

APPENDIX C

UNITED STATES OF AMERICA BEFORE THE SECURITIES AND EXCHANGE COMMISSION

At a regular session of the Securities and Exchange Commission, held at its office in the City of Washington, D. C., on the 29th day of December, A. D., 1938.

In the Matter of McKesson & Robbins, Inc.

ORDER FOR PUBLIC HEARING DESIGNATING OFFICER FOR TAKING TESTIMONY

It appearing to the Commission that McKesson & Robbins, Inc., an issuer of securities registered pursuant to Section 12 of the Securities Exchange Act of 1934, as amended, on the New York Stock Exchange, a national securities exchange, did on or about the 21st day of May, 1935, file with this Commission pursuant to the provisions of said section a registration statement covering the said securities and did on or about the 29th day of June, 1936, the 19th day of May, 1937, and the 29th day of April, 1938, file with this Commission pursuant to Section 13 of the said Act, annual reports covering the said securities, all of which registration statement and reports contain financial statements and schedules prepared and certified by Price, Waterhouse & Co.; and

It further appearing to the Commission that the information set forth in said registration statement, annual reports and in the financial statements included therein, was materially false and misleading in that, among other things, there was included in the item "inventories" merchandise purportedly carried for the account of McKesson & Robbins by certain Canadian firms, which firms except as mailing addresses and which merchandise were non-existent and in that there were included in the item "customers' accounts receivable" large sums purportedly owing by reputable foreign firms, which firms did not in fact have any transactions with or owe any moneys to McKesson & Robbins, and in that there was included in the item "cash on hand and demand deposits in banks" a sum owing by Manning & Co., which purported to be a private banking firm but which firm was non-existent except as a mailing address, and in that there was included in the item "sales" a large sum representing the proceeds of purported sales to said foreign firms out of the inventories carried by the said Canadian firms above referred to, made through the purported sales agency of W. W. Smith & Co., all of which were never

effected and were mere book entries, and in that there was included, in the item "expense" as an actual current charge of operations, a large sum paid to the said W. W. Smith & Co. purportedly as guarantee and service charges on the said sales, which were never in fact effected, and in that there were included in the item "profits" large sums purportedly arising out of said sales which were never in fact realized; and

It further appearing to the Commission necessary and proper and in the public interest to determine (1) the character, detail and scope of the audit procedure followed by Price, Waterhouse & Co. in the preparation of the financial statements included in the said registration statement and reports; (2) the extent to which prevailing and generally accepted standards and requirements of audit procedure were adhered to and applied by Price, Waterhouse & Co. in the preparation of the said financial statements; and (3) the adequacy of the safeguards inhering in the said generally accepted practices and principles of audit procedure to assure reliability and accuracy of financial statements.

IT IS ORDERED, pursuant to Section 21(a) of the Securities Exchange Act of 1934, as amended, that a public hearing be held to determine the facts, conditions, practices and matters above referred to to aid (1) in the enforcement of the provisions of the Securities Exchange Act of 1934, as amended; (2) in the prescribing of rules and regulations pursuant to Sections 12(a) and (b) and 13(a) and (b) and other pertinent provisions of such Act, as amended; and (3) in securing information to serve as a basis for recommending further legislation concerning any matters to which such Act, as amended, relates as may appear to the Commission to be necessary or appropriate; and

IT IS FURTHER ORDERED, pursuant to Section 21(b) of the Securities Exchange Act of 1934, as amended, for the purposes of such public hearing that Adrian C. Humphreys, an officer of the Commission, is hereby designated to administer oaths and affirmations, subpoena witnesses, compel their attendance, take evidence, require the production of any books, papers, correspondence, memoranda, or other records deemed relevant or material to the inquiry, and to perform all other duties in connection therewith authorized by law; and

IT IS FURTHER ORDERED that a public hearing for the taking of testimony begin on the 5th day of January, 1939, at 10:30 A. M., or as soon thereafter as counsel can be heard, at the office of the Securities and Exchange Commission, Room 2006, 120 Broadway, New York, N. Y., and continue thereafter at such times and places as said officer may determine.

By the Commission.

FRANCIS P. BRASSOR, *Secretary*.

[SEAL]