlightened self-interest should suggest that action be taken to correct the situation. The first step would be to examine the problem further because several possibilities exist which may be responsible for the lack of understanding by the investor. The report wording may need improvement. Possibly the format could be improved. Maybe greater education of investors would solve the problem.

The respondents in the study were on average better-educated, more professionally oriented, higher income earners, younger and more homogeneous than surrogates to the total population of private investors. Therefore, although generalization of the study's results to all private investors is somewhat precarious, it would appear that the understanding by the respondents of the factors employed in this study must be at least as good, if not superior, to private investors in general.

CHAPTER VI

LIMITATIONS AND SUGGESTIONS FOR FURTHER RESEARCH

Although some insights have been obtained regarding private investor reactions to one-year forecasts and related auditor's reports, additional research remains. This additional research is logically divisable into two categories: (1) reducing or eliminating limitations in the present study; and (2) extending research beyond the scope of the present study.

Limitations

The limitations of the present study are in turn divisable into two categories: (1) the problems inherent in all field experiments; and (2) the possible lack of conformity of this field experiment to established criteria for this type of research methodology.

Report V of the Committee on Research Methodology in Accounting stated that the major problem of field experiments is surrogation.[1] Four characteristics of surrogation are enumerated: experimental reality, internal validity, external validity and mundane reality.

> Experimental reality refers to the degree of involvement of the subject in the experiment.... Internal

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[1] John N. Dickhaut, John Leslie Livingstone, and David J. H. Watson, "On the Use of Surrogates in Behavioral Experimentation," Chapter V in "Report of the Committee on Research Methodology in Accounting," The Accounting Review, supplement to Vol. XLVII (1972), pp. 455-71.

> validity is concerned with whether the experimental conditions, in fact, cause the observed outcomes... External validity refers to the extent to which results of the experiment can be translated and extended to situations and conditions beyond the experiment... Mundane reality refers to the attempt to include in an experiment any particular aspect of an environment on the presumption that the aspect makes the experimental environment more real...[2]

The extent to which the present study resolves these surrogation problems is discussed below.

Experimental Reality

Experimental reality has been an unsettled issue for some time. Like the studies cited in Chapter III, the test subjects used in this study were motivated only by a plea for serious involvement. The respondents spent a reasonable amount of time reviewing the financial information packet and the questionnaire, which was properly completed in almost all cases. Perhaps the respondents spent even more time reviewing the financial information in the experiment than they do in the real world.

Internal Validity

The internal validity of the study is on reasonably solid ground. A fixed factor model is used in order to provide for ease in analysis of results. The test subjects are randomly selected and randomly assigned to the various cells. Analysis of variance procedures are used to determine and analyze the test results.

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[2] Ibid., p. 458.

External Validity

As mentioned earlier, a fixed factor ANOVA model is used in this research. Along with two levels of broker advice and three levels of forecasts, the study contains five possible types of audit reports. Briefly, they were (1) a standard report on historical data, (2) a standard report with an explicit disclaimer on forecast data, and (3) a standard report with the opinion on forecast data limited to internalities, (4) a standard report with the opinion on forecast data covering both internalities and externalities and (5) a standard report with an adverse opinion on forecast data for one firm and a number (4) type opinion for the other firm.

Only an adverse opinion combined with a positive forecast caused a statistically significant reaction in the investor's decision choice. But $A_5(A_{10})$, which was the only auditor's report level to include an adverse opinion, was the only level to combine different types of audit reports for each company. All other levels incorporated the same type of auditor's report for each company. This method, of combining the same type of audit reports at each level, may cause the investors to be insensitive to the type of audit report. That is, since both firms have the same type of audit report at the other levels investors must discriminate on some other factor such as the forecast or broker advice. In addition, moving from one audit report combination level to another might only reinforce investors' prior feelings about each company rather than change them. On the other hand, since Carter appeared to be the more speculative and promised the possibility of a greater return, the a priori belief of the researcher was that the more comprehensive the audit report, the more respondents would select Carter.

Presenting test subjects in choice situations with financial statements of two firms at the same level of the independent variable has been followed in other studies. For example, Abdel-kalik used the same level of data aggregation for each firm in each choice situation;[3] Dyckman used the same level of reporting method for each firm in each choice situation.[4]

Lack of significance of the various types of audit reports could also be attributed to investor confusion caused by the wording or format. For example, the standard two-paragraph format is used at all levels except $A_2(A_7)$, which includes a middle paragraph disclaimer on the forecasted data. Therefore, a three-paragraph format was used. Other formats could have been used. For example, a four-paragraph format could have been employed for report levels $A_3(A_8)$, $A_4(A_9)$, and $A_5(A_{10})$; two paragraphs for scope and opinion on historical data could have been combined with two paragraphs for scope and opinion on forecast data. Of course, the results observed in this study may be transitory. That is, as investors become increasingly familiar with forecasts and attestations thereunto through experience or education, the results of a similar study could yield substantially different results.

Another factor held constant in the present study was the ordering of the independent experimental variables. That is, every potential respondent received the broker advice, the historical and forecasted

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[3]Ahmed Rashad Abdel-Khalik, "The Effect of Linear Aggregation of Accounting Data on the Quality of Decisions" (Unpublished Ph.D. dissertation, University of Illinois at Urbana-Champaign, 1972), p. 49.

[4]T. R. Dyckman, Investment Analysis and General Price Level Adjustments: A Behavioral Study ("Studies in Accounting Research," Vol. I; American Accounting Association, 1969), p. 5.

financial statements and the related auditor's report in almost exactly the same order. The only exception is level $A_1(A_6)$ where the forecasted statements followed after the auditor's report on the historical statements. Perhaps if this ordering was changed, the relative effect of the independent variables might also change.

The investigation of ordering effects has been carried out by several psychological studies.[5] In addition, Purdy, Smith and Gray performed a behavioral study which considered the placement of disclosure type items in reports to users. (i.e., before or after financial statements); they found that post-statement disclosure was significantly superior to pre-statement disclosure.[6] Currently, a dissertation is in progress that extends the work of Purdy, et. al. and examines the effect of audit report order on receivers' evaluations of the credibility of the financial-statement messages.[7]

The comments on format and ordering also apply to the financial statements themselves. In the data packet sent to respondents, the historical statements are presented in rather typical fashion.

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[5]For example see Charles A. Kiesler and Sara B. Kiesler, "Role of Forewarning in Persuasive Communications," Journal of Abnormal and Social Psychology, LXVIII, No. 5 (1964), pp. 547-549, and Jonathan Freedman and David O. Sears, "Warning, Distraction and Resistance to Influence," Journal of Personality and Social Psychology, I (1965), pp. 262-66.

[6]Charles R. Purdy, Jay M. Smith, and Jack Gray, "The Visibility of the Auditor's Disclosure of Deviance from APB Opinion: An Empirical Test," Empirical Research in Accounting: Selected Studies 1969 (The Institute of Professional Accounting: Graduate School of Business, University of Chicago, 1969), pp. 1-18, esp. pp. 8-9.

[7]William T. Bailey, "An Examination of the Effect of Audit Opinions on Receivers' Perceptions of Source and Content Credibility of Accounting Messages" (Dissertation Proposal, The University of Texas at Austin, 1974), pp. 10-13.

However, the forecasted statements are incorporated into the historical financial statements and presented in columnar format beside the historical numbers. Management's assumptions about the economy and its effects on the company are presented in the president's letter. Many alternative presentations could have been used, any one of which could have caused the independent variable to be more or less significant. The format used in the present study is favored by Ijiri.[8]

In the real world the broker will probably be reviewing the forecasted financial statements and summarizing this information for the investor. Accordingly, there is a probable confounding of broker and forecast variables, which is ignored in this study.

The questionnaire instructions were ambiguous regarding the possible risk level associated with the investment. That is, the test subjects were not explicitly told to consider the investment choice to pertain to a one-security portfolio or to present portfolios. However, the interpretations made should be consistent across the cells in the design and therefore should have no effect on the results.

As indicated in Chapter IV, 23.4% of the test subjects responded. The question which cannot be answered is why the remaining 76.6% did not respond. If the non-respondents reflect a group which react differently to the experimental variables, there is a non-response bias and the results of the experiment cannot be generalized. However, this problem is intrinsic to this type of research.

As indicated in Chapter V, the respondents were better educated

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[8]Yuji Ijiri, "On Budgeting Principles and Budget-Auditing Standards," The Accounting Review, XLIII, No. 4 (October 1968), pp. 662-67.

than the investor surveyed in the New York Stock Exchange study. Perhaps the 76.6% who did not respond may be less educated people who comprise the majority of private investors. But there is no reason to believe that reaction by non-respondents to the independent variables would differ from that of the respondents.

Lack of generalizability is also caused by the specificity of the experimental decision situation. However, specificity is common to behavioral research. The test subjects were asked to make an investment choice between two firms. If these firms were in different industries, other things being equal, the effect on the test subjects' choice caused by the independent variables may have been different. In addition, the test subjects made their choice at a specific point in time and under specific economic conditions. If these factors were different, the significance of the independent variables may have changed.

Only investors associated with the NAIC were selected to participate in this experiment. Therefore, statistical inference cannot be made to the total population of private investors. But as indicated in the last section of Chapter V, logical inference appears to be reasonable.

Mundane Reality

Several steps were taken to provide for mundane reality. The data packet given the test subjects contained complete financial statements, including a president's letter and a five-year summary of earnings. Test subjects were also given broker advices, supposedly the single most influential source of investing information. The broker advice variable

is not of central importance to the study per se. But, since other studies indicate that broker's advice is a significant factor influencing investor decisions, a great loss in mundane reality would have resulted if it were excluded.

Suggestions for Further Research

Topics for further research are partially suggested by the limitations of the current research. Experimentation with various formats of auditor's reports might prove very enlightening. The format of these reports should be based on the communicative and behavioral qualities of those who read them. Empirical research is needed to uncover these qualities.

The ordering of information is a separate problem intrinsically involved with format. Optimum forecast or auditor's report format is difficult to determine without considering the ordering of the separate components. For example, separation of historical and forecasted data might have a profound effect. Certainly further research is needed in this area.

Tests having greater sensitivity should be performed. Several factors affect test sensitivity. Both formatting and ordering, which are discussed above, may significantly affect sensitivity. Another facet or sensitivity is the experimental design. Two components of the experimental design need to be considered. First, increased replications under each of the factor combinations would increase statistical sensitivity. Second, the decision-state would be more sensitive if different types of audit reports were used for each of the two companies.

This study demonstrates that one-year financial forecasts and related auditor's reports do affect investor investment choices in some circumstances. Because forecasts are used in decision models by private investors, their publication by management and attestation by auditors are suggested, but both are justified only if the benefits exceed the costs. There have been several attempts to investigate the costs and benefits of providing management forecast data to investors, but definitive conclusions are lacking. Therefore, additional research is needed to determine the costs and benefits, and to whom they accrue.

APPENDICES

APPENDIX A

FINANCIAL STATEMENTS

APPENDIX A

FINANCIAL STATEMENTS

EXHIBIT A-I

Historical Financial Statements and Footnotes
for Both Companies
Level F_0

EXHIBIT A-I

SRN, INC. AND SUBSIDIARIES

FIVE YEAR SUMMARY

	1974	1973	1972	1971	1970
PER SHARE DATA:					
Net income (1)	$ 1.63	$ 1.25	$ 1.04	$ .90	$ 1.16
Dividends: Cash (2)	.31	.26	.25	.25	.25
Stock					
Shareholders' equity	10.48	9.16	8.18	7.35	6.71
REVENUES (In Thousands):					
Newspapers	$303,192	$280,362	$244,768	$231,311	$230,108
Books	122,160	122,558	108,381	106,138	101,227
Newsprint and forest products	208,496	150,721	122,441	102,059	98,140
Other	120,721	104,874	90,495	88,600	83,893
Gross revenues	754,569	658,515	566,085	528,108	513,368
Less- Intercompany product sales	48,502	47,440	42,317	40,397	40,648
Net revenues	$706,067	$611,075	$523,768	$487,711	$472,720
INCOME BEFORE INCOME TAXES (In Thousands):					
Newspapers	$ 50,483	$ 44,144	$ 40,469	$ 35,573	$ 40,550
Books	6,269	11,332	10,239	6,793	3,301
Newsprint and forest products	40,533	19,218	12,741	6,838	13,529
Other	7,355	7,660	4,321	9,387	8,449
Income before income taxes and extraordinary items	$104,640	$ 82,354	$ 67,770	$ 58,591	$ 65,829
NET INCOME (In Thousands):					
Income before income taxes and extraordinary items	$104,640	$ 82,354	$ 67,770	$ 58,591	$ 65,829
Taxes on income	49,733	40,305	32,901	28,017	31,824
Income before extraordinary items	54,907	42,049	34,869	30,574	34,005
Extraordinary items	-	-	-	(427)	4,641
Net income	$ 54,907	$ 42,049	$ 34,869	$ 30,147	$ 38,646
OTHER DATA (In Thousands):					
Cash dividends paid	$ 10,462	$ 8,951	$ 8,687	$ 7,272	$ 6,382
Volume of shares traded (2)	3,586	3,357	4,085	2,078	1,674
Adjusted common shares (3)	33,709	33,703	33,527	33,141	33,130
GENERAL:					
Shareholders at year-end	5,885	5,300	5,261	5,366	5,109
Price range of common stock (4)	25-7/8 - 15-3/4	30-3/4 - 21-7/8	26-1/4 - 19-3/8	20-1/8 - 12-1/8	24-5/8 - 18-3/4
Employees	15,961	15,293	14,812	14,384	12,249

All years adjusted to reflect poolings of interests, stock splits and stock dividends.

(1) Based upon the weighted average number of shares of Common Stock and dilutive common stock equivalents (stock options and Series A Convertible Preferred Stock) outstanding during the year.

(2) Adjusted for stock splits and stock dividends only.

(3) Common shares outstanding at year-end assuming conversion of Series A Preferred Stock.

(4) Adjusted for stock splits and stock dividends and rounded to nearest 1/8 where appropriate.

EXHIBIT A-I (cont'd.)

SRN, INC. AND SUESIDIARIES

CONSOLIDATED BALANCE SHEET

A S S E T S	May 31 1974	May 31 1973
CURRENT ASSETS:		
Cash	$ 11,694,367	$ 12,561,457
Marketable securities - Note A	49,541,627	27,540,850
Accounts receivable, less allowances for doubtful accounts and book returns, (1974 - $16,642,792; 1973 - $14,174,271)	90,785,403	85,392,568
Inventories - Notes A and C	65,392,806	64,149,448
Prepaid expenses	19,410,021	18,022,460
Total current assets	236,824,224	207,666,783
PROPERTY, PLANT AND EQUIPMENT - Note A:		
Buildings	86,083,013	79,146,484
Machinery and equipment	224,556,702	206,290,026
	310,639,715	285,436,510
Less allowances for depreciation and amortization	135,142,581	122,825,590
	175,497,134	162,610,920
Land	15,244,761	15,183,988
Timberlands, less depletion	50,396,722	35,609,923
	241,138,617	213,404,831
OTHER ASSETS:		
Goodwill - Note A	31,270,672	24,837,834
Deferred charges	17,296,201	17,573,784
Sundry other assets	17,986,428	15,679,522
	66,553,301	58,091,140
	$544,516,142	$479,162,754

LIABILITIES AND SHAREHOLDERS' EQUITY	May 31 1974	May 31 1973
CURRENT LIABILITIES:		
Accounts payable	$ 62,490,586	$ 52,338,876
Salaries, wages and amounts withheld from employees	19,753,602	17,623,570
Income taxes - Note D	13,483,756	10,927,096
Other taxes	4,847,499	4,358,318
Portion of long-term debt payable within one year	5,275,460	4,414,600
Total current liabilities	105,850,903	89,662,460
LONG-TERM DEBT - Note E	48,824,189	49,857,453
DEFERRED CREDITS:		
Unearned income	12,942,522	11,650,659
Income taxes - Note D	18,362,560	14,861,658
Deferred compensation	5,240,230	4,317,611
	36,545,312	30,829,928
SHAREHOLDERS' EQUITY - Notes E, F, G and H:		
Convertible preferred stock	1,262,004	1,389,368
Common stock	31,209,341	31,076,029
Additional paid-in capital	31,145,639	31,112,911
Retained earnings	289,678,754	245,234,605
	353,295,738	308,812,913
CONTINGENT LIABILITIES AND COMMITMENTS - Notes I and J		
	$544,516,142	$479,162,754

See notes to financial statements.

EXHIBIT A-I (cont'd.)

SRN, INC. AND SUBSIDIARIES

STATEMENT OF CONSOLIDATED INCOME AND RETAINED EARNINGS

	Year Ended May 31	
	1974	1973
REVENUES:		
Operating revenues	$695,959,447	$605,171,816
Other income	10,107,119	5,903,341
	706,066,566	611,075,157
COSTS AND EXPENSES:		
Cost of sales	431,882,883	381,228,803
Selling, administrative and general expenses	138,632,175	121,761,829
Provision for depreciation, amortization and depletion - Note A	28,300,309	23,019,746
Interest on long-term debt	2,611,518	2,710,502
	601,426,885	528,720,880
Income before income taxes	104,639,681	82,354,277
INCOME TAXES - Notes A and D:		
Federal	42,119,871	36,018,607
State	7,613,228	4,286,754
	49,733,099	40,305,361
Net income	54,906,582	42,048,916
RETAINED EARNINGS, at beginning of year	245,234,605	212,186,039
	300,141,187	254,234,955
CASH DIVIDENDS PAID:		
Common stock ($.31 a share 1974, $.26 a share 1973)	(9,691,650)	(8,106,591)
Convertible preferred stock, Series A - $.70 a share	(770,783)	(828,509)
Convertible preferred stock, Series B - $25.00 a share	-	(65,250)
	(10,462,433)	(9,000,350)
RETAINED EARNINGS, at end of year	$289,678,754	$245,234,605
EARNINGS PER SHARE - Note K	$1.63	$1.25

See notes to financial statements.

EXHIBIT A-I (cont'd.)

SRN, INC. AND SUBSIDIARIES

STATEMENT OF CONSOLIDATED CHANGES IN FINANCIAL POSITION

	Year Ended May 31	
	1974	1973
SOURCE OF FUNDS:		
From operations-		
Net income	$54,906,582	$42,048,916
Add charges not requiring outlay of of funds-		
Depreciation, amortization and depletion - Note A	28,300,309	23,019,746
Noncurrent deferred income taxes	3,500,902	3,497,045
Total from operations	86,707,793	68,565,707
Increase in other deferred credits	2,214,482	2,596,057
Increase in long-term debt	8,228,487	3,253,994
Issuance of Common Stock under executive stock option and restricted stock plans, net of shares repurchased - Notes G and H	38,928	4,037,991
Net book value of property, plant and equipment sold	2,610,847	2,417,214
Total source of funds	99,800,537	80,870,963
APPLICATION OF FUNDS:		
Net noncurrent assets of business purchased (A)	20,223,980	5,500,000
Purchase of property, plant and equipment	45,104,015	41,155,102
Decrease in long-term debt	9,556,533	9,099,702
Redemption of Convertible Preferred Stock, Series B	-	2,610,000
Cash dividends paid	10,462,433	8,951,350
Other - net	1,484,578	866,625
Total application of funds	86,831,539	68,182,779
INCREASE IN WORKING CAPITAL (B)	$12,968,998	$12,688,184
(A) The net noncurrent assets of businesses purchased at dates of acquisition are summarized as follows - Note B		
Property, plant and equipment	$12,477,139	$ -
Goodwill	8,020,693	4,269,229
Other assets (liabilities)	(273,852)	1,230,771
	$20,223,980	$ 5,500,000
(B) The increase (decrease) in working capital is summarized as follows		
Current assets-		
Cash and marketable securities	$21,133,687	$ 2,251,063
Accounts receivable	5,392,835	8,391,584
Inventories	1,243,358	3,104,593
Prepaid expenses	1,387,561	2,259,714
	29,157,441	16,006,954
Current liabilities-		
Accounts payable	(10,151,710)	(5,058,291)
Salaries, wages and amounts withheld from employees	(2,130,032)	(2,789,236)
Income taxes	(2,556,660)	3,627,443
Other taxes	(489,181)	44,244
Portion of long-term debt payable within one year	(860,860)	857,070
	(16,188,443)	(3,318,770)
INCREASE IN WORKING CAPITAL	$12,968,998	$12,688,184

See notes to financial statements.

EXHIBIT A-I (cont'd.)

NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION The consolidated financial statements include the accounts of the Company and all subsidiaries except European subsidiaries (accounted for on the equity method) whose assets and operations are not material. All significant intercompany profits, transactions and account balances have been eliminated in consolidation.

MARKETABLE SECURITIES Marketable securities are carried at cost which approximates market at the respective balance sheet dates.

INVENTORIES Inventories are priced generally at the lower of cost (first-in, first-out method) or market.

PROPERTY, PLANT AND EQUIPMENT Property, plant and equipment are carried on the basis of cost. Generally, depreciation is provided (1) on the straight-line method for buildings, machinery and equipment acquired prior to 1954 and subsequent to 1967, and (2) on accelerated methods for new buildings, machinery and equipment acquired between January 1, 1954 and December 31, 1967. Depletion of timberlands is provided on the unit-of-production method based upon estimated recoverable timber. Depreciation, amortization and depletion have been provided for in amounts sufficient to amortize the cost of the related assets over their estimated useful lives.

GOODWILL Goodwill is considered to be an intangible asset with an indefinite life and is not being amortized, except for $12,106,354 at December 31, 1973 and $4,229,126 at December 31, 1972 (net of amortization of $176,067 and $40,103 respectively) arising subsequent to October 31, 1970, which is being amortized over a period of 40 years.

INVESTMENT CREDIT The investment tax credit is recognized on the flow-through method as a reduction of the provision for federal income taxes.

BOOK AND MAGAZINE REVENUE Revenues from book sales, less provisions for estimated returns, are recorded at the time of shipment. Revenues from magazine subscriptions are deferred as unearned income at the time of sale. As magazines are delivered to subscribers, the proportionate share of the subscription price is taken into revenue. Subscription selling expenses are deferred and amortized to expense over the same period that the related subscription income is recorded as earned.

EMPLOYEE RETIREMENT PLANS The Company has various retirement plans covering substantially all employees. The costs charged to earnings relative to such plans include current service costs and the amortization of past service costs over periods ranging from ten to twenty-five years. It is the Company's policy to fund substantially all pension costs accrued.

NOTE B - ACQUISITIONS AND DISCONTINUED OPERATIONS In transactions accounted for as purchases in fiscal 1974, the Company acquired a television station (KSBB-TV) in Dallas, Texas and certain assets (principally timberlands) in Washington for an aggregate cost of $20,760,148. Operations of the acquired businesses have been included in consolidated operations since dates of acquisition. Assuming that the acquisitions had been consummated on June 1, 1972, the effect on 1974 and 1973 consolidated revenues and net income would not have been material.

EXHIBIT A-I (cont'd.)

During fiscal 1974 The Zenith Publishing Company, a wholly-owned subsidiary, discontinued, sold or agreed to sell a substantial portion of its business, resulting in unusual write-downs and losses of $6,836,000, less applicable income tax credits of $3,282,000. Included in fiscal 1974 consolidated operations are revenues and net loss applicable to Zentih of $11,251,000 and $5,185,000 respectively.

NOTE C - INVENTORIES A summary of inventories follows:

	May 31	
	1974	1973
Newsprint and paper	$10,063,545	$ 7,938,583
Books and other finished products	22,102,458	27,918,204
Lumber, veneer and plywood	3,445,556	1,458,124
Work in process	7,788,028	7,913,151
Raw materials and logs	21,993,219	18,921,386
	$65,392,806	$64,149,448

NOTE D - INCOME TAXES The Company reports certain income and expense items in different years for financial and tax reporting purposes. Such items relate principally to depreciation and amortization, magazine subscription expenses, deferred compensation, book returns, and prepaid compensation related to the sale of restricted stock and the 1972 Executive Stock Option Plan. Provisions for income taxes for 1974 and 1973 include amounts deferred of $824,000 and $3,095,000. Tax provisions have been reduced $1,119,000 and $1,653,000 for investment tax credits.

NOTE E - LONG-TERM DEBT AND DIVIDEND RESTRICTIONS Long-term debt, exclusive of amounts payable within one year, consisted of the following

	May 31	
	1974	1973
4 1/2% Sinking Fund Debentures due June 1, 1991	$33,685,000	$34,745,000
Note payable, due $800,000 annually through 1979 and $1,000,000 on May 1, 1980, plus interest at 6%	5,100,000	5,900,000
Publishing contracts without interest and no fixed term	2,434,234	3,168,376
Other, maturing through 1993 with interest from 3% to 9%	7,604,955	6,044,077
	$48,824,189	$49,857,453

The Debentures are redeemable at the option of the Company in whole or in part at any time, upon not less than 30 days' notice. Redemption prices (102.10% prior to June 1, 1974) decrease periodically to no premium after 1984. The Company is required to pay into a sinking fund a sum sufficient to retire on June 1, in each year 1974 through 1989, $1,675,000 principal amount of Debentures, and may pay an additional sum of up to $1,675,000 into the sinking fund in each of these years. As of May 31, 1974, the Company had repurchased $2,965,000 of Debentures on the open market thus satisfying the sinking fund requirement in full for fiscal 1974 and in part for fiscal 1975.

EXHIBIT A-I (cont'd.)

The Indenture relating to the Debentures places certain restrictions on the incurrence of funded debt and other indebtedness, on the acquisition of the Company's own stock and on the payment of cash dividends. At May 31, 1974, retained earnings in the approximate amount of $88,800,000 were available for the payment of cash dividends.

NOTE F - CAPITAL STOCK Authorized and outstanding shares of capital stock at May 31, 1974 and 1973 are as follows:

	Authorized	Outstanding 1974	Outstanding 1973
Convertible preferred stock, without par value Series A - convertible into 2.222 shares of common stock redemption and liquidation value at $50.00 a share (aggregate value $52,294,300 at May 31, 1974), cumulative annual dividend rate at $.70 a share	4,500,000	1,045,886	1,151,439
Common stock, without par value	40,000,000	31,385,264	31,144,538

Convertible Preferred Stock is issuable in series under such terms and conditions as the Board of Directors may determine. The holders of Series A possess full voting rights at the rate of one vote per share.

At May 31, 1974, 2,760,708 shares of Common Stock were reserved for conversion of preferred shares and for stock option and restricted stock plans.

NOTE G - STOCK OPTIONS The executive stock option plans adopted prior to 1971 are qualified plans and provide that options may be granted to key executive employees to purchase shares of the Company's Common Stock at a price at least equal to the fair market value of the Stock at date of grant. The 1971 Executive Stock Option Plan (a non-qualified plan) provides that options may be granted to key executive employees to purchase shares of the Company's Common Stock at a price at least equal to 75% of the fair market value at the date of grant. In general, the options under all plans are not exercisable until one year after date of grant and thereafter are exercisable in whole or in increments over a period not to exceed five years, dependent upon the terms of each option.

The following tabulation sets forth information for the years 1974 and 1973 relative to the plans:

	Number of Shares 1974	Number of Shares 1973	Option Price Per Share 1974	Option Price Per Share 1974
At beginning of year:				
Options outstanding	212,530	408,256	12.13 to 29.81	12.13 to 26.25
Changes during the year:				
Options granted	90,716	2,000	16.63 to 22.25	26.13 to 29.81
Options exercised	7,200	179,976	17.44 to 20.25	12.13 to 26.25
Options cancelled	95,980	17,750	17.44 to 25.25	17.35 to 26.25
At end of year:				
Options outstanding*	200,066	212,530	12.13 to 29.81	12.13 to 29.81

**Includes 120,250 and 187,330 shares exercisable at May 31, 1974 and 1973

EXHIBIT A-I (cont'd.)

In addition, at May 31, 1974, there were 105,684 shares reserved for future grants under executive stock option plans.

Accounting entries are made only when options are exercised under the qualified plans. For options granted under the 1971 Plan, the difference between the market price and the option price is charged to operations over the period from the date of grant until the option becomes exercisable. Operations were charged $13,931 and $191,133 in 1974 and 1973 for such grants.

NOTE H - RESTRICTED STOCK PLAN The 1971 Restricted Stock Plan provides for the sale to key executive employees of a maximum of 230,000 shares of the Company's Common Stock at a price not less than five cents a share. The stock received by the employee may not be sold or encumbered until all restirctions are terminated or expired. The restrictions are for a period of five years and are removed annually in cumulative 25% increments commencing after the second anniversary from the date of sale. Under the Plan, the Company (1) sold 2,500 shares in 1973 and (2) repurchased 1,000 shares in 1974 and 6,500 shares in 1973. At May 31, 1974, 131,000 shares were reserved for future sale. The difference between the sale price and fair market value of the stock is charged to operations over the period during which restrictions are in effect. In connection with the Plan, operations were charged $460,749 in 1974, and $450,343 in 1973.

NOTE I - EMPLOYEE RETIREMENT PLANS Total cost for employee retirement plans for 1974 and 1973 amounted to $10,434,000 and $8,475,000. As of May 31, 1974 and 1973, the actuarially computed value of vested benefits for certain plans exceeded the total of the related pension funds by $3,239,000 and $3,127,000. All other plans are fully funded.

NOTE J - LEASES Total rental expense for all leases for 1974 and 1973 amounted to $6,134,719 and $5,898,200. The future minimum rental commitments as of May 31, 1974 for all noncancelable leases are as follows:

	Building and Office Space	Machinery and Equipment
1975	$ 2,287,239	$ 905,341
1976	1,977,464	895,278
1977	1,819,409	783,075
1978	1,670,825	109,760
1979	1,596,222	60,212
1980 - 1984	7,143,318	3,300
1985 - 1989	4,537,624	3,300
1990 - 1994	594,310	3,300
Thereafter	1,965,636	—
	$23,592,047	$2,763,566

NOTE K - EARNINGS PER SHARE Earnings per share computations are based upon the weighted average number of shares of Common Stock and dilutive common stock equivalents (stock options and Series A Convertible Preferred Stock) outstanding during the year. Fully diluted earnings per share are the same as the earnings per share indicated.

EXHIBIT A-I (cont'd.)

CARTER COMMUNICATIONS COMPANY AND SUBSIDIARIES

FIVE YEAR SUMMARY

	1974	1973	1972	1971	1970
OPERATING RESULTS:					
Net revenues-					
Broadcasting	$38,067,581	$32,798,164	$31,965,974	$32,904,098	$31,385,000
Amusement park	17,348,823	5,699,995	5,587,617	4,834,926	-
Television and motion picture production and distribution	15,058,093	14,629,887	10,773,866	11,684,848	10,534,416
Other	50,543	293,082	471,187	309,844	263,101
Total net revenues	$70,525,040	$53,421,128	$48,798,644	$49,733,716	$42,182,517
Operating profit-					
Broadcasting	$16,246,155	$13,021,839	$12,638,974	$13,584,973	$13,059,247
Amusement park	4,612,502	1,881,181	1,366,973	901,402	-
Television and motion picture production and distribution	1,749,513	1,384,182	1,564,605	1,758,740	1,318,783
Other, including share of loss in partnerships	(868,226)	46,246	(36,544)	(36,768)	(42,871)
Corporate expenses, unallocated	(2,009,433)	(1,628,781)	(1,496,655)	(1,434,675)	(1,261,731)
Operating profit	$19,730,511	$14,704,667	$14,037,353	$14,773,672	$13,073,428
Earnings before extraordinary items	$10,331,209	$ 7,484,316	$ 6,675,219	$ 6,750,420	$ 6,095,827
Net earnings	$11,417,664	$ 7,484,316	$ 6,675,219	$ 6,944,317	$ 6,095,827
Dividends declared	$ 2,394,415	$ 2,224,623	$ 2,227,506	$ 2,159,177	$ 2,078,123
Earnings per common and common equivalent share before extraordinary items	$2.53	$1.95	$1.80	$1.85	$1.76
Net earnings per common and common equivalent share	$2.79	$1.95	$1.80	$1.90	$1.76
Average number of common and common equivalent shares	4,147,036	3,845,162	3,712,692	3,645,809	3,463,538
Dividends declared per common share	$.60	$.60	$.60	$.60	$.60
OTHER STATISTICS:					
Depreciation	$ 4,349,886	$ 2,541,822	$ 2,648,090	$ 2,675,661	$ 2,306,419
Interest on long-term debt	$ 2,153,120	$ 1,046,624	$ 1,361,855	$ 1,361,088	$ 1,031,432
Capital expenditures	$15,934,984	$18,848,585	$11,911,565	$ 7,584,909	$ 5,493,867
Common shares outstanding at end of year	4,095,542	3,703,707	3,706,838	3,712,033	3,600,072
Number of stockholders at end of year	5,615	5,338	5,627	5,339	5,168

EXHIBIT A-I (cont'd.)

CARTER COMMUNICATIONS COMPANY AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

MAY 31, 1974 WITH COMPARATIVE FIGURES FOR 1973

A S S E T S	1 9 7 4	1 9 7 3
CURRENT ASSETS:		
Cash, including certificates of deposits of $6,146,915 at May 31, 1974	$ 12,574,473	$ 2,298,059
Receivables, less allowance for doubtful accounts of $270,000 ($245,000 in 1973)	9,587,828	7,618,551
Television and feature films, at cost less amortization	17,813,877	12,767,013
Film contract rights	10,696,382	8,766,541
Federal income tax receivable	-	1,827,200
Prepaid expenses and miscellaneous current assets (Note 5)	2,983,094	1,803,272
Total current assets	53,655,654	35,080,636
PROPERTY AND EQUIPMENT, at cost (Notes 3, 6 and 11(A)):		
Land and improvements	7,346,341	6,560,754
Buildings	26,658,039	5,854,348
Operating and other equipment	35,333,867	20,830,840
Leasehold improvements	383,419	427,771
Installations in progress	4,452,567	26,265,567
	74,174,233	59,939,280
Less- Accumulated depreciation	19,433,431	15,821,622
Net operating property and equipment	54,740,802	44,117,658
Land, buildings and equipment held for sale or development, at cost less accumulated depreciation of $2,288,558 ($2,292,585 in 1973)	1,555,798	1,610,326
Net property and equipment	56,296,600	45,727,984
CONTRACTS, BROADCASTING LICENSES AND GOODWILL, at cost (Notes 2 and 11(C))	35,795,846	36,022,502
DEFERRED CHARGES AND PRE-OPENING EXPENSES, at cost less accumulated amortization (Notes 4 and 8)	3,447,928	3,442,844
FILM CONTRACT RIGHTS	3,636,666	-
OTHER ASSETS, at cost (Note 2)	4,259,804	762,254
	$157,092,498	$121,036,220

LIABILITIES AND STOCKHOLDERS' EQUITY	1 9 7 4	1 9 7 3
CURRENT LIABILITIES:		
Notes payable, unsecured	$ -	$ 5,000,000
Long-term debt, current portion (Note 6)	2,512,750	3,555,307
Accounts payable	3,628,427	3,410,336
Accrued expenses	3,405,034	3,068,576
Income taxes (Note 5)	5,865,095	1,109,921
Film contracts payable, current portion (Note 7)	3,951,857	2,913,060
Deferred revenue	6,759,357	3,431,637
Total current liabilities	26,122,520	22,488,837
LONG-TERM DEBT, less current portion (Note 6)	30,719,000	31,809,050
FILM CONTRACTS PAYABLE, less current portion (Note 7)	7,185,000	3,212,000
DEFERRED INCOME TAXES (Note 5)	5,859,500	3,183,716
MINORITY INTEREST (Note 2)	2,007,845	-
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 2 and 11)		
STOCKHOLDERS' EQUITY (Notes 6, 8 and 9):		
Common stock, par value $.50 per share; authorized 5,000,000 shares; issued 4,112,861 (3,721,026 shares in 1973)	2,056,431	1,860,513
Additional paid-in capital	24,848,794	9,211,945
Retained earnings	58,306,221	49,282,972
	85,211,446	60,355,430
Less- Treasury stock, at cost - 17,319 shares	12,813	12,813
Total stockholders' equity	85,198,633	60,342,617
	$157,092,498	$121,036,220

See accompanying Note 1 for significant accounting policies and other notes to consolidated financial statements.

CARTER COMMUNICATIONS COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS

YEAR ENDED MAY 31, 1974 WITH COMPARATIVE FIGURES FOR 1973

	1974	1973
NET REVENUES:		
Operating	$70,474,497	$53,128,046
Other	50,543	293,082
Total net revenues	70,525,040	53,421,128
OPERATING COSTS AND EXPENSES:		
Broadcasting, production and distribution, amusement park and other costs	32,030,944	24,217,346
Selling, general and administrative	14,413,699	11,957,293
Depreciation	4,349,886	2,541,822
Total operating costs and expenses	50,794,529	38,716,461
OPERATING PROFIT	19,730,511	14,704,667
OTHER DEDUCTIONS, net:		
Interest — long-term debt	2,153,120	1,046,624
Miscellaneous expense (income), net	(717,818)	65,727
	1,435,302	1,112,351
EARNINGS BEFORE INCOME TAXES AND EXTRAORDINARY ITEM	18,295,209	13,592,316
INCOME TAXES (Note 5)	7,964,000	6,108,000
EARNINGS BEFORE EXTRAORDINARY ITEM	10,331,209	7,484,316
EXTRAORDINARY ITEM - gain on sale of radio stations, net of applicable income taxes of $547,000 (Notes 2 and 5)	1,086,455	-
NET EARNINGS	11,417,664	7,484,316
RETAINED EARNINGS, at beginning of year	49,282,972	44,023,279
	60,700,636	51,507,595
DIVIDENDS DECLARED, $.60 per common share	2,394,415	2,224,623
RETAINED EARNINGS, at end of year	$58,306,221	$49,282,972
EARNINGS PER COMMON AND COMMON EQUIVALENT SHARE (Note 1(J)):		
Earnings before extraordinary item	$2.53	$1.95
Extraordinary item, net of taxes	.26	-
Net earnings	$2.79	$1.95

See accompanying Note 1 for significant accounting policies and other notes to consolidated financial statements.

CARTER COMMUNICATIONS COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

YEAR ENDED MAY 31, 1974 WITH COMPARATIVE FIGURES FOR 1973

	1974	1973
SOURCE OF FUNDS:		
Earnings before extraordinary item	$10,331,209	$ 7,484,316
Charges against earnings not requiring funds-		
Depreciation	4,349,886	2,541,822
Deferred income taxes	2,185,784	3,183,716
Other noncash items, net	1,153,866	117,629
Funds derived from operations before extraordinary item	18,020,745	13,327,483
Funds derived in connection with extraordinary item-		
Net proceeds	1,962,692	-
Less long-term note received on sale (Note 2)	1,650,000	-
Funds derived from extraordinary item	312,692	-
Funds derived from operations	18,333,437	13,327,483
Issuance of long-term debt	1,637,215	12,644,963
Increase in film contracts payable, long-term, net	3,973,000	1,145,000
Proceeds from issuance of common stock through public offering (Note 9)	12,897,546	-
Issuance of common stock through exercise of warrants (Note 9)	1,600,030	-
Decrease in contracts, broadcasting licenses and goodwill	-	1,386,548
Retirements of property and equipment	131,981	357,797
Increase in minority interest	2,007,845	-
Other	1,115,552	538,950
	$41,696,606	$29,400,741
APPLICATION OF FUNDS:		
Dividends	$ 2,394,415	$ 2,224,623
Additions to property and equipment	15,934,984	18,848,585
Reduction of long-term debt	2,527,265	3,285,983
Increase in deferred charges and pre-opening expenses	554,272	1,919,782
Advances to joint venture partnerships (Note 2)	1,204,464	-
Increase in film contract rights, non-current	3,636,666	-
Other	503,205	-
Increase in working capital	14,941,335	3,121,768
	$41,696,606	$29,400,741
CHANGES IN WORKING CAPITAL:		
Increase (decrease) in current assets-		
Cash	$10,276,414	$ (885,981)
Receivables	1,969,277	1,577,279
Television and feature films	5,046,864	415,186
Film contract rights	1,929,841	2,140,266
Federal income tax receivable	(1,827,200)	1,827,200
Benefit of net operating loss carryover	-	(1,182,000)
Prepaid expenses and miscellaneous	1,179,822	1,048,381
	18,575,018	4,940,331
Increase (decrease) in current liabilities-		
Note payable	(5,000,000)	969,941
Long-term debt, current portion	(1,042,557)	(938,277)
Accounts payable and accrued expenses	554,549	1,616,663
Income taxes	4,755,174	(159,306)
Film contracts payable, current portion	1,038,797	569,292
Deferred revenue	3,327,720	(239,750)
	3,633,683	1,818,563
Increase in working capital	$14,941,335	$ 3,121,768

See accompanying Note 1 for significant accounting policies and other notes to consolidated financial statements.

NOTES TO FINANCIAL STATEMENTS

(1) Summary of Significant Accounting Policies

(A) PRINCIPLES OF CONSOLIDATION - The consolidated financial statements include the accounts of the Company and all of its significant subsidiaries. All material intercompany transactions and balances have been eliminated. Investments in partnerships are carried at cost less the Company's shares of losses since the dates of organization.

(B) TELEVISION AND FEATURE FILMS - Substantially all of the costs of completed films produced, less nominal residual value, are amortized by charges to earnings in the proportion that the net revenues received for each series bears to the estimated total of such revenues to be received. Estimates of net revenues are reviewed periodically and amortization is adjusted accordingly. Unamortized film costs have been classified as a current asset in accordance with industry practice although these costs will be charged to operations over a period of more than one year. At May 31, 1974, television and feature films includes films in production of $1,315,670 ($5,485,626 in 1973).

Revenues received from television networks are taken into income substantially on the dates the films are telecast. The advance film rentals (included in deferred revenue in the consolidated balance sheet) are required to be reported for income tax purposes when received (see note 1 (C) below). Revenues earned subsequent to the network telecasts of these films and revenues from syndicated films are recorded when reported by the distributors.

(C) FILM CONTRACT RIGHTS - Film contract rights acquired for television are stated at cost, less amortization. Since these costs are charged to operations based substantially on the number of runs to be shown, it is not practical to determine the portion of this amount which will not be charged to operations within one year. Accordingly, the costs of film contract rights which are currently available for use have been classified as current assets. The costs of contracts which are unavailable for use until after May 31, 1975, have been classified as non-current assets.

(D) PROPERTY AND EQUIPMENT - Approximately 41 percent of the major classes of depreciable assets at May 31, 1974 are depreciated on the straight-line method and the remainder on accelerated methods.

The major classes of depreciable assets are depreciated by the Company over the following periods:

Land improvements	8-20 years
Buildings	8-33 years
Operating and other equipment	3-20 years
Leasehold improvements	Life or lease

The policy is to charge maintenance, repairs and minor renewals of property and equipment to operations as incurred. Additions and betterments are capitalized. On disposal or retirement of property and equipment, the cost and the accumulated depreciation are eliminated from the accounts and gain or loss on the transactions is reflected in the consolidated statement of earnings.

(E) CONTRACTS, BROADCASTING LICENSES AND GOODWILL - Contracts, broadcasting licenses and goodwill are stated at cost and represent the excess of the consideration paid for the business and net assets of certain operating divisions and subsidiaries over the amounts assigned to the net tangible assets acquired. It is the opinion of management that the intangible assets are reasonably stated and that there is no present indication that their value has diminished. The Company does not intend to amortize or write-off any portion of these intangibles until such time as a decrease in their value becomes evident.

(F) PRE-OPENING EXPENSES - The Company has deferred pre-opening expenses incurred in connection with the planning and supervision of the construction of the amusement park at Picnic Island. Such costs are being amortized over a five year period beginning June 1, 1973.

(G) INCOME TAXES - Investment tax credits are recorded as a reduction of Federal income taxes when realized.

The Company provides deferred income taxes for timing differences in reporting certain transactions for Federal income tax returns and financial statements consisting principally of: (1) pre-opening expenses and interest incurred during construction periods; (2) depreciation of property and equipment; (3) amortization of television and feature films; and (4) advance film rentals.

(H) DEBT DISCOUNT - Debt discount and other expenses including the value assigned to warrants incurred in connection with certain borrowings (see note 6) are included in deferred charges in the consolidated balance sheet and are being amortized over the term of the notes.

(I) CAPITALIZED INTEREST - The Company capitalizes interest incurred on the financing of capital additions during the construction period. For Federal income tax purposes, such interest in treated as a deduction as incurred.

(J) EARNINGS PER SHARE - Net earnings per common and common equivalent share have been computed on the basis of the weighted average number of common shares outstanding during the year and assuming the exercise as of the beginning of the year of all stock options and warrants which were dilutive. The proceeds from the exercise of stock options have been assumed to be used to purchase shares of the Company's common stock at the average market price during the period and in the case of warrants, retirement of debt. Net earnings attributable to common and common equivalent shares for the year ended May 31, 1974, have been adjusted for interest expense of approximately $168,000 relating to the assumed retirement of debt.

Fully dilutive earnings per share are not set forth separately in the consolidated statements of earnings for the reason that the resulting per share amounts would be identical to those presented as earnings per common and common equivalent share.

(K) PENSION COSTS - The Company's policy is to fund pension costs, which are not material, as determined by actuarially accepted methods.

(2) ACQUISITIONS AND DISPOSITIONS

The Company entered into two partnerships for the construction and operation of a golf center and a motor lodge as part of the Picnic Island recreational complex in June, 1971. These investments and advances amounting to $1,615,485 at May 31, 1974 are included in other assets in the consolidated balance sheet. The Company has guaranteed borrowings of such partnerships aggregating $3,575,000 at May 31, 1974.

The Company and Leisure Enterprises, Inc., formed Leisure Centers, Inc., a consolidated joint venture corporation, in May, 1973 to engage in the planning, construction and operation of amusement parks. The joint venture corporation is in the planning and construction stages, and has no operations. The Company owns approximately 51% of the voting stock (50% of the total issued stock), and the joint venture corporation has been consolidated in the accompanying financial statements (see note 11 (B)).

In August, 1973, the Federal Communications Commission approved the transfer of licenses and the sale of certain assets of the Company's radio division in Richmond, Virginia for $2,050,000. The Company received a cash down payment of $400,000 and notes of $1,650,000, due in four annual installments of increasing amounts commencing September 1, 1975. The operations of the radio division, which were not significant during any period, have been included in the consolidated statement of earnings to August 31, 1973. The notes, which bear interest at 1% above the prime rate, are included in other assets in the accompanying consolidated balance sheet (see note 5).

(3) PROPERTY AND EQUIPMENT

After October 30, 1972, the Company discontinued the operations of Firewoods Amusement Park. The capital assets not disposed of or moved to Picnic Island have been stated separately in the consolidated balance sheet as land, buildings, and equipment held for sale or development.

(4) PRE-OPENING EXPENSES

In connection with the planning and supervision of the construction of Picnic Island, the Company deferred pre-opening costs of approximately $2,275,000 including $405,000 incurred during the year ended May 31, 1974. Amortization of pre-opening costs amounted to $455,000 for the year ended March 31, 1974

(5) FEDERAL INCOME TAXES

Deferred Federal income credits and charges relating to differences of amortization methods used for income tax returns and financial statements on television and feature films and reporting advance film rental income earlier for Federal income tax purposes and certain other timing differences have been classified as a current liability at May 31, 1973 and a prepaid expense at May 31, 1974.

In connection with the sale of the Richmond radio division, the Federal Communications Commission has certified that the sale of the stations was done to effectuate a change in policy or to adopt a new policy with respect to the ownership of the radio stations. The effect of this certification is to enable the Company to elect to defer for Federal income tax purposes any gain realized upon the sale if the proceeds are reinvested within two years after March 31, 1974 in property similar in nature or in stock of a corporation which owns assets similar to those sold. The Company has provided deferred Federal income taxes of $490,000 on the gain recognized for accounting purposes.

The detail of income taxes is as follows:

	Year ended March 31	
	1974	1973
Federal:		
Current	$6,527,000	$2,248,000
Less - investment tax credit	1,180,000	770,000
	5,347,000	1,478,000
Deferred	1,346,000	4,125,000
	6,693,000	5,603,000
State and city	1,271,000	505,000
	$7,964,000	$6,108,000

(6) LONG-TERM DEBT

Long-term debt at May 31, 1974, is summarized as follows:

Notes payable:	
5 3/8%, payable in semi-annual installments of $1,100,000	$14,300,000
7 3/4%, payable in semi-annual installments of $750,000 commencing January 1, 1978	14,800,000
Mortgage note payable, bearing interest at 9%, payable in quarterly installments of principal and interest of $63,065 through December, 1998. All amounts of principal and interest remaining unpaid at December 1, 1998 shall be paid on such date. The note is secured by land and building having a cost of $2,945,307 at May 31, 1974	2,493,185
Other obligations payable in various monthly or annual installments, with interest rates ranging from approximately 6% to 10%	1,638,565
	33,231,750
Less current portion	2,512,750
	$30,719,000

The non-current portion of long-term debt due in the four years succeeding May 31, 1975, is approximately $2,397,000, $2,289,000, $3,044,000 and $3,036,000, respectively.

In connection with the 7 3/4% notes, the Company issued warrants entitling the holders to purchase 200,000 shares of common stock of the Company for $30 per share. At May 31, 1974, warrants for the purchase of 139,999 common shares remain outstanding.

The agreements on the 5 3/8%, 7 3/4% and 9% notes contain certain restrictions, including restrictions on the payment of dividends on the Company's stock (other than dividends payable solely in stock of the Company), on the amounts which may be used for the purchase, redemption, or retirement of the Company's stock, and on unliquidated amounts of investments as defined in the agreements. Under the most restrictive covenants, approximately $4,250,000 of retained earnings was free of these restrictions at May 31, 1974.

(7) FILM CONTRACTS PAYABLE

Film contracts payable are non-interest bearing and the non-current portion due in the years succeeding May 31, 1975 is $3,245,000 in 1976, $2,480,000 in 1977, $1,219,000 in 1978 and $241,000 after 1979.

(8) STOCK OPTIONS AND BONUS PLANS

In 1968, the stockholders approved a Stock Option Plan expiring in 1978, which provided for the granting of options to officers and key employees to purchase 50,000 shares of the Company's common stock at a price not less than the fair market value on the date granted. Options may be exercised one year after the date granted and expire after five years. However, any person who has been granted options on more than one date, cannot exercise the later options until previously unexercised options granted at a higher price are exercised. During the year ended May 31, 1974, 4,500 options were granted at prices ranging from $53.25 to $56.50 (251,000 in the aggregate), and 29,700 options were exercised at prices ranging from $15.88 to $35.13 ($1,017,288 in the aggregate). The fair value range per share and the aggregate value on the dates options were exercised, for options exercised during the year, was $47.50 to $58.56 and $1,635,550, respectively. Options for 1,400 shares expired during the year. At May 31, 1974, options to purchase 16,800 shares were outstanding having option prices ranging from $15.88 to $56.50, and 400 shares were available for granting of options.

In June, 1970, the stockholders approved a Stock Bonus Plan and a Restricted Stock Plan. The Stock Bonus Plan provides for issuance of a maximum of 4,500 shares of common stock annually over a ten year period and the Restricted Stock Plan provides for the issuance of a maximum of 50,000 shares of common stock to officers and key employees. The Company issued 2,134 shares under the Stock Bonus Plan in the year ended May 31, 1974 (2,869 in 1973).

In the fiscal year 1971, the Company issued 38,500 shares under the Restricted Stock Plan. The shares issued were valued at 85% of the market value on the date issued less the par value of the common stock paid therefore, aggregating $1,173,167 and is considered as deferred compensation to be expensed over an eight year period (amortization for the year ended May 31, 1974 amounted to $102,405). At May 31, 1974, the unamortized deferred compensation amounted to $400,000 and is included in deferred charges and pre-opening expenses in the accompanying balance sheet and will be amortized over the four years ending May 31, 1978. Retention of shares by the participants requires attainment by the Company of certain defined profit goals for the five fiscal years beginning with the fiscal year during which such shares are issued. At May 31, 1974, 21,300 shares were outstanding under the Plan and 11,500 shares were available for issuance. The restrictions under the Plan lapse as to 25% of shares held by participants for each of four years commencing five years from the date the shares were issued.

(9) COMMON STOCK

Changes in common stock and additional paid-in capital during the year ended May 31, 1974 are as follows:

	Common Stock		Additional Paid-in
	Shares	Par Value	Capital
Balance at May 31, 1973.....	3,721,026	$1,860,513	$ 9,211,945
Public Offering (net of expenses of $206,455)....	300,000	150,000	12,747,546
Exercise of warrants (note 6).....	60,001	30,001	1,770,029
Stock Option Plan (note 8).....	29,700	14,850	1,002,438
Stock Bonus Plan (note 8).....	2,134	1,067	116,836
Balance at May 31, 1974.....	4,112,861	$2,056,431	$24,848,794

At May 31, 1974, shares of common stock were reserved for issuance as follows:

1968 Stock Option Plan, 1970 Stock Bonus Plan, and 1970 Restricted Stock Plan (see note 8).....	62,566
Warrants (see note 6).....	139,999
Total.....	202,565

(10) EMPLOYEE BENFITS

All eligible employees of the parent Company, except for those of one division, are covered by a profit sharing retirement plan, which is based upon a maximum contribution by the Company equal to 15% of the total employees' compensation. The employees of the division not included in the profit sharing retirement plan are covered by pension plans. The cost of all plans for the year ended May 31, 1974 was $670,000.

(11) COMMITMENTS AND CONTINGENT LIABILITIES

(A) A number of additions and improvements to be financed from general funds of the Company are being added to Picnic Island for the 1974-75 season including a restaurant, three new rides, a new games building, additional service buildings, a nature trail, and general improvements at a cost of approximately $5,600,000, of which approximately $2,500,000 had been expended at May 31, 1974.

In addition to the additions and improvements mentioned above, the Company has entered into an agreement with a subsidiary of Tiger Land Safari, Inc. (a non-affiliated company) to build and operate a wild animal preserve at Picnic Island and under the terms of the agreement the Company will be required to construct facilities with an estimated cost of $2,000,000. The Company also is considering the installation of a conveyance system for wild life patrons which could cost up to an additional $3,000,000. The Company will pay to the operator a fee of $300,000 per operating season, and 15% of revenues up to $700,000 in the non-operating seasons and 10% of all revenues in excess of $700,000. This agreement is cancellable after 15 years. The preserve is expected to begin operations in April, 1975.

(B) Leisure Centers, Inc. is currently constructing for operation an amusement park complex near Dallas, Texas to be called Picnic Place which management estimates will cost approximately $40,000,000. With respect to this project each member of the joint venture will invest $3,750,000 in the venture and Leisure Enterprise, Inc. will loan $7,500,000 to the venture, repayable over 17 1/2 years. The balance of the financing will be borrowed from outside parties or provided equally by each member. At May 31, 1974, the Company had contributed $2,007,845 to the venture.

EXHIBIT A-II

Historical and Positive Forecasted Financial Statements for
Carter Communications Company and Subsidiaries[1]
Level F_{++}

[1]Note: The same five year summaries and financial statements footnotes as shown in Exhibit I (Level F_0) although not shown here were included with these statements in the data packet.

EXHIBIT A-II

CARTER COMMUNICATIONS COMPANY AND SUBSIDIARIES

HISTORICAL AND FORECASTED

CONSOLIDATED BALANCE SHEET

A S S E T S	May 31 Forecast 1975	Historical 1974	Forecast 1974	Historical 1973
CURRENT ASSETS:				
Cash, including certificates of deposits of $6,146,915 at May 31, 1974	$ 9,600,000	$ 12,574,473	$ 11,300,000	$ 2,298,059
Receivables, less allowance for doubtful accounts of $300,000 ($270,000 in 1974) ($245,000 in 1973)	11,600,000	9,587,828	9,600,000	7,618,551
Television and feature films, at cost less amortization	19,800,000	17,813,877	18,800,000	12,767,013
Film contract rights	12,700,000	10,696,382	9,800,000	8,766,541
Federal income tax receivable	-	-	-	1,827,200
Prepaid expenses and miscellaneous current assets (Note 5)	4,000,000	2,983,094	3,100,000	1,803,272
Total current assets	57,700,000	53,655,654	52,600,000	35,080,636
PROPERTY AND EQUIPMENT, at cost (Notes 3, 6 and 11(A)):				
Land and improvements	7,500,000	7,346,341	7,000,000	6,560,754
Buildings	29,600,000	26,658,039	28,000,000	5,854,348
Operating and other equipment	44,500,000	35,333,867	34,300,000	20,830,840
Leasehold improvements	600,000	383,419	400,000	427,771
Installations in progress	5,500,000	4,452,567	7,600,000	26,265,567
	87,700,000	74,174,233	77,300,000	59,939,280
Less- Accumulated depreciation	23,500,000	19,433,431	19,400,000	15,821,622
Net operating property and equipment	64,200,000	54,740,802	57,900,000	44,117,658
Land, buildings and equipment held for sale or development, at cost less accumulated depreciation of $2,400,000 ($2,288,558 in 1974) ($2,292,585 in 1973)	1,400,000	1,555,798	1,500,000	1,610,326
Net property and equipment	65,600,000	56,296,600	59,400,000	45,727,984
CONTRACTS, BROADCASTING LICENSES AND GOODWILL, at cost (Notes 2 and 11(C))	35,700,000	35,795,846	35,900,000	36,022,502
DEFERRED CHARGES AND PRE-OPENING EXPENSES, at cost less accumulated amortization (Notes 4 and 8)	3,400,000	3,447,928	3,400,000	3,442,844
FILM CONTRACT RIGHTS	5,600,000	3,636,666	2,500,000	-
OTHER ASSETS, at cost (Note 2)	6,300,000	4,269,804	3,100,000	762,254
	$174,300,000	$157,092,498	$156,900,000	$121,036,220

LIABILITIES AND STOCKHOLDERS' EQUITY	May 31 Forecast 1975	Historical 1974	Forecast 1974	Historical 1973
CURRENT LIABILITIES:				
Notes payable, unsecured	$ -	$ -	$ -	$ 5,000,000
Long-term debt, current portion (Note 6)	3,500,000	2,512,750	2,600,000	3,555,307
Accounts payable	4,100,000	3,628,427	5,400,000	3,410,336
Accrued expenses	3,900,000	3,405,034	5,600,000	3,068,576
Income taxes (Note 5)	8,900,000	5,865,095	5,700,000	1,109,921
Film contracts payable, current portion	4,600,000	3,951,857	3,900,000	2,913,060
Deferred revenue	7,800,000	6,759,357	6,800,000	3,431,637
Total current liabilities	32,800,000	26,122,520	30,000,000	22,488,837
LONG-TERM DEBT, less current portion (Note 6)	28,100,000	30,719,000	31,400,000	31,809,050
FILM CONTRACTS PAYABLE, less current portion (Note 7)	7,200,000	7,185,000	6,200,000	3,212,000
DEFERRED INCOME TAXES (Note 5)	8,400,000	5,859,500	5,000,000	3,183,716
MINORITY INTEREST (Note 2)	2,000,000	2,007,845	1,900,000	-
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 2 and 11)				
STOCKHOLDERS' EQUITY (Notes 6, 8 and 9):				
Common stock, par value $.50 per share; authorized 5,000,000 shares; issued 4,112,861 (3,721,026 shares in 1973)	2,100,000	2,056,431	2,000,000	1,860,513
Additional paid-in capital	24,800,000	24,848,794	23,100,000	9,211,945
Retained earnings	68,900,000	58,306,221	57,300,000	49,282,972
	95,800,000	85,211,446	82,400,000	60,355,430
Less- Treasury stock, at cost - 17,319 shares	-	12,813	-	12,813
Total stockholders' equity	95,800,000	85,198,633	82,400,000	60,342,617
	$174,300,000	$157,092,498	$156,900,000	$121,036,220

See accompanying Note 1 for significant accounting policies and other notes to consolidated financial statements.

EXHIBIT A-II (cont'd.)

CARTER COMMUNICATIONS COMPANY AND SUBSIDIARIES

HISTORICAL AND FORECAST

CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS

	Years Ending May 31			
	Forecast 1975	Historical 1974	Forecast 1974	Historical 1973
NET REVENUES:				
Operating	$90,900,000	$70,474,497	$63,500,000	$58,128,046
Other	100,000	50,543	100,000	293,082
Total net revenues	91,000,000	70,525,040	63,600,000	53,421,128
OPERATING COSTS AND EXPENSES:				
Broadcasting, production and distribution, amusement park and other costs	42,000,000	32,030,944	27,000,000	24,217,346
Selling, general and administrative	19,500,000	14,413,699	13,500,000	11,957,293
Depreciation	5,700,000	4,349,886	4,200,000	2,541,822
Total operating costs and expenses	67,200,000	50,794,529	44,700,000	38,716,461
OPERATING PROFIT	23,800,000	19,730,511	18,900,000	14,704,667
OTHER DEDUCTIONS, net:				
Interest — long-term debt	2,500,000	2,153,120	2,300,000	1,046,624
Miscellaneous expense (income), net	(700,000)	(717,818)	(500,000)	65,727
	1,800,000	1,435,302	1,800,000	1,112,351
EARNINGS BEFORE INCOME TAXES AND EXTRAORDINARY ITEM	22,000,000	18,295,209	17,100,000	13,592,316
INCOME TAXES (Note 5)	9,000,000	7,964,000	7,600,000	6,108,000
EARNINGS BEFORE EXTRAORDINARY ITEM	13,000,000	10,331,209	9,500,000	7,484,316
EXTRAORDINARY ITEM - Gain on sale of radio stations, net of applicable income taxes of $947,000 (Notes 2 and 5)	-	1,086,455	900,000	-
NET EARNINGS	13,000,000	11,417,664	10,400,000	7,484,316
RETAINED EARNINGS, at beginning of year	58,300,000	49,282,972	49,300,000	44,023,279
	71,300,000	60,700,636	59,700,000	51,507,595
DIVIDENDS DECLARED, $.60 per common share	2,400,000	2,394,415	2,400,000	2,224,623
RETAINED EARNINGS, at end of year	$68,900,000	$58,306,221	$57,300,000	$49,282,972
EARNINGS PER COMMON AND COMMON EQUIVALENT SHARE (Note 1(J)):				
Earnings before extraordinary item	$3.30	$2.53	$2.37	$1.95
Extraordinary item, net of taxes	-	.26	.23	-
Net earnings	$3.30	$2.79	$2.60	$1.95

See accompanying Note 1 for significant accounting policies and other notes to consolidated financial statements.

EXHIBIT A-II (cont'd.)

CARTER COMMUNICATIONS COMPANY AND SUBSIDIARIES

HISTORICAL AND FORECAST

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	Years Ending May 31			
	Forecast 1975	Historical 1974	Forecast 1974	Historical 1973
SOURCE OF FUNDS:				
Earnings before extraordinary item	$13,000,000	$10,331,209	$ 9,500,000	$ 7,484,316
Charges against earnings not requiring funds-				
Depreciation	5,700,000	4,349,886	4,200,000	2,541,822
Deferred income taxes	2,500,000	2,185,784	1,800,000	3,183,716
Other noncash items, net	1,000,000	1,153,866	800,000	117,629
Funds derived from operations before extraordinary item	22,200,000	18,020,745	16,300,000	13,327,483
Funds derived in connection with extraordinary item-				
Net proceeds	-	1,962,692	2,000,000	-
Less long-term note received on sale (Note 2)	-	1,650,000	1,700,000	-
Funds derived from extraordinary item	-	312,692	300,000	-
Funds derived from operations	-	18,333,437	16,600,000	13,327,483
Issuance of long-term debt	-	1,637,215	2,000,000	12,644,963
Increase in film contracts payable, long-term, net	-	3,973,000	3,000,000	1,145,000
Proceeds from issuance of common stock through public offering (Note 9)	-	12,897,546	13,000,000	-
Issuance of common stock through exercise of warrants (Note 9)	-	1,600,030	1,000,000	-
Decrease in contracts, broadcasting licenses and goodwill	-	-	-	1,386,548
Retirements of property and equipment	100,000	131,981	100,000	357,797
Increase in minority interest	-	2,007,845	1,500,000	-
Other	1,000,000	1,115,552	1,500,000	538,950
	$23,300,000	$41,696,606	$38,700,000	$29,400,741
APPLICATION OF FUNDS:				
Dividends	$ 2,400,000	$ 2,394,415	$ 2,000,000	$ 2,224,623
Additions to property and equipment	15,000,000	15,934,984	17,000,000	18,848,585
Reduction of long-term debt	2,600,000	2,527,265	2,400,000	3,285,983
Increase in deferred charges and pre-opening expenses	-	554,272	800,000	1,919,782
Advances to joint venture partnerships (Note 2)	2,000,000	1,204,464	2,000,000	-
Increase in film contract rights, non-current	2,000,000	3,636,666	2,500,000	-
Other	2,000,000	503,205	1,000,000	-
Increase (decrease) in working capital	(2,700,000)	14,941,335	11,000,000	3,121,768
	$23,300,000	$41,696,606	$38,700,000	$29,400,741
CHANGES IN WORKING CAPITAL:				
Increase (decrease) in current assets-				
Cash	$(3,000,000)	$10,276,414	$ 9,000,000	$ (885,981)
Receivables	2,000,000	1,969,277	2,000,000	1,577,279
Television and feature films	2,000,000	5,046,864	6,000,000	415,186
Film contract rights	2,000,000	1,929,841	1,000,000	2,140,266
Federal income tax receivable	-	(1,827,200)	(1,827,200)	1,827,200
Benefit of net operating loss carryover	-	-	-	(1,182,000)
Prepaid expenses and miscellaneous	1,000,000	1,179,822	1,327,200	1,048,381
	4,000,000	18,575,018	17,500,000	4,940,331
Increase (decrease) in current liabilities-				
Notes payable	-	(5,000,000)	(5,000,000)	969,941
Long-term debt, current portion	1,000,000	(1,042,557)	(1,000,000)	(938,277)
Accounts payable and accrued expenses	1,000,000	554,549	3,500,000	1,616,663
Income taxes	3,000,000	4,755,174	4,600,000	(159,306)
Film contracts payable, current portion	700,000	1,038,797	1,000,000	569,292
Deferred revenue	1,000,000	3,327,720	3,400,000	(239,750)
	6,700,000	3,633,683	6,500,000	1,818,563
Increase (decrease) in working capital	$(2,700,000)	$14,941,335	$11,000,000	$ 3,121,768

See accompanying Note 1 for significant accounting policies and other notes to consolidated financial statements.

EXHIBIT A-III

Historical and Negative Forecasted Financial Statements for
Carter Communications Company and Subsidiaries[1]
Level F_{-+}

[1]Note: The same five year summaries and financial statements footnotes as shown in Exhibit I (Level F_0) although not shown here were included with these statements in the data packet.

EXHIBIT A-III

CARTER COMMUNICATIONS COMPANY AND SUBSIDIARIES

HISTORICAL AND FORECASTED

CONSOLIDATED BALANCE SHEET

A S S E T S	May 31 Forecast 1975	May 31 Historical 1974	May 31 Forecast 1974	May 31 Historical 1973
CURRENT ASSETS:				
Cash, including certificates of deposits of $6,146,915 at May 31, 1974	$ 10,600,000	$ 12,574,473	$ 11,300,000	$ 2,298,059
Receivables, less allowance for doubtful accounts of $300,000 ($270,000 in 1974) ($245,000 in 1973)	10,600,000	9,587,828	9,600,000	7,618,551
Television and feature films, at cost less amortization	19,800,000	17,813,877	18,800,000	12,767,013
Film contract rights	12,700,000	10,696,382	9,800,000	8,766,541
Federal income tax receivable	-	-	-	1,827,200
Prepaid expenses and miscellaneous current assets (Note 5)	4,000,000	2,983,094	3,100,000	1,803,272
Total current assets	57,700,000	53,655,654	52,600,000	35,080,636
PROPERTY AND EQUIPMENT, at cost (Notes 3, 6 and 11(A)):				
Land and improvements	7,500,000	7,346,341	7,000,000	6,560,754
Buildings	29,600,000	26,658,039	28,000,000	5,854,348
Operating and other equipment	38,300,000	35,333,867	34,300,000	20,830,840
Leasehold improvements	600,000	383,419	400,000	427,771
Installations in progress	2,500,000	4,452,567	7,600,000	26,265,567
	78,500,000	74,174,233	77,300,000	59,939,280
Less- Accumulated depreciation	23,500,000	19,433,431	19,400,000	15,821,622
Net operating property and equipment	55,000,000	54,740,802	57,900,000	44,117,658
Land, buildings and equipment held for sale or development, at cost less accumulated depreciation of $2,400,000 ($2,288,558 in 1974) ($2,292,585 in 1973)	1,400,000	1,555,798	1,500,000	1,610,326
Net property and equipment	56,400,000	56,296,600	59,400,000	45,727,984
CONTRACTS, BROADCASTING LICENSES AND GOODWILL, at cost (Notes 2 and 11(C))	35,800,000	35,795,846	35,900,000	36,022,502
DEFERRED CHARGES AND PRE-OPENING EXPENSES, at cost less accumulated amortization (Notes 4 and 8)	3,300,000	3,447,928	3,400,000	3,442,844
FILM CONTRACT RIGHTS	7,600,000	3,636,666	2,500,000	-
OTHER ASSETS, at cost (Note 2)	4,400,000	4,259,804	3,100,000	762,254
	$165,200,000	$157,092,498	$156,900,000	$121,036,220

LIABILITIES AND STOCKHOLDERS' EQUITY	May 31 Forecast 1975	May 31 Historical 1974	May 31 Forecast 1974	May 31 Historical 1973
CURRENT LIABILITIES:				
Notes payable, unsecured	$ -	$ -	$ -	$ 5,000,000
Long-term debt, current portion (Note 6)	3,500,000	2,512,750	2,600,000	3,555,307
Accounts payable	3,600,000	3,628,427	5,400,000	3,410,336
Accrued expenses	3,400,000	3,405,034	5,600,000	3,068,576
Income taxes (Note 5)	6,400,000	5,865,095	3,700,000	1,109,921
Film contracts payable, current portion	4,400,000	3,951,857	3,900,000	2,913,060
Deferred revenue	7,300,000	6,759,357	6,800,000	3,431,637
Total current liabilities	28,600,000	26,122,520	30,000,000	22,488,837
LONG-TERM DEBT, less current portion (Note 6)	28,100,000	30,719,000	31,400,000	31,809,050
FILM CONTRACTS PAYABLE, less current portion (Note 7)	7,200,000	7,185,000	6,200,000	3,212,000
DEFERRED INCOME TAXES (Note 5)	7,500,000	5,859,500	5,000,000	3,183,716
MINORITY INTEREST (Note 2)	2,000,000	2,007,845	1,900,000	-
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 2 and 11)				
STOCKHOLDERS' EQUITY (Notes 6, 8 and 9):				
Common stock, par value $.50 per share; authorized 5,000,000 shares; issued 4,112,861 (3,721,026 shares in 1973)	2,000,000	2,056,431	2,000,000	1,860,513
Additional paid-in capital	24,800,000	24,848,794	23,100,000	9,211,945
Retained earnings	65,000,000	58,306,221	57,300,000	49,282,972
	91,800,000	85,211,446	82,400,000	60,355,430
Less- Treasury stock, at cost - 17,319 shares	-	12,813	-	12,813
Total stockholders' equity	91,800,000	85,198,633	82,400,000	60,342,617
	$165,200,000	$157,092,498	$156,900,000	$121,036,220

See accompanying Note 1 for significant accounting policies and other notes to consolidated financial statements.

EXHIBIT A-III (cont'd.)

CARTER COMMUNICATIONS COMPANY AND SUBSIDIARIES

HISTORICAL AND FORECAST

CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS

	Years Ending May 31			
	Forecast 1975	Historical 1974	Forecast 1974	Historical 1973
NET REVENUES:				
Operating	$75,900,000	$70,474,497	$63,500,000	$58,128,046
Other	100,000	50,543	100,000	293,082
Total net revenues	76,000,000	70,525,040	63,600,000	53,421,128
OPERATING COSTS AND EXPENSES:				
Broadcasting, production and distribution, amusement park and other costs	37,000,000	32,030,944	27,000,000	24,217,346
Selling, general and administrative	17,000,000	14,413,699	13,500,000	11,957,293
Depreciation	4,800,000	4,349,886	4,200,000	2,541,822
Total operating costs and expenses	58,800,000	50,794,529	44,700,000	38,716,461
OPERATING PROFIT	17,200,000	19,730,511	18,900,000	14,704,667
OTHER DEDUCTIONS, net:				
Interest — long-term debt	2,200,000	2,153,120	2,300,000	1,046,624
Miscellaneous expense (income), net	(500,000)	(717,818)	(500,000)	65,727
	1,700,000	1,435,302	1,800,000	1,112,351
EARNINGS BEFORE INCOME TAXES AND EXTRAORDINARY ITEM	15,500,000	18,295,209	17,100,000	13,592,316
INCOME TAXES (Note 5)	6,400,000	7,964,000	7,600,000	6,108,000
EARNINGS BEFORE EXTRAORDINARY ITEM	9,100,000	10,331,209	9,500,000	7,484,316
EXTRAORDINARY ITEM - Gain on sale of radio stations, net of applicable income taxes of $547,000 (Notes 2 and 5)	-	1,086,455	900,000	-
NET EARNINGS	9,100,000	11,417,664	10,400,000	7,484,316
RETAINED EARNINGS, at beginning of year	58,300,000	49,282,972	49,300,000	44,023,279
	67,400,000	60,700,636	59,700,000	51,507,595
DIVIDENDS DECLARED, $.60 per common share	2,400,000	2,394,415	2,400,000	2,224,623
RETAINED EARNINGS, at end of year	$65,000,000	$58,306,221	$57,300,000	$49,282,972
EARNINGS PER COMMON AND COMMON EQUIVALENT SHARE (Note 1(J)):				
Earnings before extraordinary item	$2.20	$2.53	$2.37	$1.95
Extraordinary item, net of taxes	-	.26	.23	-
Net earnings	$2.20	$2.79	$2.60	$1.95

See accompanying Note 1 for significant accounting policies and other notes to consolidated financial statements.

EXHIBIT A-III (cont'd.)

CARTER COMMUNICATIONS COMPANY AND SUBSIDIARIES

HISTORICAL AND FORECAST

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	Years Ending May 31			
	Forecast 1975	Historical 1974	Forecast 1974	Historical 1973
SOURCE OF FUNDS:				
Earnings before extraordinary item	$ 9,100,000	$10,331,209	$ 9,500,000	$ 7,484,316
Charges against earnings not requiring funds-				
Depreciation	4,900,000	4,349,886	4,200,000	2,541,822
Deferred income taxes	1,600,000	2,185,784	1,800,000	3,183,716
Other noncash items, net	900,000	1,153,866	800,000	117,629
Funds derived from operations before extraordinary item	16,500,000	18,020,745	16,300,000	13,327,483
Funds derived in connection with extraordinary item-				
Net proceeds	-	1,962,692	2,000,000	-
Less long-term note received on sale (Note 2)	-	1,650,000	1,700,000	-
Funds derived from extraordinary item	-	312,692	300,000	-
Funds derived from operations	16,500,000	18,333,437	16,600,000	13,327,483
Issuance of long-term debt	-	1,637,215	2,000,000	12,644,963
Increase in film contracts payable, long-term, net	-	3,973,000	3,000,000	1,145,000
Proceeds from issuance of common stock through public offering (Note 9)	-	12,897,546	13,000,000	-
Issuance of common stock through exercise of warrants (Note 9)	-	1,600,030	1,000,000	-
Decrease in contracts, broadcasting licenses and goodwill	-	-	-	1,386,548
Retirements of property and equipment	100,000	131,981	100,000	357,797
Increase in minority interest	-	2,007,845	1,500,000	-
Other	900,000	1,115,552	1,500,000	538,950
	$17,500,000	$41,696,606	$38,700,000	$29,400,741
APPLICATION OF FUNDS:				
Dividends	$ 2,400,000	$ 2,394,415	$ 2,000,000	$ 2,224,623
Additions to property and equipment	5,000,000	15,934,984	17,000,000	18,848,585
Reduction of long-term debt	2,600,000	2,527,265	2,400,000	3,285,983
Increase in deferred charges and pre-opening expenses	-	554,272	800,000	1,919,782
Advances to joint venture partnerships (Note 2)	1,000,000	1,204,464	2,000,000	-
Increase in film contract rights, non-current	4,000,000	3,636,666	2,500,000	-
Other	1,000,000	503,205	1,000,000	-
Increase in working capital	1,500,000	14,941,335	11,000,000	3,121,768
	$17,500,000	$41,696,606	$38,700,000	$29,400,741
CHANGES IN WORKING CAPITAL:				
Increase (decrease) in current assets-				
Cash	$(2,000,000)	$10,276,414	$ 9,000,000	$ (885,981)
Receivables	1,000,000	1,969,277	2,000,000	1,577,279
Television and feature films	2,000,000	5,046,864	6,000,000	415,186
Film contract rights	2,000,000	1,929,841	1,000,000	2,140,266
Federal income tax receivable	-	(1,827,200)	(1,827,200)	1,827,200
Benefit of net operating loss carryover	-	-	-	(1,182,000)
Prepaid expenses and miscellaneous	1,000,000	1,179,822	1,327,200	1,048,381
	4,000,000	18,575,018	17,500,000	4,940,331
Increase (decrease) in current liabilities-				
Notes payable	-	(5,000,000)	(5,000,000)	969,941
Long-term debt, current portion	1,000,000	(1,042,557)	(1,000,000)	(938,277)
Accounts payable and accrued expenses	-	554,549	3,500,000	1,616,663
Income taxes	500,000	4,755,174	4,600,000	(159,306)
Film contracts payable, current portion	500,000	1,038,797	1,000,000	569,292
Deferred revenue	500,000	3,327,720	3,400,000	(239,750)
	2,500,000	3,633,683	6,500,000	1,818,563
Increase in working capital	$ 1,500,000	$14,941,335	$11,000,000	$ 3,121,768

See accompanying Note 1 for significant accounting policies and other notes to consolidated financial statements.

EXHIBIT A-IV

Historical and Positive Forecasted Financial Statements
for SRN, Inc. and Subsidiaries[1]

Level F_{++}

and

Level F_{-+}

[1]Note: The same five year summaries and financial statements footnotes as shown in Exhibit I (Level F_0) although not shown here were included with these statements in the data packet.

EXHIBIT A-IV

SRN, INC. AND SUBSIDIARIES

HISTORICAL AND FORECASTED

CONSOLIDATED BALANCE SHEET

A S S E T S	May 31 Forecast 1975	Historical 1974	Forecast 1974	Historical 1973
CURRENT ASSETS:				
Cash	$ 13,700,000	$ 11,694,367	$ 12,000,000	$ 12,561,457
Marketable securites - Note A	51,500,000	49,541,627	46,100,000	27,540,850
Accounts receivable, less allowances for doubtful accounts and book returns (1975 - $18,000,000; 1974 - $16,642,792; 1973 - $14,174,271)	100,800,000	90,785,403	90,400,000	85,392,568
Inventories - Notes A and C	73,400,000	65,392,806	65,100,000	64,149,443
Prepaid expenses	20,400,000	19,410,021	19,200,000	18,022,482
Total current assets	259,800,000	236,824,224	232,800,000	207,666,783
PROPERTY, PLANT AND EQUIPMENT - Note A:				
Buildings	104,000,000	86,083,013	83,000,000	79,146,484
Machinery and equipment	254,000,000	224,556,702	228,000,000	206,290,026
	358,000,000	310,639,715	311,000,000	285,436,510
Less- Allowances for depreciation and amortization	156,000,000	135,142,581	135,200,000	122,825,590
	202,000,000	175,497,134	175,800,000	162,610,920
Land	17,000,000	15,244,761	15,200,000	15,183,988
Timberlands, less depletion	53,000,000	50,396,722	50,000,000	35,609,923
	272,700,000	241,138,617	241,000,000	213,404,831
OTHER ASSETS:				
Goodwill - Note A	32,300,000	31,270,672	29,800,000	24,837,834
Deferred charges	17,300,000	17,296,201	17,600,000	17,573,784
Sundry other assets	19,000,000	17,986,428	17,700,000	15,679,522
	68,600,000	66,553,301	65,100,000	58,091,140
	$601,100,000	$544,516,142	$538,900,000	$479,162,754

LIABILITIES AND SHAREHOLDERS' EQUITY	May 31 Forecast 1975	Historical 1974	Forecast 1974	Historical 1973
CURRENT LIABILITIES:				
Accounts payable	$ 67,500,000	$ 62,490,586	$ 63,350,000	$ 52,338,876
Salaries, wages and amounts withheld from employees	20,800,000	19,753,602	19,600,000	17,623,570
Income taxes - Note D	15,500,000	13,483,756	12,900,000	10,927,096
Other taxes	5,800,000	4,847,499	4,800,000	4,358,318
Portion of long-term debt payable within one year	6,300,000	5,275,460	5,300,000	4,414,600
Total current liabilities	115,900,000	105,850,903	105,950,000	89,662,460
LONG-TERM DEBT - Note E	38,800,000	48,824,189	48,250,000	49,857,453
DEFERRED CREDITS:				
Unearned income	14,000,000	12,942,522	12,650,000	11,650,659
Income taxes - Note D	23,400,000	18,362,560	17,900,000	14,861,658
Deferred compensation	6,200,000	5,240,230	5,300,000	4,317,611
	43,600,000	36,545,312	35,850,000	30,829,928
SHAREHOLDERS' EQUITY - Notes E, F, G and H:				
Convertible preferred stock	1,300,000	1,262,004	1,400,000	1,389,368
Common stock	31,200,000	31,209,341	31,100,000	31,076,029
Additional paid-in capital	31,100,000	31,145,639	31,150,000	31,112,911
Retained earnings	339,200,000	289,678,754	285,200,000	245,234,605
	402,800,000	353,295,738	348,850,000	308,812,913
CONTINGENT LIABILITIES AND COMMITMENTS - Notes I and J				
	$601,100,000	$544,516,142	$538,900,000	$479,162,754

See notes to financial statements.

EXHIBIT A-IV (cont'd.)

SRN, INC. AND SUBSIDIARIES

HISTORICAL AND FORECASTED

STATEMENT OF CONSOLIDATED INCOME AND RETAINED EARNINGS

	Years Ending May 31			
	Forecast 1975	Historical 1974	Forecast 1974	Historical 1973
REVENUES:				
Operating revenues	$788,000,000	$695,959,447	$650,000,000	$605,171,816
Other income	10,000,000	10,107,119	10,000,000	5,903,341
	798,000,000	706,066,566	660,000,000	611,075,157
COSTS AND EXPENSES:				
Cost of sales	510,000,000	431,882,883	404,000,000	381,228,803
Selling, administrative and general expenses	141,000,000	138,632,175	130,400,000	121,761,829
Provision for depreciation, amortization and depletion - Note A	30,400,000	28,300,309	28,000,000	23,019,746
Interest on long-term debt	2,600,000	2,611,518	2,600,000	2,710,502
	684,000,000	601,426,885	565,000,000	528,720,880
Income before income taxes	114,000,000	104,639,681	95,000,000	82,354,277
INCOME TAXES - Notes A and D:				
Federal	45,000,000	42,119,871	38,000,000	36,018,607
State	9,000,000	7,613,228	7,000,000	4,286,754
	54,000,000	49,733,099	45,000,000	40,305,361
Net income	60,000,000	54,906,582	50,000,000	42,048,916
RETAINED EARNINGS, at beginning of year	289,700,000	245,234,605	245,200,000	212,186,039
	349,700,000	300,141,187	295,200,000	254,234,955
CASH DIVIDENDS PAID:				
Common stock ($.31 a share estimated, 1975; $.31 a share 1974; $.30 a share estimated, 1974; $.26 a share 1973)	(9,700,000)	(9,691,650)	(9,200,000)	(8,106,591)
Convertible preferred stock, Series A - $.70 a share	(800,000)	(770,783)	(800,000)	(828,509)
Convertible preferred stock, Series B - $25.00 a share	-	-	-	(65,250)
	(10,500,000)	(10,462,433)	(10,000,000)	(9,000,350)
RETAINED EARNINGS, at end of year	$339,200,000	$289,678,754	$285,200,000	$245,234,605
EARNINGS PER SHARE - Note K	$1.80	$1.63	$1.50	$1.25

See notes to financial statements.

EXHIBIT A-IV (cont'd.)

SRN, INC. AND SUBSIDIARIES

HISTORICAL AND FORECASTED

STATEMENT OF CONSOLIDATED CHANGES IN FINANCIAL POSITION

	Years Ending May 31			
	Forecast 1975	Historical 1974	Forecast 1974	Historical 1973
SOURCE OF FUNDS:				
From operations-				
Net income	$60,000,000	$54,906,582	$50,000,000	$42,048,916
Add charges not requiring outlay of funds-				
Depreciation, amortization and depletion - Note A	30,400,000	28,300,309	28,000,000	23,019,746
Noncurrent deferred income taxes	5,000,000	3,500,902	3,000,000	3,497,045
Total from operations	95,400,000	86,707,793	81,000,000	68,565,707
Increase in other deferred credits	2,000,000	2,214,482	2,000,000	2,596,057
Increased in long-term debts	-	8,228,487	8,000,000	3,253,994
Issuance of Common Stock under executive stock option and restricted stock plans, net of shares repurchased - Notes G and H	50,000	38,928	50,000	4,037,991
Net book value of property, plant and equipment sold	3,000,000	2,610,847	2,400,000	2,417,214
Total source of funds	100,450,000	99,800,537	93,450,000	80,870,963
APPLICATION OF FUNDS:				
Net noncurrent assets of businesses purchased (A)	7,000,000	20,223,980	15,000,000	5,500,000
Purchase of property, plant and equipment	59,000,000	45,104,015	48,000,000	41,155,102
Decrease in long-term debt	10,000,000	9,556,533	9,600,000	9,099,702
Redemption of Convertible Preferred Stock, Series B	-	-	-	2,610,000
Cash dividends paid	10,500,000	10,462,433	10,000,000	8,951,350
Other, net	1,000,000	1,484,578	2,000,000	866,625
Total application of funds	87,500,000	86,831,539	84,600,000	68,182,779
INCREASE IN WORKING CAPITAL (B)	$12,950,000	$12,968,998	$ 8,850,000	$12,688,184
(A) The net noncurrent assets of businesses purchased at dates of acquisition are summarized as follows - Note B				
Property, plant and equipment	$ 6,000,000	$12,477,139	$10,000,000	$ -
Goodwill	1,000,000	8,020,693	5,000,000	4,269,229
Other assets (liabilities)	-	(273,852)	-	1,230,771
	$ 7,000,000	$20,223,980	$15,000,000	$ 5,500,000
(B) The increase (decrease) in working capital is summarized as follows-				
Current assets-				
Cash and marketable securities	$ 3,950,000	$21,133,687	$18,000,000	$ 2,251,063
Accounts receivable	10,000,000	5,392,835	5,000,000	8,391,584
Inventories	8,000,000	1,243,358	1,000,000	3,104,593
Prepaid expenses	1,000,000	1,387,561	1,200,000	2,259,714
	22,950,000	29,157,441	25,200,000	16,006,954
Current liabilities-				
Accounts payable	(5,000,000)	(10,151,710)	(11,000,000)	(5,058,291)
Salaries, wages and amounts withheld from employees	(1,000,000)	(2,130,032)	(2,000,000)	(2,789,236)
Income taxes	(2,000,000)	(2,556,660)	(2,000,000)	3,627,413
Other taxes	(1,000,000)	(489,181)	(450,000)	44,244
Portion of long-term debt payable within one year	(1,000,000)	(860,860)	(900,000)	857,070
	(10,000,000)	(16,188,443)	16,350,000	(3,318,770)
INCREASE IN WORKING CAPITAL	$12,950,000	$12,968,998	$ 8,850,000	$12,688,184

See notes to financial statements.

APPENDIX B

BROKER'S ADVICES

APPENDIX B

BROKER'S ADVICE

EXHIBIT B-I

B_{+-}: Broker Recommends Carter Over SRN

BROKER ADVICE

YOUR FAVORITE BROKER STATES -

While both companies merit attention, we believe investment in Carter Communications offers the greatest potential return.

Carter is currently selling at $21 a share which is only 8 times earnings. In the past, it has usually sold for about 17 times earnings and as high as 22 times earnings. This stock has never sold for less than 8 times earnings.

The company is somewhat diversified. It owns several television and radio stations in major cities across the country and is engaged in movie and TV production. Last year Carter opened Picnic Island Amusement Park which proved to be a fantastic success. While the income from broadcasting is substantial, there appears to be only moderate growth opportunity in this area. On the other hand, the amusement park revenues show real promise over the next several years. The Company appears to be in a significant earnings growth phase. Earnings and average market price per share have been as follows:

	1972	1973	1974
Earnings per share	$1.80	$1.95	$2.53
Average market price	$24	$43	$39

The current market price of $21 reflects uncertainty about future earnings due to the troubled economy and the overall downturn in the stock market.

Our research department feels that, while there are uncertainties for the upcoming year, over the next three to five years the companies aggressive expansion policies in the broadcasting and amusement park area will pay-off handsomely. Carter is installing major additions at Picnic Island and opening a new park in 1975. We believe the market has overdiscounted earnings prospects and that the

EXHIBIT B-I (cont'd.)

current market price is too negative an appraisal for a company whose revenues and earnings were the highest in its history!

SRN, Inc. is well established and for the year ended May 31, 1974 enjoyed the highest return on net worth it has had since 1965. However, one major factor causing the increase in earnings was the brief rise in plywood prices at the beginning of the year. Large demand for homes caused prices to rise to excessive levels. With the reduction in new home construction the prices fell back to normal levels. This company is larger than Carter and also diversified. It is involved in the production of newsprint and paper products, lumber, and the publication of books, newspapers, and magazines. It also is involved in radio and TV broadcasting including cable television.

The current price for a share of SRN, Inc. stock is $16 which is ten times earnings. The stock normally has sold for twenty times earnings with little variation. Earnings and average market price per share have been as follows:

	1972	1973	1974
Earnings per share	$1.04	$1.25	$1.63
Average market price	$25	$30	$20

These market prices reflect the belief that there is little growth potential in the lines of business in which SRN participates. Although we feel that SRN is a stable company, Carter provides a better investment opportunity for most investment objectives.

EXHIBIT B-II

B_{-+}: Broker Recommends SRN Over Carter

BROKER ADVICE

YOUR FAVORITE BROKER STATES -

While both companies merit attention, we believe investment in SRN, Inc. offers the greatest potential return.

SRN, Inc. is well established and enjoyed the highest return on net worth for the year ended May 31, 1974 that it has had since 1965. The company is large and well diversified. It is involved in the production of newsprint and paper products, lumber, and the publication of books, newspapers and magazines. It is also involved in radio and TV broadcasting, including cable television.

SRN, Inc. is currently selling at $16 a share which is only 10 times earnings. In the past it has usually sold for about 20 times earnings. This stock has never sold for less than ten times earnings. Earnings and average market price per share have been as follows:

	1972	1973	1974
Earnings per share	$1.04	$1.25	$1.63
Average market price	$25	$30	$20

The Company appears to be in a significant earnings growth phase. The current market price of $16 reflects uncertainty about future earnings due to the troubled economy and the overall downturn in the stock market. Our research department feels that the company's earnings will continue to grow over the next three to five years.

The future earnings prospects appear bright. The ownership of vast amounts of timberland and the lifting of price controls should help the company in this inflationary period. We believe the market has overdiscounted earnings prospects, and that the current market price is too negative an appraisal for this fine company.

Carter is also diversified with its major source of revenues from radio and

EXHIBIT B-II (cont'd.)

TV broadcasting. The company owns several television and radio stations in major cities across the country and is engaged in movie and TV production. Carter's revenues and earnings in fiscal 1974 were the highest in its history. However, a large portion of that revenue and income was generated by the amusement park operations. With the decrease projected in decretionary income and the higher cost of gasoline the revenues from this part of the business should not be very promising in the next several years. In addition, the company will be affected by the higher cost of energy used in running its amusement parks and higher wage rates due to the increase in the minimum wage to $2.00 per hour from $1.75.

Earnings and average market price per share have been as follows:

	1972	1973	1974
Earnings per share	$1.80	$1.95	$2.53
Average market price	$24	$43	$39

The market price is now down to $21 a share reflecting the belief that this company is in a high risk situation because of rapid inflation and the possible effects on its business from the potentially explosive Middle East situation. In conclusion, we feel SRN, Inc. provides a better investment opportunity for most investment objectives.

APPENDIX C

AUDITOR'S REPORTS

APPENDIX C

AUDITOR'S REPORTS

EXHIBIT C-I

Level A_1 and A_6

A Standard Unqualified Auditor's Report for both Companies

AUDITORS' REPORT

To the Directors and Stockholders of Carter Communications Company

We have examined the consolidated balance sheets of Carter Communications Company and subsidiaries as of May 31, 1974 and 1973 and the related consolidated statements of earnings and retained earnings and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements present fairly the consolidated financial position of Carter Communications Company and subsidiaries at May 31, 1974 and 1973 and the consolidated results of their operations and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Denver, Colorado
June 21, 1974

Arthur Old & Co

EXHIBIT C-I (cont'd.)

ACCOUNTANTS' REPORT

To the Board of Directors and Shareholders of SRN, Inc.

We have examined the consolidated balance sheet of SRN, Inc. and subsidiaries as of May 31, 1974 and 1973 and the related consolidated statement of income and retained earnings and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements present fairly the consolidated financial position of SRN, Inc. and subsidiaries at May 31, 1974 and 1973 and the consolidated results of their operations and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Dallas, Texas
June 28, 1974

Haskins and Sells

EXHIBIT C-II

Level A_2 and A_7

A Standard Unqualified Auditor's Report With a Middle Paragraph Disclaimer on the Forecasted Data for Both Companies

AUDITORS' REPORT

To the Directors and Stockholders of Carter Communications Company

We have examined the historical consolidated balance sheets of Carter Communications Company and subsidiaries as of May 31, 1974 and 1973 and the related consolidated statements of earnings and retained earnings and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Included in the accompanying report are forecasted financial statements for the year to end May 31, 1975. Inasmuch as such financial statements relate to the future, we are not in a position to, and we do not express any opinion on such forecasted statements, or on how closely the forecast may approximate actual results.

In our opinion, the aforementioned historical financial statements present fairly the consolidated financial position of Carter Communications Company and subsidiaries at May 31, 1974 and 1973 and the consolidated results of their operations and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Denver, Colorado
June 21, 1974

Arthur Old & Co

EXHIBIT C-II (cont'd.)

ACCOUNTANTS' REPORT

To the Board of Directors and Shareholders of SRN, Inc.

We have examined the historical consolidated balance sheet of SRN, Inc. and subsidiaries as of May 31, 1974 and 1973 and the related consolidated statement of income and retained earnings and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Included in the accompanying report are forecasted consolidated financial statements for the year to end May 31, 1975. Inasmuch as such financial statements relate to the future, we are not in a position to, and we do not express any opinion on such forecasted statements, or on how closely the forecast may approximate actual results.

In our opinion, the aforementioned historical financial statements present fairly the consolidated financial position of SRN, Inc. and subsidiaries at May 31, 1974 and 1973 and the consolidated results of their operations and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Dallas, Texas
June 28, 1974

Haskins and Buys

EXHIBIT C-III

Level A_3 and A_8

A Standard Unqualified Auditor's Report Whose Scope and Opinion Paragraphs are Expanded to Mention the Examination of and Include an Unqualified Opinion on Internalities of One-Year Financial Forecasts for Both Companies

AUDITORS' REPORT

To the Directors and Stockholders of Carter Communications Company

We have examined the historical consolidated balance sheets of Carter Communications Company and subsidiaries as of May 31, 1974 and 1973 and the related consolidated statements of earnings and retained earnings and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We also have reviewed the accounting principles applied and the calculations made in preparing the forecasted consolidated balance sheet of Carter Communications Company and subsidiaries for May 31, 1975 and the related statements of forecasted consolidated earnings and retained earnings and changes in financial position for the year then ended.

In our opinion, the aforementioned historical financial statements present fairly the consolidated financial position of Carter Communications Company and subsidiaries at May 31, 1974 and 1973 and the consolidated results of their operations and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis. In our opinion, the aforementioned forecasted financial statements, so far as the accounting principles and the calculations are concerned, have been compiled on the basis on the assumptions made by the Company and are presented on a basis consistent with the accounting principles used by the Company in the preparation of its historical financial statements for the year ended May 31, 1974. Inasmuch as the forecasted statements and the assumptions on which they are based relate to the future and may be affected by unforeseen events, we can express no opinion on how closely the forecasted statements will correspond with actual results, or on the assumptions on which they are based.

Denver, Colorado
June 21, 1974

Arthur Old & Co

EXHIBIT C-III (cont'd.)

ACCOUNTANTS' REPORT

To the Board of Directors and Shareholders of SRN, Inc.

We have examined the historical consolidated balance sheet of SRN, Inc. and subsidiaries as of May 31, 1974 and 1973 and the related statements of historical consolidated income and retained earnings and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of accounting records and such other auditing procedures as we considered necessary in the circumstances. We also have reviewed the accounting principles applied and the calculations made in preparing the forecasted consolidated balance sheet of SRN, Inc. and subsidiaries for May 31, 1975 and the related statements of forecasted consolidated income and retained earnings and changes in financial position for the year then ended.

In our opinion, the aforementioned historical financial statements present fairly the financial position of SRN, Inc. and subsidiaries at May 31, 1974 and 1973 and the consolidated results of their operations and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis. Furthermore, in our opinion, the aforementioned forecasted financial statements, so far as the accounting principles and the calculations are concerned, have been compiled on the basis of the assumptions made by the Company and are presented on a basis consistent with the accounting principles used by the Company in the preparation of its historical financial statements for the year ended May 31, 1974. Inasmuch as the forecasted statements and the assumptions on which they are based relate to the future and may be affected by unforeseen events, we can express no opinion on how closely the forecasted statements will correspond with actual results, or on the assumptions on which they are based.

Dallas, Texas
June 28, 1974

Adams and Boyz

EXHIBIT C-IV

Level A_4 and A_9

A Standard Unqualified Auditor's Report Whose Scope and Opinion Paragraphs are Expanded to Mention the Examination of and Include an Unqualified Opinion on the Internalities and Externalities of the One-Year Forecasts for Both Companies

AUDITORS' REPORT

To the Directors and Stockholders of Carter Communications Company

We have examined the historical consolidated balance sheets of Carter Communications Company and subsidiaries as of May 31, 1974 and 1973 and the related consolidated statements of earnings and retained earnings and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We also have reviewed the assumptions employed, the accounting principles applied and the calculations made in preparing the forecasted consolidated balance sheet of Carter Communications Company and subsidiaries for May 31, 1975 and the related statements of forecasted consolidated earnings and retained earnings and changes in financial position for the year then ended.

In our opinion, the aforementioned historical financial statements present fairly the consolidated financial position of Carter Communications Company and subsidiaries at May 31, 1974 and 1973 and the consolidated results of their operations and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis. Furthermore, in our opinion, (1) the Company's assumptions employed in the forecasted financial statements are reasonable and were selected with due care and consideration and, (2) the forecasted financial statements are properly compiled and give effect to the stated assumptions on a basis consistent with the accounting principles used by the Company in preparation of its historical financial statements for the year ended May 31, 1974. Inasmuch as the forecasted statements relate to the future and may be affected by unforeseen events, we can express no opinion on how closely the forecasted statements will correspond with actual results.

Denver, Colorado
June 21, 1974

Arthur Old & Co

EXHIBIT C-IV (cont'd.)

ACCOUNTANTS' REPORT

To the Board of Directors and Shareholders of SRN, Inc.

We have examined the historical consolidated balance sheet of SRN, Inc. and subsidiaries as of May 31, 1974 and 1973 and the related historical consolidated statement of income and retained earnings and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We also have reviewed the assumptions employed, the accounting principles applied and the calculations made in preparing the forecasted consolidated balance sheet of SRN, Inc. and subsidiaries for May 31, 1975 and the related statements of forecasted consolidated income and retained earnings and changes in financial position for the year then ended.

In our opinion, the aforementioned historical financial statements present fairly the consolidated financial position of SRN, Inc. and subsidiaries at May 31, 1974 and 1973 and the consolidated results of their operations and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis. Furthermore, in our opinion, (1) the Company's assumptions employed in the forecasted financial statements are reasonable and were selected with due care and consideration and, (2) the forecasted financial statements are properly compiled and give effect to the stated assumptions on a basis consistent with the accounting principles used by the Company in preparation of its historical financial statements for the year ended May 31, 1974. Inasmuch as the forecasted statements relate to the future and may be affected by unforeseen events, we can express no opinion on how closely the forecasted statements will correspond with actual results.

Dallas, Texas
June 28, 1974

Williams and Burys

EXHIBIT C-V

Level A_5 and A_{10}

For SRN, the Same Type of Report as Used in $A_4(A_9)$. For Carter, an Adverse Opinion Based on an Examination of Both the Internalities and Externalities of the One-Year Financial Forecast

EXHIBIT C-V

AUDITORS' REPORT

To the Directors and Stockholders of Carter Communications Company

We have examined the historical consolidated balance sheet of Carter Communications Company and subsidiaries as of May 31, 1974 and 1973 and the related historical consolidated statement of earnings and retained earnings and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We also have reviewed the assumptions employed, the accounting principles applied and the calculations made in preparing the forecasted consolidated balance sheet of Carter Communications Company and subsidiaries for May 31, 1975 and the related statements of forecasted consolidated earnings and retained earnings and changes in financial position for the year then ended.

In the Company's letter to stockholders, the assumptions underlying the forecasted financial statements are disclosed. One of these assumptions states: "Personal disposable income will remain constant." However, nothing is said about an element of personal disposable income labeled personal discretionary income. Personal discretionary income is the income individuals have available for non-essential expenditures such as recreation. According to the United States Department of Commerce this type of income has been declining since January, 1974. In addition, the forecasted revenues are based on estimated amusement park capacity utilization of 90% whereas the American Federation of Amusement Parks is projecting 80% utilization for the industry. The Company has traditionally experience capacity utilizations similar to those of the industry. Had these alternate assumptions been used in preparing the accompanying forecasted financial statements, forecasted revenues and earnings would have been reduced significantly from those forecasted by the Company for the fiscal year ending May 31, 1975.

In our opinion, the aforementioned historical financial statements present fairly the consolidated financial position of Carter Communications Company and subsidiaries at May 31, 1974 and 1973 and the consolidated results of their operations and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis. Furthermore, because of the significance of the matters referred to in the above paragraph, in our opinion, the accompanying forecasted financial statements have not been prepared on a basis of reasonable assumptions and estimates. Inasmuch as the forecasted statements relate to the future and may be affected not only by the reasonableness of the assumptions used but also by unforeseen events as well, we can express no opinion on how closely the forecasted statements will correspond with actual results.

Arthur Old + Co.

Denver, Colorado
June 21, 1974

APPENDIX D

QUESTIONNAIRES

APPENDIX D

QUESTIONNAIRES

EXHIBIT D-I

Questionnaire - Level F_0

QUESTIONNAIRE

Instructions:

Your task is to select one of two hypothetical companies in which you prefer to invest. This investment decision is to be based on the enclosed material concerning the two companies. The material enclosed consists of, 1) broker advice, 2) presidents letter, 3) historical financial statements, 4) and auditor's report.

First review the material listed above, then answer the following questions. Answer the questions in order. Do not look at the next question until you have completed the one before it. Do not change any answers. Be very careful to fill out the questionnaire accurately and completely. Incorrect or incomplete questionnaires cannot be used in the study. Place the complete questionnaire in the stamped return addressed envelope.

Please do it today. Delayed responses may be too late to include in the study. If you would like a copy of the results, place a check in the box on the outside of the return addressed envelope and return your questionnaire promptly.

Stop. Please look at the company material now.

1 Assuming a current market price of $21 for Carter and $16 for SRN, in which company would you prefer to invest?

☐ Carter Communications ☐ SRN, Inc.

2 How do you describe this preference?

☐ Strong ☐ Moderate ☐ Weak

3 Given only the information provided you, what value or price per share would you place on the common stock?

Carter Communications $_____ SRN, Inc. $_____

4 How much time did you spend reviewing the financial information before answering questions 1 and 2 above? _____hour(s)

5 Of the information in the packet, which was the single most influential source in your investment decision?

☐ Broker advice ☐ Presidents letter ☐ Auditor's report

☐ Historical financial statements

The remaining questions are of a personal nature, but are necessary to insure the statistical validity of the study. Let me assure you that complete confidentiality will be maintained.

6 What is the single most influential source of investing information you normally use in making your security selection decisions?

☐ Friend and/or relatives ☐ Advisor services

☐ Investment club associates ☐ Stock broker

☐ Financial statements ☐ Newspapers

☐ Tips and rumors ☐ Other _____

7 It may be that your answer to question 5 differs from your answer to question 6. If there is a difference, indicate the reasons here. _____

_____

EXHIBIT D-I (cont'd.)

8 How many years have you been a member of an investment club? _____

9 Do you own securities in addition to those owned in common by the club?

☐ Yes ☐ No

If the answer to question 9 above is yes, answer questions 10 through 13 relative to the securities which belong to you. If the answer above is no, answer the same questions relative to the securities which the club owns in common.

10 How many years have you been making investments in corporate securities?

☐ Under one year ☐ Three years up to five years

☐ One year up to three years ☐ Five years and over

11 How long do you typically hold a security in your portfolio?

☐ Under six months ☐ One year up to three years

☐ Six months up to one year ☐ Three years and over

12 Which one of the following best describes your basis for selecting a security?

☐ Market price appreciation ☐ Dividends

13 In which of the following ranges does the total market value of all of your securities fall?

☐ Under $5,000 ☐ $5,000 thru $9,999 ☐ $10,000 thru $14,999

☐ $15,000 thru $19,999 ☐ $20,000 thru $24,999 ☐ above $25,000

14 Which of the following best describes your formal education?

☐ Less than four years of high school

☐ High school completed

☐ Less than four years of college

☐ College completed (major _____)

☐ Post-graduate degree (major area _____)

15 What is your age bracket?

☐ Under 21 ☐ 21 thru 34 ☐ 35 thru 44

☐ 45 thru 54 ☐ 55 thru 64 ☐ 65 or more

16 Which of the following captions best describes your occupation?

☐ Farmer or farm worker ☐ Professional or technician

☐ Craftsman or foreman ☐ Clerical or sales person

☐ Service worker ☐ Housewife, retired or non-employed adult

☐ Manager, official or proprietor ☐ Laborer or operative

17 In which of the following ranges does your annual income fall?

☐ Under $5,000 ☐ $5,000 to $7,999 ☐ $8,000 to $9,999

☐ $10,000 to $14,999 ☐ $15,000 to $25,000 ☐ Over $25,000

EXHIBIT D-II

QUESTIONNAIRE - LEVELS F_{++} and F_{-+}

QUESTIONNAIRE

Instructions:

Your task is to select one of two hypothetical companies in which you prefer to invest. This investment decision is to be based on the enclosed material concerning the two companies. The material enclosed consists of, 1) broker advice, 2) presidents letter, 3) historical financial statements, 4) auditor's report, and 5) forecasted financial statements.

First review the material listed above, then answer the following questions. Answer the questions in order. Do not look at the next question until you have completed the one before it. Do not change any answers. Be very careful to fill out the questionnaire accurately and completely. Incorrect or incomplete questionnaires cannot be used in the study. Place the complete questionnaire in the stamped return addressed envelope.

Please do it today. Delayed responses may be too late to include in the study. If you would like a copy of the results, place a check in the box on the outside of the return addressed envelope and return your questionnaire promptly.

Stop. Please look at the company material now.

1 Assuming a current market price of $21 for Carter and $16 for SRN, in which company would you prefer to invest?

☐ Carter Communications ☐ SRN, Inc.

2 How do you describe this preference?

☐ Strong ☐ Moderate ☐ Weak

3 Given only the information provided you, what value or price per share would you place on the common stock?

Carter Communications $_____ SRN, Inc. $_____

4 How much time did you spend reviewing the financial information before answering questions 1 and 2 above? _____hour(s)

5 Of the information in the packet, which was the single most influential source in your investment decision?

☐ Broker advice ☐ Presidents letter ☐ Auditor's report

☐ Historical financial statements ☐ Forecasted financial statements

The remaining questions are of a personal nature, but are necessary to insure the statistical validity of the study. Let me assure you that complete confidentiality will be maintained.

6 What is the single most influential source of investing information you normally use in making your security selection decisions?

☐ Friend and/or relatives ☐ Advisor services

☐ Investment club associates ☐ Stock broker

☐ Financial statements ☐ Newspapers

☐ Tips and rumors ☐ Other _____

7 It may be that your answer to question 5 differs from your answer to question 6. If there is a difference, indicate the reasons here. _____

_____

EXHIBIT D-II (cont'd.)

8 How many years have you been a member of an investment club? _____

9 Do you own securities in addition to those owned in common by the club?

☐ Yes ☐ No

If the answer to question 9 above is yes, answer questions 10 through 13 relative to the securities which belong to you. If the answer above is no, answer the same questions relative to the securities which the club owns in common.

10 How many years have you been making investments in corporate securities?

☐ Under one year ☐ Three years up to five years

☐ One year up to three years ☐ Five years and over

11 How long do you typically hold a security in your portfolio?

☐ Under six months ☐ One year up to three years

☐ Six months up to one year ☐ Three years and over

12 Which one of the following best describes your basis for selecting a security?

☐ Market price appreciation ☐ Dividends

13 In which of the following ranges does the total market value of all of your securities fall?

☐ Under $5,000 ☐ $5,000 thru $9,999 ☐ $10,000 thru $14,999

☐ $15,000 thru $19,999 ☐ $20,000 thru $24,999 ☐ above $25,000

14 Which of the following best describes your formal education?

☐ Less than four years of high school

☐ High school completed

☐ Less than four years of college

☐ College completed (major _____)

☐ Post-graduate degree (major area _____)

15 What is your age bracket?

☐ Under 21 ☐ 21 thru 34 ☐ 35 thru 44

☐ 45 thru 54 ☐ 55 thru 64 ☐ 65 or more

16 Which of the following captions best describes your occupation?

☐ Farmer or farm worker ☐ Professional or technician

☐ Craftsman or foreman ☐ Clerical or sales person

☐ Service worker ☐ Housewife, retired or non-employed adult

☐ Manager, official or proprietor ☐ Laborer or operative

17 In which of the following ranges does your annual income fall?

☐ Under $5,000 ☐ $5,000 to $7,999 ☐ $8,000 to $9,999

☐ $10,000 to $14,999 ☐ $15,000 to $25,000 ☐ Over $25,000

APPENDIX E

LETTERS OF NOTIFICATION

LETTERS OF NOTIFICATION

EXHIBIT E-I

Original Cover Letter

National Association of Investment Clubs

1515 EAST ELEVEN MILE ROAD
ROYAL OAK, MICHIGAN 48067

Dear Member:

I ask you to read the following letter very carefully. You have been selected to participate in a study dealing with financial reporting and its effect on investors' decisions. We strongly feel that the results of this study may help point the way toward improvement in financial reporting for the individual private investor. This project is being conducted by Mr. S. Thomas A. Cianciolo who came to us highly recommended by George A. Nicholson, CPA, a Partner in the Detroit office of Arthur Andersen & Co. Mr. Cianciolo is a CPA and is currently a Ph.D. candidate at Michigan State University. His Doctoral dissertation will include the results of this study.

Enclosed with this letter is a questionnaire and related material. Please review the material and complete the questionnaire. Others in your area or club may be receiving a similar packet. Please do not discuss the contents of your packet with another member until both of you have completed and returned the questionnaire. Discussion between participants in the study will destroy its statistical validity and its potential value for improving financial reporting for the individual private investor.

Return addressed envelopes are coded so that the effect of financial reporting variations can be analyzed and so that the results of the study can be mailed to those participants who request them. NAIC employees are handling the mailing and sealed return envelopes will be received directly by our office where our employees will check-off the coding and "results requested" on a master list. The sealed return envelopes will then be forwarded to Mr. Cianciolo. In other words, our employees will see only the names and Mr. Cianciolo will see only the responses. Complete anonymity is assured.

Your completion of Mr. Cianciolo's questionnaire will be both a service to him in completing his dissertation and, in a very real sense, a service to all private investors.

Thank you in advance for your cooperation.

Yours very truly,

Thomas E. O'Hara

Thomas E. O'Hara
Chairman, Board of Trustees

TOH:kk
Encls.

EXHIBIT E-II

SECOND REQUEST LETTER

National Association of Investment Clubs

NAIC INVESTMENT EDUCATION 1951

1515 EAST ELEVEN MILE ROAD
ROYAL OAK, MICHIGAN 48067

August 5, 1974

Dear Member,

Your help is urgently needed.

Recently a packet containing a questionnaire was mailed to you. The completed questionnaire will be the major input into a study dealing with financial reporting variations and the small, private investor.

Our master list indicates that we have not received your response. Without your response, the time and money spent on this study will be completely wasted and any potential benefits to the small, private investor will be lost.

PLEASE SEND IN YOUR RESPONSE TODAY.

Yours very truly,

Thomas E. O'Hara

Thomas E. O'Hara
Chairman, Board of Trustees

TOH:kk

APPENDIX F

PRESIDENTS' LETTERS

EXHIBIT F-I

PRESIDENTS' LETTERS TO ACCOMPANY HISTORICAL FINANCIAL STATEMENTS

CARTER COMMUNICATIONS

TO OUR STOCKHOLDERS

In the fiscal year just ended, Carter Communications Company's revenues and earnings were the highest in its history. Revenues reached $70,525,040, an increase of 32% over the last fiscal year, and earnings before an extraordinary credit were $10,331,209, an increase of 38%. This resulted in earnings per share before extraordinary credit of $2.53 vs. $1.95 last year. This increase is particularly significant in view of the fact that the weighted average number of shares outstanding this year exceeded the number outstanding last year by 301,874.

In addition, in the fiscal year the Company realized a gain from the sale of its AM and FM stations in Richmond, Virginia of $1,086,455 net of applicable income taxes, or 26¢ per share. After the extraordinary item, total earnings per share in the fiscal year were $2.79.

These achievements were especially gratifying because they resulted from a combination of strong performances by our major operating divisions. The Broadcasting Division had a record year in sales and profits and, at the same time, significantly improved its facilities position by occupying new television studios in Cleveland and Atlanta. We continue to regard broadcasting as our primary profit center and are actively seeking to expand our complement of radio properties. The Child Life Division had the best year in its history, financially and creatively. It continued its pre-eminent position in network television children's programming, successfully released its first full-length theatrical motion picture, and continued to expand its merchandising and syndication operations.

In perhaps the single most exciting development of the fiscal year, our Picnic Island Amusement Center opened successfully and on schedule and enjoyed a first year's performance which exceeded all of our projections. Progress to date has been excellent on the construction of our second family entertainment center, Picnic Place, located north of Dallas, Texas. This is the first venture of Leisure Centers, our joint venture with Leisure Enterprises. It is anticipated that Picnic Place will open in the spring of 1975.

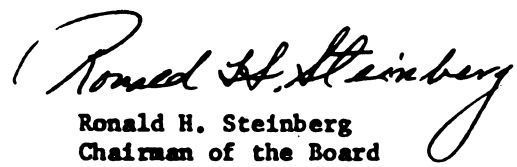
In July we completed a public offering of 300,000 shares of our common stock and simultaneously warrants for 60,001 shares were exercised. The proceeds from this offering and exercise of warrants enabled us to retire all of our short term bank debt and gave us expansion and development. As a result, we are in a strong cash position as we enter the new fiscal year. In addition, we had a net reduction in our long term debt (including current portion) of $2,132,607 during the fiscal year and it now stands at $33,231,750, approximately 39% of stockholders' equity.

As the new fiscal year began, business continued to be strong. The second year for Picnic Island and the new Cleveland and Atlanta television studios should greatly increase revenues and earnings in the upcoming fiscal year.

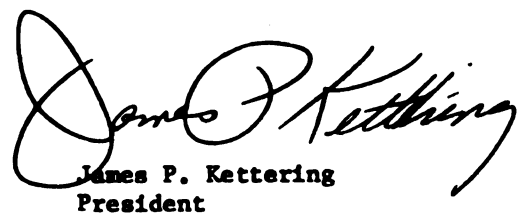
Management is recommending the addition of Fred G. Mott to our Board of Directors. Mr. Mott, a Vice President of Carter, is the head of our Picnic Island operation. He has an outstanding reputation in his field and we believe he will be a strong and contributing addition to our Board.

EXHIBIT F-I (cont'd.)

Our basic corporate policy remains unchanged - to maintain and improve our strong base in broadcasting, to expand and diversify in the leisure time field, and to continue to seek out compatible and profitable new opportunities for growth. We feel that the accomplishments of the last fiscal year and the prospects for the future justify our continued adherence to this policy. As always, our success is possible only through the continued loyalty and support of our employees and stockholders.



Ronald H. Steinberg
Chairman of the Board



James P. Kettering
President

EXHIBIT F-I (cont'd.)

SRN, Inc.

TO OUR SHAREHOLDERS

SUMMARY OF FISCAL 1974

In its 90th year of operations ending May 31, 1974, SRN, Inc. recorded the best performance in its history. Net income increased 31% to reach an all-time high of $55 million or $1.63 per share. Revenues for the year also reached an all-time high of $706 million. By comparison, net income in 1973 amounted to $42 million, or $1.25 per share, on revenues of $611 million. The strongest contributions to the Company's record-breaking performance came from Newsprint and Forest Products and from Newspaper Publishing.

Newspaper revenues rose to $303 million in 1974 from $280 million in 1973 pretax profit of $50 million in 1974, compared with $44 million in 1973. All four SRN, Inc. newspapers enjoyed their best year in history in 1974. Advertising linage of each newspaper achieved all-time high levels in 1974.

Revenues from Newsprint and Forest Products rose to $208 million in 1974 with pretax income of $40 million, more than double the pretax income of $19 million in 1973. Revenues from pulp and paper operations in 1974 were up modestly over the prior year, despite a brief strike at one of the Company's two mills. Largest revenue gains came from lumber manufacturing. Log sales and plywood manufacturing also generated increased revenues, especially in the first part of 1974.

Revenues from Book Publishing remained almost constant at $122 million but pretax income was down to $6 million, compared with $11 million in 1973. Results of operations from Book Publishing were heavily influenced by developments at The Zenith Publishing Company. During 1974, Zenith discontinued, sold or agreed to sell a substantial portion of its business. Revenues of Zenith of $11 million and a net loss of $5 million are included in 1974 consolidated operations. The net loss includes unusual write downs and losses of $3 million, after applicable income tax credits, in connection with the discontinuance and sale.

Revenues from other operations, including information services, magazine publishing, directory printing, television broadcasting, and cable communications, advanced to $121 million in 1974, compared with $105 million in 1973, while pretax income remained constant at $7 million. Excellent results were recorded by most companies in this category, although magazine publishing was adversely affected by losses.

Prices charged by all SRN, Inc. divisions and subsidiaries were subject to the Phase 4 regulation under the Economic Stabilization Act during 1973, except that lumber and plywood prices were decontrolled on August 13, 1973. In February, 1974 prices of various SRN, Inc. products began to be decontrolled, and by March 15, 1974 all controls on prices charged by SRN, Inc. units were removed. During the imposition of Page 4, prices could not be raised sufficiently to fully recover increased costs.

CASH DIVIDENDS

The Board of Directors increased the cash dividend on the common stock from 6 1/2 cents per share paid quarterly in fiscal 1973 to 7 1/2 cents per share during the first two quarters of fiscal 1974 and to 8 cents per share during the last two quarters of fiscal 1974.

EXHIBIT F-I (cont'd.)

BOARD OF DIRECTORS

Paul S. Bogg, Los Angeles investor, was elected to the Board of Directors on July 28, 1973.

THE YEAR AHEAD

We remain confident of the future. This confidence is based on the nature of our business: providing useful and essential information to those who need it. The need for excellent newspapers, books, magazines, television and cable communications, directories, and other information services has never been greater. Over the long run, we believe we are well positioned with the resources to maintain and increase this flow of information.

Finally, our Newsprint and Forest Products operations, based upon a significant timberlands base - a renewable natural resource - and the ability to produce newsprint for a ready market (with the attendant certainty of supply of a vital material) have grown dramatically and offer great future promise.

We extend our appreciation to the shareholders and to all the employees of SRN, Inc. for their continuing support and encouragement.

Donald H. Cairns
Chairman

David G. Bales
President

EXHIBIT F-II

PRESIDENTS' LETTERS TO ACCOMPANY HISTORICAL AND POSITIVE FORECASTED FINANCIAL STATEMENTS

CARTER COMMUNICATIONS

To Our Stockholders

In the fiscal year just ended, Carter Communications Company's revenues and earnings were the highest in its history. Revenues reached $70,525,040, an increase of 32% over the last fiscal year, and earnings before an extraordinary credit were $10,331,209, an increase of 38%. This resulted in earnings per share before extraordinary credit of $2.53 vs. $1.95 last year. This increase is particularly significant in view of the fact that the weighted average number of shares outstanding this year exceeded the number outstanding last year by 301,874.

In addition, in the fiscal year the Company realized a gain from the sale of its AM and FM stations in Richmond, Virginia of $1,086,455 net of applicable income taxes, or 26¢ per share. After the extraordinary item, total earnings per share in the fiscal year were $2.79.

These achievements were especially gratifying because they resulted from a combination of strong performances by our major operating divisions. The Broadcasting Division had a record year in sales and profits and, at the same time, significantly improved its facilities position by occupying new television studios in Cleveland and Atlanta, We continue to regard broadcasting as our primary profit center and are actively seeking to expand our complement of radio properties. The Child LIfe Division had the best year in its history, financially and creatively. It continued its pre-eminent position in network television children's programming, successfully released its first full-length theatrical motion picture, and continued to expand its merchandising and syndication operations.

In perhaps the single most exciting development of the fiscal year, our Picnic Island Amusement Center opened successfully and on schedule and enjoyed a first year's performance which exceeded all of our projections. Progress to date has been excellent on the construction of our second family entertainment center, Picnic Place, located north of Dallas, Texas. This is the first venture of Leisure Centers, our joint venture with Leisure Enterprises. It is anticipated that Picnic Place will open in the spring of 1975.

In July we completed a public offering of 300,000 shares of our common stock and simultaneously warrants for 60,001 shares were exercised. The proceeds from this offering and exercise of warrants enable us to retire all of our short term bank debt and gave us expansion and development. As a result, we are in a strong cash position as we enter the new fiscal year. In addition, we had a net reduction in our long term debt (including current portion) of $2,132,607 during the fiscal year and it now stands at $33,231,750, approximately 39% of stockholders' equity. As recently as fiscal 1971, long term debt amounted to 49% of stockholders' equity.

Our actual earnings per share of $2.79 was $.19 greater than what was forecasted at the beginning of fiscal 1974. While revenues from broadcasting and television and motion picture production posted gains, the most significant unexpected gain was in amusement park revenues. Both the number of visitors to our new Picnic Island facility and their per capita expenditure exceeded all expectations. The higher volume of business along with higher than anticipated resource prices caused total cost levels to exceed the forecast.

EXHIBIT F-II (cont'd.)

Our assumptions about general economic conditions for fiscal 1975 are as follows: gross national product will increase about 9%, but this increase will be largely due to inflation. Personal disposable income will remain constant. Gasoline will be readily available during the summer at about its present price per gallon.

We believe that annual vacations have a high priority among the American people. Therefore we estimate, based on the assumptions stated earlier, that revenues will increase by $20.5 million or 30% and will be caused by several factors. We expect to distribute the second of our Child-Life full length motion pictures. The major additions at Picnic Island, as discussed in footnote 11 (A) of the financial statements, will be in operations. Lastly, the new Cleveland and Atlanta television stations, will be in operation for the full year.

We estimate costs to increase by $16.4 million or 32%. In particular, staffing and depreciation charges for the new additions at Picnic Island and the new television stations will cause significant increases in costs. In addition, both energy and labor costs will increase in fiscal 1975. The combined effect of these estimations should result in an increase in earnings per share before extraordinary items of $.77 to $3.30 for fiscal 1975 up from $2.53 in 1974.

Management is recommending the addition of Fred G. Mott to our Board of Directors. Mr. Mott, a Vice President of Carter, is the head of our Picnic Island operation. He has an outstanding reputation in his field and we believe he will be a strong and contributing addition to our Board.

Our basic corporate policy remains unchanged - to maintain and improve our strong base in broadcasting, to expand and diversify in the leisure time field, and to continue to seek out compatible and profitable new opportunities for growth. We feel that the accomplishments of the last fiscal year and the prospects for the future justify our continued adherence to this policy. As always, our success is possible only through the continued loyalty and support of our employees and stockholders.

Ronald H. Steinberg
Chairman of the Board

James P. Kettering
President

EXHIBIT F-II (cont'd.)

SRN, Inc.

TO OUR SHAREHOLDERS

SUMMARY OF FISCAL 1974

In its 90th year of operations ending May 31, 1974, SRN, Inc. recorded the best performance in its history. Net income increased 31% to reach an all-time high of $55 million or $1.63 per share. Revenues for the year also reached an all-time high of $706 million. By comparison, net income in 1973 amounted to $42 million, or $1.25 per share, on revenues of $611 million. The strongest contributions to the Company's record-breaking performance came from Newsprint and Forest Products and from Newspaper Publishing.

Newspaper revenues rose to $303 million in 1974 from $280 million in 1973 pretax profit of $50 million in 1974, compared with $44 million in 1973. All four SRN, Inc. newspapers enjoyed their best year in history in 1974. Advertising linage of each newspaper achieved all-time high levels in 1974.

Revenues from Newsprint and Forest Products rose to $208 million in 1974 with pretax income of $40 million, more than double the pretax income of $19 million in 1973. Revenues from pulp and paper operations in 1974 were up modestly over the prior year, despite a brief strike at one of the Company's two mills. Largest revenue gains came from lumber manufacturing. Log sales and plywood manufacturing also generated increased revenues, especially in the first part of 1974.

Revenues from Book Publishing remained almost constant at $122 million but pretax income was down to $6 million, compared with $11 million in 1973. Results of operations from Book Publishing were heavily influenced by developments at The Zenith Publishing Company. During 1974, Zenith discontinued, sold or agreed to sell a substantial portion of its business. Revenues of Zenith of $11 million and a net loss of $5 million are included in 1974 consolidated operations. The net loss includes unusual write downs and losses of $3 million, after applicable income tax credits, in connection with the discontinuance and sale.

Revenues from other operations, including information services, magazine publishing, directory printing, television broadcasting, and cable communications, advanced to $121 million in 1974, compared with $105 million in 1973, while pretax income remained constant at $7 million. Excellent results were recorded by most companies in this category, although magazine publishing was adversely affected by losses.

Prices charged by all SRN, Inc. divisions and subsidiaries were subject to the Phase 4 regulation under the Economic Stabilization Act during 1973, except that lumber and plywood prices were decontrolled on August 13, 1973. In February, 1974 prices of various SRN, Inc. products began to be decontrolled, and by March 15, 1974 all controls on prices charged by SRN, Inc. units were removed. During the imposition of Page 4, prices could not be raised sufficiently to fully recover increased costs.

CASH DIVIDENDS

The Board of Directors increased the cash dividend on the common stock from 6 1/2 cents per share paid quarterly in fiscal 1973 to 7 1/2 cents per share during the first two quarters of fiscal 1974 and to 8 cents per share during the last two quarters of fiscal 1974.

EXHIBIT F-II (cont'd.)

COMPARISON OF THE 1974 FORECAST WITH ACTUAL RESULTS - A major deviation from the 1974 forecast was the level of operating revenue. Actual revenue was $45 million (7%) higher than forecast. The basic reason for this variation was the underestimated demand for plywood and consequent excessive price increases. Actual cost was $10 million (6%) higher than forecasted. This was caused by a greater than expected increase in newsprint prices. The result on earnings per share was an increase to $1.63 instead of the $1.50 projected, an increase of nearly 9%.

THE YEAR AHEAD - We remain confident of the future. This confidence is based on the nautre of our business: providing useful and essential information to those who need it. The need for excellent newspapers, books, magazines, television and cable communications, telephone directories, and other information services has never been greater. Over the long run, we believe we are well positioned with resources to maintain and increase this flow of information.

Our Newsprint and Forest Products operations, based upon a significant timberlands base - a renewable natural resource - and the ability to produce newsprint for a ready market (with the attendant certainty of supply of a vital material) have grown dramatically and offer great future promise.

Our assumptions about the general economic outlook for fiscal 1975 follows: we expect some slowing of the economy with little growth in gross national product in real terms. The general rate of inflation should approximate 10%. The government will not re-impose general price controls.

We estimate revenues to increase by $92 million (13%). This increase will largely result from an average increase of 9% in the rates of our various categories of newspaper advertising. These rate increases were made at the end of fiscal 1974 when the newspaper industry was relieved of price controls. Most of these rate increases were covered by applications pending with the Cost of Living Council.

However, we estimate costs to increase by $83 million (14%). This increase will be largely caused by newsprint prices which are still rising dramatically. The effect of dramatically rising wage rates will continue to be substantially offset by technological advances. Two advances of importance are the use of photocomposition and plastic printing plates.

The increase in revenues and costs, caused primarily by price increases, will also be pushed higher by added volume caused by increases in advertising linage and lumber production. The resulting earnings per share should approximate $1.80, an increase of 10%.

BOARD OF DIRECTORS - Paul S. Bogg, Los Angeles investor, was elected to the Board of Directors on July 28, 1973.

We extend our appreciation to the shareholders and to all employees of SRN, Inc. for their continuing support and encouragement.

Donald H. Cairns
Chairman

David G. Bales
President

EXHIBIT F-III

PRESIDENT'S LETTER TO ACCOMPANY HISTORICAL AND NEGATIVE FORECASTED FINANCIAL STATEMENTS

CARTER COMMUNICATIONS

To Our Stockholders

In the fiscal year just ended, Carter Communications Company's revenues and earnings were the highest in its history. Revenues reached $70,525,040, an increase of 32% over the last fiscal year, and earnings before an extraordinary credit were $10,331,209, an increase of 38%. This resulted in earnings per share before extraordinary credit of $2.53 vs. $1.95 last year. This increase is particularly significant in view of the fact that the weighted average number of shares outstanding this year exceeded the number outstanding last year by 301,874.

In addition, in the fiscal year the Company realized a gain from the sale of its AM and FM stations in Richmond, Virginia of $1,086,455 net of applicable income taxes, or 26¢ per share. After the extraordinary item, total earnings per share in the fiscal year were $2.79.

These achievements were especially gratifying because they resulted from a combination of strong performances by our major operating divisions. The Broadcasting Division had a record year in sales and profits and, at the same time, significantly improved its facilities position by occupying new television studios in Cleveland and Atlanta, We continue to regard broadcasting as our primary profit center and are actively seeking to expand our complement of radio properties. The Child LIfe Division had the best year in its history, financially and creatively. It continued its pre-eminent position in network television children's programming, successfully released its first full-length theatrical motion picture, and continued to expand its merchandising and syndication operations.

In perhaps the single most exciting development of the fiscal year, our Picnic Island Amusement Center opened successfully and on schedule and enjoyed a first year's performance which exceeded all of our projections. Progress to date has been excellent on the construction of our second family entertainment center, Picnic Place, located north of Dallas, Texas. This is the first venture of Leisure Centers, our joint venture with Leisure Enterprises. It is anticipated that Picnic Place will open in the spring of 1975.

In July we completed a public offering of 300,000 shares of our common stock and simultaneously warrants for 60,001 shares were exercised. The proceeds from this offering and exercise of warrants enable us to retire all of our short term bank debt and gave us expansion and development. As a result, we are in a strong cash position as we enter the new fiscal year. In addition, we had a net reduction in our long term debt (including current portion) of $2,132,607 during the fiscal year and it now stands at $33,231,750, approximately 39% of stockholders' equity. As recently as fiscal 1971, long term debt amounted to 49% of stockholders' equity.

Our actual earnings per share of $2.79 was $.19 greater than what was forecasted at the beginning of fiscal 1974. While revenues from broadcasting and television and motion picture production posted gains, the most significant unexpected gain was in amusement park revenues. Both the number of visitors to our new Picnic Island facility and their per capita expenditure exceeded all expectations. The higher volume of business along with higher than anticipated resource prices caused total cost levels to exceed the forecast.

EXHIBIT F-III (cont'd.)

Our assumptions about general economic conditions for fiscal 1975 are as follows: gross national product will increase about 9%, but this increase will be largely due to inflation. Personal disposable income will remain constant. Energy costs will continue to increase.

Based on these assumptions, we estimate revenues to increase by a net of $5.5 million or 8%, and this net increase will be caused by several factors. On the positive side we expect to distribute the second of our Child-Life full length motion pictures. The major additions at Picnic Island, as discussed in footnote 11 (A) of the financial statements, will be in operation. Lastly, the new Cleveland and Atlanta television stations will be in operation for the full year. On the negative side, broadcasting revenues will decrease by continued slippage in national spot radio advertising. The total revenues at Picnic Island will suffer from lower attendance caused by reduction in vacation expenditures of consumers faced with decreases in discretionary income.

We estimate costs to increase by $8 million or 18%. In particular, staffing and depreciation charges for the new additions at Picnic Island and the new television stations will cause significant increases in costs. In addition, both energy and labor costs will increase in fiscal 1975. The combined effect of these estimations should result in a decrease in earnings per share before extraordinary items of $.33 down from $2.53 for 1974 to $2.20 for 1975.

Management is recommending the addition of Fred G. Mott to our Board of Directors. Mr. Mott, a Vice President of Carter, is the head of our Picnic Island operation. He has an outstanding reputation in his field and we believe he will be a strong and contributing addition to our Board.

Ronald H. Steinberg
Chairman of the Board

James P. Kettering
President

APPENDIX G

POST HOC COMPARISONS

TABLE G-I

POST HOC COMPARISONS
INVESTOR CHOICE PROPORTIONS -- ORIGINAL DATA
BROKER BY FORECAST INTERACTION

Interaction: Contrast $\hat{\psi}$	$\pm\sqrt{1\ _{.90}F_{1,8}}\ \sqrt{VAR\hat{\psi}}$	Final Calculations	
$(B_{+-}F_{++} - B_{+-}F_{-+})$ - $(B_{-+}F_{++} - B_{-+}F_{-+})$	$\pm\sqrt{1\ (3.458)}\ \sqrt{.0047}$	*.15	$.022<\hat{\psi}<.278$
Within column variation: Contrast $\hat{\psi}$	$\pm\sqrt{3\ F_{.90\ 3,8}}\ \sqrt{VAR\hat{\psi}}$	Final Calculations	
$(B_{+-}F_{++}) - (B_{-+}F_{++})$	$\pm\sqrt{3\ (2.924)}\ \sqrt{.0024}$	**.39	$.245<\hat{\psi}<.535$
$(B_{+-}F_{-+}) - (B_{-+}F_{-+})$	$\pm\sqrt{3\ (2.924)}\ \sqrt{.0024}$	***.24	$.095<\hat{\psi}<.385$
Within row variation: Contrast $\hat{\psi}$	$\pm\sqrt{3\ _{.90}F_{3,8}}\ \sqrt{VAR\hat{\psi}}$	Final Calculations	
$(B_{+-}F_{++}) - (B_{+-}F_{-+})$	$\pm\sqrt{3\ (2.924)}\ \sqrt{.0024}$	.12	$-.025<\hat{\psi}<.265$
$(B_{-+}F_{++}) - (B_{-+}F_{-+})$	$\pm\sqrt{3\ (2.924)}\ \sqrt{.0024}$	-.03	$-.175<\hat{\psi}<.115$

*Significant at the .10 level.

**Significant at the .10 and the .001 level.

***Significant at the .10 and the .01 level.

TABLE G-II

POST HOC COMPARISONS
INVESTOR CHOICE PROPORTIONS -- LOG TRANSFORMED DATA
BROKER BY FORECAST INTERACTION

Interaction: Contrast $\hat{\psi}$	$\pm\sqrt{1\ _{.90}F_{1,8}}$	$\sqrt{VAR\hat{\psi}}$		Final Calculations
$(B_{+-}F_{++} - B_{+-}F_{-+})$				
$- (B_{-+}F_{++} - B_{-+}F_{-+})$	$\pm\sqrt{1\ (3.458)}$	$\sqrt{.0288}$	*.330	$.014<\hat{\psi}<.646$

Within column variation: Contrast $\hat{\psi}$	$\pm\sqrt{3\ _{.90}F_{3,8}}$	$\sqrt{VAR\hat{\psi}}$		Final Calculations
$(B_{+-}F_{++}) - (B_{-+}F_{++})$	$\pm\sqrt{3\ (2.924)}$	$\sqrt{.0144}$	**1.054	$.699<\hat{\psi}<1.409$
$(B_{+-}F_{-+}) - (B_{-+}F_{-+})$	$\pm\sqrt{3\ (2.924)}$	$\sqrt{.0144}$	*** .724	$.369<\hat{\psi}<1.079$

Within row variation: Contrast $\hat{\psi}$	$\pm\sqrt{3\ _{.90}F_{3,8}}$	$\sqrt{VAR\hat{\psi}}$		Final Calculations
$(B_{+-}F_{++}) - (B_{+-}F_{-+})$	$\pm\sqrt{3\ (2.924)}$	$\sqrt{.0144}$	.204	$-.151<\hat{\psi}<.559$
$(B_{-+}F_{++}) - (B_{-+}F_{-+})$	$\pm\sqrt{3\ (2.924)}$	$\sqrt{.0144}$	-.126	$-.481<\hat{\psi}<.229$

*Significant at the .10 level.

**Significant at the .10 and the .001 level.

***Significant at the .10 and the .01 level.

TABLE G-III

POST HOC COMPARISONS
INVESTOR PREFERENCE INDEX
BROKER BY FORECAST INTERACTION

Contrast $\hat{\psi}$	$\pm\sqrt{1\ .90F_{1,307}}\ \sqrt{VAR\hat{\psi}}$		Final Calculations	
Interaction:				
$(B_{+-}F_{++} - B_{+-}F_{-+})$				
$- (B_{-+}F_{++} - B_{-+}F_{-+})$	$\pm\sqrt{1\ (2.72)}$	$\sqrt{.1242}$	* .59	$.01<\hat{\psi}<1.17$
Within column variation:				
Contrast $\hat{\psi}$	$\pm\sqrt{3\ .90F_{3,307}}\ \sqrt{VAR\hat{\psi}}$		Final Calculations	
$(B_{+-}F_{++}) - (B_{-+}F_{++})$	$\pm\sqrt{3\ (2.72)}$	$\sqrt{.0248}$	**1.49	$1.23<\hat{\psi}<1.75$
$(B_{+-}F_{-+}) - (B_{-+}F_{-+})$	$\pm\sqrt{3\ (2.72)}$	$\sqrt{.0248}$	** .90	$.64<\hat{\psi}<1.16$
Within row variation:				
Contrast $\hat{\psi}$	$\pm\sqrt{3\ .90F_{3,3}}$	$\sqrt{VAR\hat{\psi}}$	Final Calculations	
$(B_{+-}F_{++}) - (B_{+-}F_{-+})$	$\pm\sqrt{3\ (2.72)}$	$\sqrt{.0243}$	*** .43	$.26<\hat{\psi}< .69$
$(B_{-+}F_{++}) - (B_{-+}F_{-+})$	$\pm\sqrt{3\ (2.72)}$	$\sqrt{.0243}$	-.16	$-.42<\hat{\psi}< .10$

*Significant at the .10 level.

**Significant at the .10 and the .001 levels.

***Significant at the .10 and the .05 levels.

TABLE G-IV

POST HOC COMPARISONS
INVESTOR CHOICE PROPORTIONS
ALL AUDIT IN FORECAST ++[A]
PAIRWISE CONTRASTS

Contrast $\hat{\psi}$	$\pm\sqrt{(I-1)_{.90}F_{I-1,v}}$	$\sqrt{MS(\sum_i \frac{c^2_i}{n_i})}$	Final Calculations	
$A_1 - A_2$	$\pm\sqrt{4\ (2.81)}$	$\sqrt{.0059\ (1)}$	-.195	$-.453<\hat{\psi}<.063$
$A_1 - A_3$	$\pm\sqrt{4\ (2.81)}$	$\sqrt{.0059\ (1)}$	-.050	$-.308<\hat{\psi}<.208$
$A_1 - A_4$	$\pm\sqrt{4\ (2.81)}$	$\sqrt{.0059\ (1)}$	-.175	$-.433<\hat{\psi}<.083$
$A_1 - A_5$	$\pm\sqrt{4\ (2.81)}$	$\sqrt{.0059\ (1)}$	-.060	$-.318<\hat{\psi}<.198$
$A_2 - A_3$	$\pm\sqrt{4\ (2.81)}$	$\sqrt{.0059\ (1)}$	.145	$-.113<\hat{\psi}<.403$
$A_2 - A_4$	$\pm\sqrt{4\ (2.81)}$	$\sqrt{.0059\ (1)}$	.020	$-.238<\hat{\psi}<.278$
$A_2 - A_5$	$\pm\sqrt{4\ (2.81)}$	$\sqrt{.0059\ (1)}$	*.255	$-.003<\hat{\psi}<.513$
$A_3 - A_4$	$\pm\sqrt{4\ (2.81)}$	$\sqrt{.0059\ (1)}$	-.125	$-.383<\hat{\psi}<.133$
$A_3 - A_5$	$\pm\sqrt{4\ (2.81)}$	$\sqrt{.0059\ (1)}$	.110	$-.148<\hat{\psi}<.368$
$A_4 - A_5$	$\pm\sqrt{4\ (2.81)}$	$\sqrt{.0059\ (1)}$	*.235	$-.023<\hat{\psi}<.493$

[A] Since the interval length is the same for F_{-+} observations and it is obvious by inspection that pairwise contrasts will have smaller differences than those in F_{++}, no post hoc calculations were made.

*Borders on significance.

TABLE G-V

POST HOC COMPARISONS
INVESTOR CHOICE PROPORTIONS --
LOG TRANSFORMED DATA
ALL AUDIT IN FORECAST
PAIRWISE CONTRASTS

Contrast $\hat{\psi}$	$\pm\sqrt{(4)_{.90}\ F_{4,8}}$	$\sqrt{VAR\hat{\psi}}$		Final Calculations
$A_1 - A_2$	$\pm\sqrt{(4)\ 2.81}$	$\sqrt{.036\ (1)}$	-.590	$-1.227<\hat{\psi}<\ .043$
$A_1 - A_3$	$\pm\sqrt{(4)\ 2.81}$	$\sqrt{.036\ (1)}$	-.311	$-.948<\hat{\psi}<\ .326$
$A_1 - A_4$	$\pm\sqrt{(4)\ 2.81}$	$\sqrt{.036\ (1)}$	-.523	$-1.160<\hat{\psi}<\ .114$
$A_1 - A_5$	$\pm\sqrt{(4)\ 2.81}$	$\sqrt{.036\ (1)}$	.050	$-.587<\hat{\psi}<\ .687$
$A_2 - A_3$	$\pm\sqrt{(4)\ 2.81}$	$\sqrt{.036\ (1)}$	.279	$-.358<\hat{\psi}<\ .916$
$A_2 - A_4$	$\pm\sqrt{(4)\ 2.81}$	$\sqrt{.036\ (1)}$	.067	$-.570<\hat{\psi}<\ .704$
$A_2 - A_5$	$\pm\sqrt{(4)\ 2.81}$	$\sqrt{.036\ (1)}$	*.640	$.003<\hat{\psi}<1.277$
$A_3 - A_4$	$\pm\sqrt{(4)\ 2.81}$	$\sqrt{.036\ (1)}$	-.212	$-.849<\hat{\psi}<\ .425$
$A_3 - A_5$	$\pm\sqrt{(4)\ 2.81}$	$\sqrt{.036\ (1)}$	.361	$-.276<\hat{\psi}<\ .998$
$A_4 - A_5$	$\pm\sqrt{(4)\ 2.81}$	$\sqrt{.036\ (1)}$	.573	$-.064<\hat{\psi}<1.210$
$A_6 - A_7$	$\pm\sqrt{(4)\ 2.81}$	$\sqrt{.036\ (1)}$	.226	$.411<\hat{\psi}<\ .863$
$A_6 - A_8$	$\pm\sqrt{(4)\ 2.81}$	$\sqrt{.036\ (1)}$	.113	$-.524<\hat{\psi}<\ .750$
$A_6 - A_9$	$\pm\sqrt{(4)\ 2.81}$	$\sqrt{.036\ (1)}$	.254	$-.383<\hat{\psi}<\ .891$
$A_6 - A_{10}$	$\pm\sqrt{(4)\ 2.81}$	$\sqrt{.036\ (1)}$	*.669	$.032<\hat{\psi}<1.306$
$A_7 - A_8$	$\pm\sqrt{(4)\ 2.81}$	$\sqrt{.036\ (1)}$	-.113	$-.750<\hat{\psi}<\ .524$
$A_7 - A_9$	$\pm\sqrt{(4)\ 2.81}$	$\sqrt{.036\ (1)}$	.028	$-.609<\hat{\psi}<\ .665$
$A_7 - A_{10}$	$\pm\sqrt{(4)\ 2.81}$	$\sqrt{.036\ (1)}$	.443	$-.194<\hat{\psi}<1.080$
$A_8 - A_9$	$\pm\sqrt{(4)\ 2.81}$	$\sqrt{.036\ (1)}$	.141	$-.496<\hat{\psi}<\ .778$
$A_8 - A_{10}$	$\pm\sqrt{(4)\ 2.81}$	$\sqrt{.036\ (1)}$	.556	$-.081<\hat{\psi}<1.193$
$A_9 - A_{10}$	$\pm\sqrt{(4)\ 2.81}$	$\sqrt{.036\ (1)}$	.415	$-.222<\hat{\psi}<1.052$

*Significant contrasts.

TABLE G-VI

POST HOC COMPARISONS
INVESTOR CHOICE PROPORTIONS -- NON-REPLICATED
INDIVIDUAL OBSERVATIONS
BROKER BY FORECAST INTERACTION

Interaction: Contrast $\hat{\psi}$	$\pm\sqrt{2\ ,_{90}F_{2,88}}$	$\sqrt{VAR\hat{\psi}}$		Final Calculations
$(B_{+-}F_0 - B_{+-}F_{-+})$				
$- (B_{-+}F_0 - B_{-+}F_{-+})$	$\pm\sqrt{2\ (2.38)}$	$\sqrt{.0494}$	*.497	$.013<\hat{\psi}<.981$
$(B_{+-}F_0 - B_{+-}F_{++})$				
$- (B_{-+}F_0 - B_{-+}F_{++})$	$\pm\sqrt{2\ (2.38)}$	$\sqrt{.0519}$	.227	$-.274<\hat{\psi}<.728$
$(B_{+-}F_{++} - B_{+-}F_{-+})$				
$- B_{-+}F_{++} - B_{-+}F_{-+})$	$\pm\sqrt{2\ (2.38)}$	$\sqrt{.0530}$	.270	$-.231<\hat{\psi}<.771$

Within column variation: Contrast $\hat{\psi}$	$\pm\sqrt{5\ ,_{90}F_{5,88}}$	$\sqrt{VAR\hat{\psi}}$		Final Calculations
$(B_{+-}F_{++}) - (B_{-+}F_{++})$	$\pm\sqrt{5\ (1.92)}$	$\sqrt{.0277}$	.413	$-.102<\hat{\psi}<.928$
$(B_{+-}F_0) - (B_{-+}F_0)$	$\pm\sqrt{5\ (1.92)}$	$\sqrt{.0241}$	*.640	$.159<\hat{\psi}<1.121$
$(B_{+-}F_{-+}) - (B_{-+}F_{-+})$	$\pm\sqrt{5\ (1.92)}$	$\sqrt{.0253}$	.143	$-.350<\hat{\psi}<.636$

Within row variation: Contrast $\hat{\psi}$	$\pm\sqrt{5\ ,_{90}F_{5,88}}$	$\sqrt{VAR\hat{\psi}}$		Final Calculations
$(B_{+-}F_0) - (B_{+-}F_{-+})$	$\pm\sqrt{5\ (1.92)}$	$\sqrt{.0235}$	.375	$-.099<\hat{\psi}<.849$
$(B_{+-}F_0) - (B_{+-}F_{++})$	$\pm\sqrt{5\ (1.92)}$	$\sqrt{.0277}$	.377	$-.178<\hat{\psi}<.852$
$(B_{+-}F_{++}) - (B_{+-}F_{-+})$	$\pm\sqrt{5\ (1.92)}$	$\sqrt{.0264}$	.038	$-.464<\hat{\psi}<.540$
$(B_{-+}F_0) - (B_{-+}F_{-+})$	$\pm\sqrt{5\ (1.92)}$	$\sqrt{.0259}$	-.122	$-.621<\hat{\psi}<.377$
$(B_{-+}F_0) - (B_{-+}F_{++})$	$\pm\sqrt{5\ (1.92)}$	$\sqrt{.0241}$	.110	$-.371<\hat{\psi}<.591$
$(B_{-+}F_{++}) - (B_{-+}F_{-+})$	$\pm\sqrt{5\ (1.92)}$	$\sqrt{.0266}$	-.232	$-.737<\hat{\psi}<.273$

*Significant contrast.

TABLE G-VII

POST HOC COMPARISONS
INVESTOR PREFERENCE INDEX -- NON-REPLICATED
BROKER BY FORECAST INTERACTION

Interaction:

Contrast $\hat{\psi}$	$\pm\sqrt{2\ .90F_{2,87}}$	$\sqrt{VAR\hat{\psi}}$	Final Calculations
$(B_{+-}F_0 - B_{+-}F_{-+})$			
$- (B_{-+}F_0 - B_{-+}F_{-+})$	$\pm\sqrt{2}\ (2.38)$	$\sqrt{.592}$	$1.52 - .16<\hat{\psi}<3.20$
$(B_{+-}F_0 - B_{+-}F_{++})$			
$- (B_{-+}F_0 - B_{-+}F_{++})$	$\pm\sqrt{2}\ (2.38)$	$\sqrt{.621}$	$.09 \quad -1.02<\hat{\psi}<1.20$
$(B_{+-}F_{++} - B_{+-}F_{-+})$			
$- (B_{-+}F_{++} - B_{-+}F_{-+})$	$\pm\sqrt{2}\ (2.38)$	$\sqrt{.624}$	$1.43 - .30<\hat{\psi}<3.14$

Within column variation:

Contrast $\hat{\psi}$	$\pm\sqrt{5\ .90F_{2,87}}$	$\sqrt{VAR\hat{\psi}}$	Final Calculations
$(B_{+-}F_{++}) - (B_{-+}F_{++})$	$\pm\sqrt{5}\ (1.92)$	$\sqrt{.327}$	$*1.97 \quad .27<\hat{\psi}<3.74$
$(B_{+-}F_0) - (B_{-+}F_0)$	$\pm\sqrt{5}\ (1.92)$	$\sqrt{.294}$	$*2.06 \quad .38<\hat{\psi}<3.74$
$(B_{+-}F_{-+}) - (B_{-+}F_{-+})$	$\pm\sqrt{5}\ (1.92)$	$\sqrt{.298}$	$.54 \quad -1.15<\hat{\psi}<2.23$

Within row variation:

Contrast $\hat{\psi}$	$\pm\sqrt{5\ .90F_{2,87}}$	$\sqrt{VAR\hat{\psi}}$	Final Calculations
$(B_{+-}F_0) - (B_{+-}F_{-+})$	$\pm\sqrt{5}\ (1.92)$	$\sqrt{.277}$	$1.42 - .21<\hat{\psi}<3.05$
$(B_{+-}F_0) - (B_{+-}F_{++})$	$\pm\sqrt{5}\ (1.92)$	$\sqrt{.326}$	$.90 - .87<\hat{\psi}<2.67$
$(B_{+-}F_{++}) - (B_{+-}F_{-+})$	$\pm\sqrt{5}\ (1.92)$	$\sqrt{.311}$	$.52 \quad -1.21<\hat{\psi}<2.25$
$(B_{-+}F_0) - (B_{-+}F_{-+})$	$\pm\sqrt{5}\ (1.92)$	$\sqrt{.314}$	$-.10 \quad -1.84<\hat{\psi}<1.64$
$(B_{-+}F_0) - (B_{-+}F_{++})$	$\pm\sqrt{5}\ (1.92)$	$\sqrt{.294}$	$.81 - .87<\hat{\psi}<2.49$
$(B_{-+}F_{++}) - (B_{-+}F_{-+})$	$\pm\sqrt{5}\ (1.92)$	$\sqrt{.314}$	$-.91 - .83<\hat{\psi}<2.65$

*Significant contrasts.

TABLE G-VIII

POST HOC COMPARISONS
INVESTOR CHOICE PROPORTIONS (INDIVIDUAL OBSERVATIONS)
REPLICATED
BROKER BY FORECAST INTERACTION

Interaction:

Contrast $\hat{\psi}$	$\pm\sqrt{2\ {}_{.95}F_{2,354}}\ \sqrt{VAR\hat{\psi}}$		Final Calculations
$(B_{+-}F_0 - B_{+-}F_{-+})$			
$- (B_{-+}F_0 - B_{-+}F_{-+})$	$\pm\sqrt{2\ (3.00)}$	$\sqrt{.030}$	$.407 \quad -.017<\hat{\psi}<.831$
$(B_{+-}F_0 - B_{+-}F_{++})$			
$- (B_{-+}F_0 - B_{-+}F_{++})$	$\pm\sqrt{2\ (3.00)}$	$\sqrt{.030}$	$.239 \quad -.185<\hat{\psi}<.663$
$(B_{+-}F_{++} - B_{+-}F_{-+})$			
$- (B_{-+}F_{++} - B_{-+}F_{-+})$	$\pm\sqrt{2\ (3.00)}$	$\sqrt{.020}$	$.168 \quad -.177<\hat{\psi}<.513$

Within column variation:

Contrast $\hat{\psi}$	$\pm\sqrt{5\ {}_{.95}F_{5,354}}\ \sqrt{VAR\hat{\psi}}$		Final Calculations
$(B_{+-}F_{++}) - (B_{-+}F_{++})$	$\pm\sqrt{5\ (2.22)}$	$\sqrt{.005}$	$*.401 \quad .169<\hat{\psi}< .633$
$(B_{+-}F_0) - (B_{-+}F_0)$	$\pm\sqrt{5\ (2.22)}$	$\sqrt{.025}$	$*.640 \quad .115<\hat{\psi}<1.165$
$(B_{+-}F_{-+}) - (B_{-+}F_{-+})$	$\pm\sqrt{5\ (2.22)}$	$\sqrt{.005}$	$*.233 \quad .001<\hat{\psi}< .465$

Within row variation:

Contrast $\hat{\psi}$	$\pm\sqrt{5\ {}_{.95}F_{5,354}}\ \sqrt{VAR\hat{\psi}}$		Final Calculations
$(B_{+-}F_0) - (B_{+-}F_{-+})$	$\pm\sqrt{5\ (2.22)}$	$\sqrt{.015}$	$**.404 \quad -.004<\hat{\psi}<.812$
$(B_{+-}F_0) - (B_{+-}F_{++})$	$\pm\sqrt{5\ (2.22)}$	$\sqrt{.016}$	$.262 \quad -.153<\hat{\psi}<.677$
$(B_{+-}F_{++}) - (B_{+-}F_{-+})$	$\pm\sqrt{5\ (2.22)}$	$\sqrt{.005}$	$.142 \quad -.090<\hat{\psi}<.374$
$(B_{-+}F_0) - (B_{-+}F_{-+})$	$\pm\sqrt{5\ (2.22)}$	$\sqrt{.015}$	$-.003 \quad -.411<\hat{\psi}<.405$
$(B_{-+}F_0) - (B_{-+}F_{++})$	$\pm\sqrt{5\ (2.22)}$	$\sqrt{.015}$	$.023 \quad -.385<\hat{\psi}<.431$
$(B_{-+}F_{++}) - (B_{-+}F_{-+})$	$\pm\sqrt{5\ (2.22)}$	$\sqrt{.005}$	$-.026 \quad -.206<\hat{\psi}<.258$

*Significant contrast.

**Borders on significance.

TABLE G-IX

INVESTOR CHOICE PROPORTIONS (CELL MEANS) -- ORIGINAL DATA REPLICATED
BROKER BY FORECAST INTERACTION

Interaction: Contrast $\hat{\psi}$	$\pm\sqrt{2\ _{.90}F_{2,16}}$	$\sqrt{VAR\hat{\psi}}$	Final Calculations	
$(B_{+-}F_0 - B_{+-}F_{-+})$ $- (B_{-+}F_0 - B_{-+}F_{-+})$	$\pm\sqrt{2\ (2.668)}$	$\sqrt{.0287}$	*.400	$.008<\hat{\psi}<.792$
$(B_{+-}F_0 - B_{+-}F_{++})$ $- (B_{-+}F_0 - B_{-+}F_{++})$	$\pm\sqrt{2\ (2.668)}$	$\sqrt{.0287}$	.254	$-.138<\hat{\psi}<.646$
$(B_{+-}F_{++} - B_{+-}F_{-+})$ $- (B_{-+}F_{++} - B_{-+}F_{-+})$	$\pm\sqrt{2\ (2.668)}$	$\sqrt{.0095}$	.147	$-.078<\hat{\psi}<.372$

Within column variation: Contrast $\hat{\psi}$	$\pm\sqrt{5\ _{.90}F_{5,16}}$	$\sqrt{VAR\hat{\psi}}$	Final Calculations	
$(B_{+-}F_{++}) - (B_{-+}F_{++})$	$\pm\sqrt{5\ (2.244)}$	$\sqrt{.0048}$	*.401	$.169<\hat{\psi}<.633$
$(B_{+-}F_0) - (B_{-+}F_0)$	$\pm\sqrt{5\ (2.244)}$	$\sqrt{.0238}$	*.640	$.123<\hat{\psi}<1.157$
$(B_{+-}F_{-+}) - (B_{-+}F_{-+})$	$\pm\sqrt{5\ (2.244)}$	$\sqrt{.0048}$	*.235	$.003<\hat{\psi}<.467$

Within row variation: Contrast $\hat{\psi}$	$\pm\sqrt{5\ _{.90}F_{5,16}}$	$\sqrt{VAR\hat{\psi}}$	Final Calculations	
$(B_{+-}F_0) - (B_{+-}F_{-+})$	$\pm\sqrt{5\ (2.244)}$	$\sqrt{.0144}$	**.396	$-.006<\hat{\psi}<.798$
$(B_{+-}F_0) - (B_{+-}F_{++})$	$\pm\sqrt{5\ (2.244)}$	$\sqrt{.0144}$	.278	$-.124<\hat{\psi}<.680$
$(B_{+-}F_{++}) - (B_{+-}F_{-+})$	$\pm\sqrt{5\ (2.244)}$	$\sqrt{.0048}$	.118	$-.113<\hat{\psi}<.349$
$(B_{-+}F_0) - (B_{-+}F_{-+})$	$\pm\sqrt{5\ (2.244)}$	$\sqrt{.0144}$	-.005	$-.407<\hat{\psi}<.397$
$(B_{-+}F_0) - (B_{-+}F_{++})$	$\pm\sqrt{5\ (2.244)}$	$\sqrt{.0144}$	.024	$-.378<\hat{\psi}<.426$
$(B_{-+}F_{++}) - (B_{-+}F_{-+})$	$\pm\sqrt{5\ (2.244)}$	$\sqrt{.0048}$	-.029	$-.260<\hat{\psi}<.202$

*Significant contrast.

**Borders on significance.

TABLE G-X

INVESTOR CHOICE PROPORTIONS (CELL MEANS) -- ARCSIN TRANSFORMATION REPLICATED
BROKER BY FORECAST INTERACTION

Interaction:

Contrast $\hat{\psi}$	$\pm\sqrt{2\ _{.95}F_{2,16}}$	$\sqrt{VAR\hat{\psi}}$		Final Calculations
$(B_{+-}F_0 - B_{+-}F_{-+})$				
$- (B_{-+}F_0 - B_{-+}F_{-+})$	$\pm\sqrt{2\ (3.634)}$	$\sqrt{.0410}$	*.568	$.023<\hat{\psi}<1.113$
$(B_{+-}F_0 - B_{+-}F_{++})$				
$- (B_{-+}F_0 - B_{-+}F_{++})$	$\pm\sqrt{2\ (3.634)}$	$\sqrt{.0410}$	.388	$-.157<\hat{\psi}< .933$
$(B_{+-}F_{++} - B_{+-}F_{-+})$				
$- (B_{-+}F_{++} - B_{-+}F_{-+})$	$\pm\sqrt{2\ (3.634)}$	$\sqrt{.0137}$	.181	$-.364<\hat{\psi}< .726$

Within column variation:

Contrast $\hat{\psi}$	$\pm\sqrt{5\ _{.95}F_{5,16}}$	$\sqrt{VAR\hat{\psi}}$		Final Calculations
$(B_{+-}F_{++}) - (B_{-+}F_{++})$	$\pm\sqrt{5\ (2.852)}$	$\sqrt{.0068}$	*.441	$.130<\hat{\psi}< .752$
$(B_{+-}F_0) - (B_{-+}F_0)$	$\pm\sqrt{5\ (2.852)}$	$\sqrt{.0342}$	*.828	$.129<\hat{\psi}<1.527$
$(B_{+-}F_{-+}) - (B_{-+}F_{-+})$	$\pm\sqrt{5\ (2.852)}$	$\sqrt{.0068}$	.260	$-.51<\hat{\psi}< .571$

Within row variation:

Contrast $\hat{\psi}$	$\pm\sqrt{5\ _{.95}F_{5,16}}$	$\sqrt{VAR\hat{\psi}}$		Final Calculations
$(B_{+-}F_0) - (B_{+-}F_{-+})$	$\pm\sqrt{5\ (2.852)}$	$\sqrt{.0205}$	*.563	$.023<\hat{\psi}<1.103$
$(B_{+-}F_0) - (B_{+-}F_{++})$	$\pm\sqrt{5\ (2.852)}$	$\sqrt{.0205}$	.412	$-.128<\hat{\psi}< .952$
$(B_{+-}F_{++}) - (B_{+-}F_{-+})$	$\pm\sqrt{5\ (2.852)}$	$\sqrt{.0068}$	.151	$-.160<\hat{\psi}< .462$
$(B_{-+}F_0) - (B_{-+}F_{-+})$	$\pm\sqrt{5\ (2.852)}$	$\sqrt{.0205}$	-.005	$-.545<\hat{\psi}< .535$
$(B_{-+}F_0) - (B_{-+}F_{++})$	$\pm\sqrt{5\ (2.852)}$	$\sqrt{.0205}$	.024	$-.516<\hat{\psi}< .564$
$(B_{-+}F_{++}) - (B_{-+}F_{-+})$	$\pm\sqrt{5\ (2.852)}$	$\sqrt{.0068}$	-.030	$-.341<\hat{\psi}< .281$

*Significant contrasts.

TABLE G-XI

POST HOC COMPARISONS
INVESTOR PREFERENCE INDEX -- REPLICATED
BROKER BY FORECAST INTERACTION

Interaction:

Contrast $\hat{\psi}$	$\pm\sqrt{2\ .95F_{2,353}}\ \sqrt{VAR\hat{\psi}}$		Final Calculations	
$(B_{+-}F_0 - B_{+-}F_{-+})$				
$- (B_{-+}F_0 - B_{-+}F_{-+})$	$\pm\sqrt{2\ (3.00)}$	$\sqrt{.373}$	1.20	$-.29<\hat{\psi}<2.69$
$(B_{+-}F_0 - B_{+-}F_{++})$				
$- (B_{-+}F_0 - B_{-+}F_{++})$	$\pm\sqrt{2\ (3.00)}$	$\sqrt{.374}$	.50	$-1.02<\hat{\psi}<2.02$
$(B_{+-}F_{++} - B_{+-}F_{-+})$				
$- (B_{-+}F_{++} - B_{-+}F_{-+})$	$\pm\sqrt{2\ (3.00)}$	$\sqrt{.123}$	.70	$-.16<\hat{\psi}<1.56$

Within column variation:

Contrast $\hat{\psi}$	$\pm\sqrt{5\ .95F_{5,353}}\ \sqrt{VAR\hat{\psi}}$		Final Calculations	
$(B_{+-}F_{++}) - (B_{-+}F_{++})$	$\pm\sqrt{5\ (2.25)}$	$\sqrt{.063}$	*1.56	$.72<\hat{\psi}<2.40$
$(B_{+-}F_0) - (B_{-+}F_0)$	$\pm\sqrt{5\ (2.25)}$	$\sqrt{.313}$	*2.06	$.18<\hat{\psi}<3.94$
$(B_{+-}F_{-+}) - (B_{-+}F_{-+})$	$\pm\sqrt{5\ (2.25)}$	$\sqrt{.024}$	* .86	$.34<\hat{\psi}<1.38$

Within row variation:

Contrast $\hat{\psi}$	$\pm\sqrt{5\ .95F_{5,353}}\ \sqrt{VAR\hat{\psi}}$		Final Calculations	
$(B_{+-}F_0) - (B_{+-}F_{-+})$	$\pm\sqrt{5\ (2.25)}$	$\sqrt{.185}$	1.38	$-.06<\hat{\psi}<2.82$
$(B_{+-}F_0) - (B_{+-}F_{++})$	$\pm\sqrt{5\ (2.25)}$	$\sqrt{.190}$	.87	$-.59<\hat{\psi}<2.33$
$(B_{+-}F_{++}) - (B_{+-}F_{-+})$	$\pm\sqrt{5\ (2.25)}$	$\sqrt{.062}$	.51	$-.32<\hat{\psi}<1.34$
$(B_{-+}F_0) - (B_{-+}F_{-+})$	$\pm\sqrt{5\ (2.25)}$	$\sqrt{.188}$	.18	$-1.27<\hat{\psi}<1.63$
$(B_{-+}F_0) - (B_{-+}F_{++})$	$\pm\sqrt{5\ (2.25)}$	$\sqrt{.186}$	.37	$-1.07<\hat{\psi}<1.81$
$(B_{-+}F_{++}) - (B_{-+}F_{-+})$	$\pm\sqrt{5\ (2.25)}$	$\sqrt{.061}$	-.19	$-.64<\hat{\psi}<1.02$

*Significant contrast.

APPENDIX H

CELL MEANS FOR ALL TWO FACTOR MODELS

TABLE H-I

OBSERVED CELL MEANS -- ALL TWO FACTORS MODELS

	(ICP_{ij}), (ICP_j), Non-replicated		
	F_{++} A_1	F_0 $A_1(A_6)$	F_{-+} A_6
B_{+-}	.538	.875	.500
B_{-+}	.125	.235	.357
	(IPI_{ij}), Non-replicated		
	F_{++} A_1	F_0 $A_1(A_6)$	F_{-+} A_6
B_{+-}	3.85	4.75	3.33
B_{-+}	1.88	2.69	2.79
	(ICP_{ij}), Replicated		
	F_{++} A_1-A_5	F_0 $A_1(A_6)$	F_{-+} A_6-A_{10}
B_{+-}	.613	.875	.471
B_{-+}	.212	.235	.238
	(ICP_j), Replicated		
	F_{++} A_1-A_5	F_0 $A_1(A_6)$	F_{-+} A_6-A_{10}
B_{+-}	.597	.875	.479
B_{-+}	.211	.235	.240
	(IPI_{ij}), Replicated		
	F_{++} A_1-A_5	F_0 $A_1(A_6)$	F_{-+} A_6-A_{10}
B_{+-}	3.88	4.75	3.37
B_{-+}	2.32	2.69	2.51

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