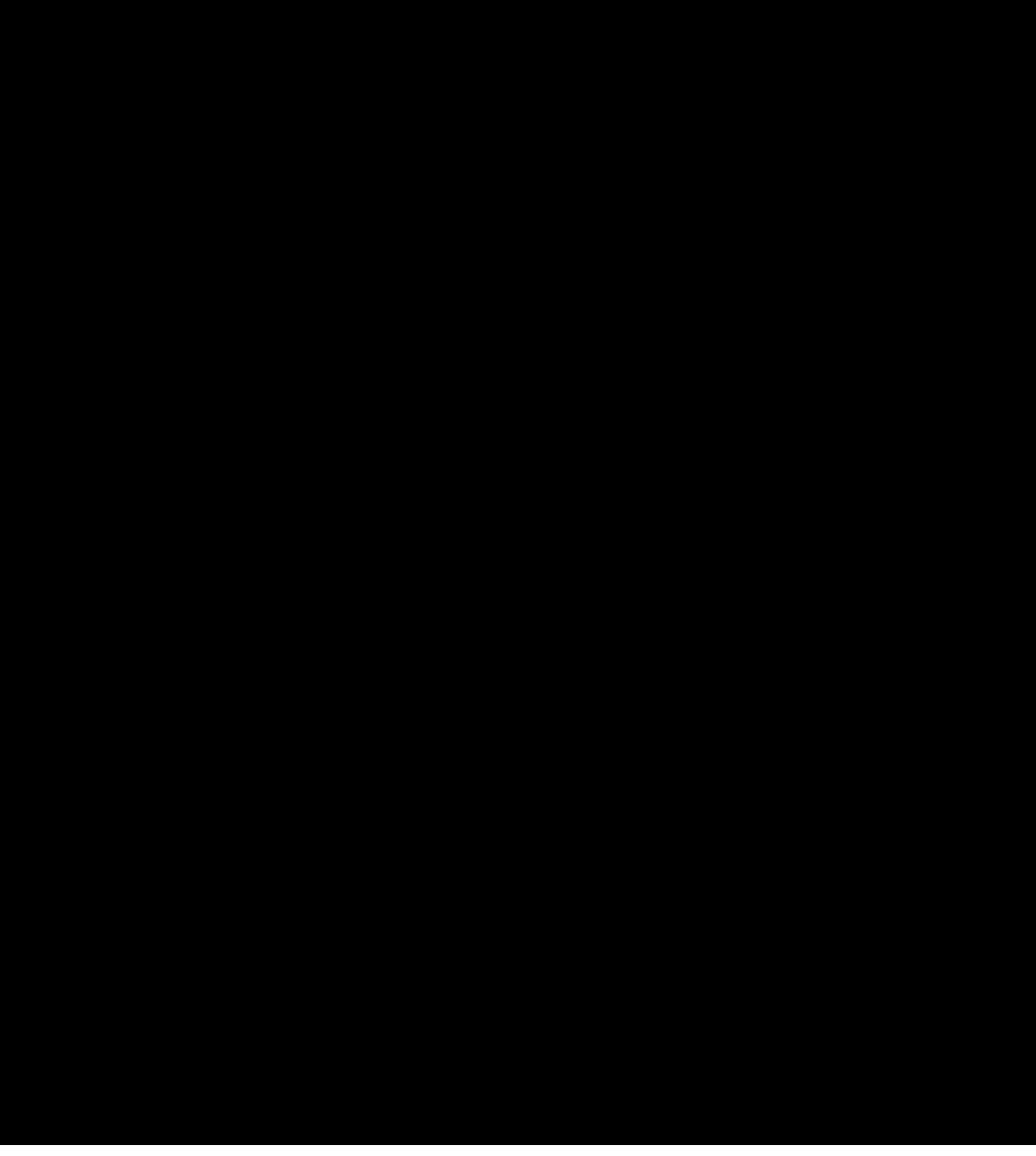




Kleinschmidt Telecommunications was the first addition to the industrial family of which Smith-Corona is the original member. Shown on this year's cover is the type cylinder that is the heart of Kleinschmidt's advanced teleprinters. Individual hammers facing each row of letters are actuated electronically and the printing action is accomplished at speeds up to 4,000 words per minute. The type pictured on the cover is manufactured for Kleinschmidt by the Smith-Corona Marchant Division at Geneva, New York.

All photographs in this Report were made for SCM Corporation by Howard Sochurek.

GLD38608



SCM Corporation is a broadly diversified manufacturing company serving high technology growth markets for such products as business equipment, continuous forms, office copiers, telecommunications equipment, paper, chemicals, and coatings and resins. In the consumer market, the Company is a leader in portable typewriters, electric housewares, floor care products, paints, specialty and convenience foods and converted paper products.

In virtually all cases, the industries and markets in which SCM operates have in common attributes which make them attractive for capital investment. First, many of their segments are "growth industries," with an annual rate of expansion considerably in excess of accepted indicators of economic growth. Second, they are all reacting to the impact of technology on traditional products and methods.

SCM's place in American industry has been attained by achieving technological leadership in growth industries. The application of that concept is explained in this Report, compiled for the more than 47,000 shareholders of the Company.

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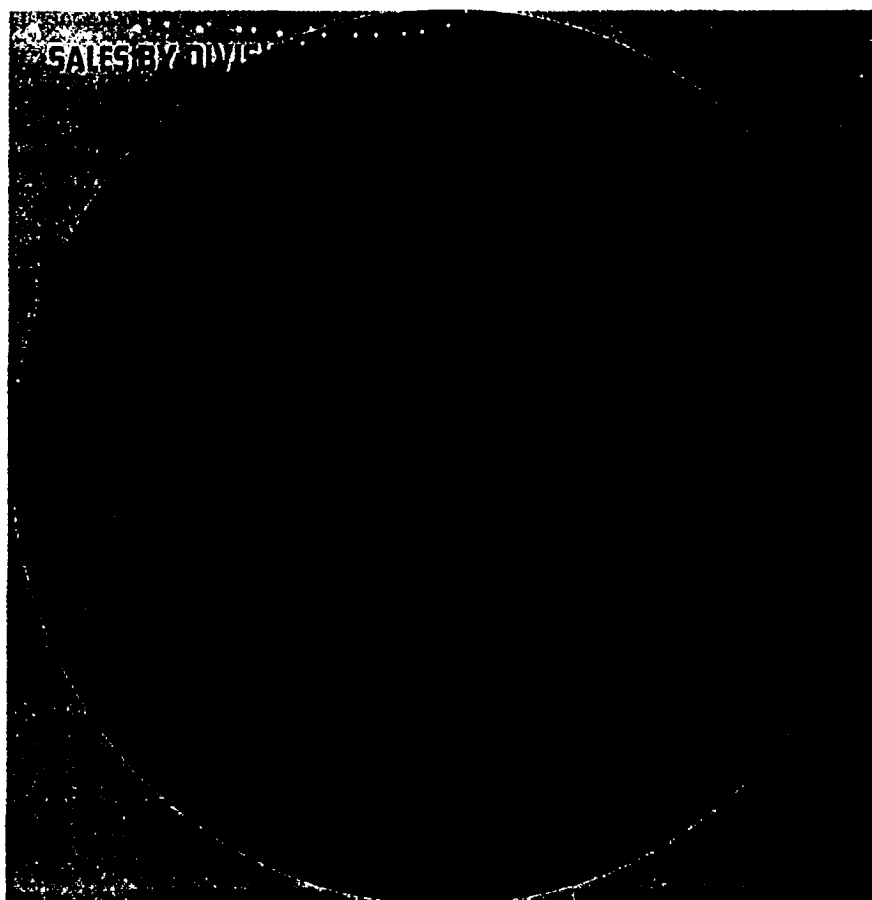
FINANCIAL HIGHLIGHTS

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At Year End

Working capital	221,730,000	100%
Net investment in other companies	148,000,000	67%
Long-term debt	167,000,000	75%
Shareholders' equity	292,250,000	132%
Number of shareholders	1,770,000	
Number of employees	20,000	

SALES BY DIVISION



TO OUR SHAREHOLDERS:

For SCM Corporation, fiscal 1968 was a year marked by dramatic growth, by changes in the Company's organizational framework to consolidate the benefits of that growth, and by continued development of the Company's technology base to support further growth in the years ahead.

Total sales of SCM products reached another annual record. Sales were \$744.8 million, up 6 per cent over last year's record \$705.2 million. Net income before extraordinary items, however, was \$17.8 million, or \$2.22 per share, compared to last year's \$25.1 million, or \$3.01 per share.

Extraordinary items of \$4.7 million net of taxes, or \$.57 per share, were charged to net income, principally covering disposal of the Company's data processing systems operation.

The sales improvement was achieved despite a variety of business and economic factors which contributed to the decline in profits. 1968 was a year in which we experienced strikes, higher manufacturing costs, the special non-recurring charge already mentioned, intense price competition in many product lines, occasional dips in consumer buying, new product introduction costs, and higher taxes and interest charges. Each of our five divisions was affected by one or more of these factors. Some of these conditions are non-recurring in nature; others should respond well to more stable economic conditions in particular markets. As for those within the Company's control, diligent corrective steps are being taken.

In any event, it would be wrong to give the impression that these problems reflect anything more than an unfortunate concatenation of minor difficulties. Viewed as a whole, 1968

was still a year of accomplishment. The consolidation of the growth experienced in recent years has established a base and a conceptual framework for directing the course SCM will follow in the future. In addition, increased sales in virtually all product lines continues to be a very encouraging factor. Steps now being taken to improve profit margins in particular product lines, if successful, may be expected to result in improved overall earnings.

For the longer range, we are hopeful that our vastly expanded and increasingly integrated research capabilities in office equipment, electronics, chemistry and the graphic arts will give rise to the high-technology, proprietary products that will be a key element in the growth of successful companies in the years ahead.

In March 1968, the Directors and employees of SCM lost a close friend and inspiring leader. Dr. Edward H. Litchfield, Chairman of the Board from 1956 until his death at 53, was killed in the crash of a private aircraft near Chicago. Although not active in management, he was always deeply interested in the Company as well as the Board. Each of us feels a deep personal loss.

I want to express sincere gratitude—both personally and on behalf of your management and the Board of Directors—for the continued support of the shareholders and the consistent loyal efforts of SCM employees around the world.



Emerson E. Mead
President

September 16, 1968



SCM TODAY AND TOMORROW: TECHNOLOGICAL LEADERSHIP IN GROWTH INDUSTRIES

Today as never before, successful business leadership is measured in terms of expanding scale of enterprise—companies must continue to grow or face stagnation. The physical integration of our domestic economy and its overseas extensions has challenged industry to achieve rates of growth unparalleled in history, and to do so in an era of very rapid technological change.

In business, the essential nature of growth is a process of positioning the enterprise to take advantage of opportunities which foresight and planning indicate will be presented in the future—and repositioning it as required when unplanned-for opportunities arise. Rapid and continued growth is often a function of the ability to reposition quickly.

In organizing for growth, the short term objective must be to achieve and maintain technological leadership in those areas of industry which can be expected to grow at rates clearly exceeding that of natural increase. "Natural" increase is that which may be anticipated by virtue of expanded demand brought about by population increase, rising income levels and so on. The term "growth industry" has come into use for one expanding at a rate substantially greater than mere increase in basic economic indices would suggest. Proprietary products, developed as a result of technological advantage within such industries, serve to move the developing company forward at a faster rate than its competitors.

SCM's corporate planning efforts have sought to direct the Company toward technological leadership in growth industries. The impact of technology on industries in which SCM is engaged and an assessment of their growth prospects is briefly outlined in this section of the Report.

BUSINESS MACHINES

The *office equipment* industry has experienced phenomenal rates of expansion in recent years. Excluding the significant impact of computers,

gross shipments of office equipment in 1967 reached \$3.8 billion, and are expected to more than double by 1975. Comparing 1975 estimates to 1966 shipments, office equipment sales will have grown three times faster than gross national product over the decade.

Technology has been a major factor in this expansion, and will be even more of a factor in the future. The calculator segment, for example, currently estimated at over \$200 million a year, is expected to grow at about 6 per cent annually between now and 1975. The development of micro-circuits and improved display devices, together with customer preference for ever more quiet and efficient machines, has caused the expansion. SCM has a line of new electronic calculators for introduction this fall.

The application of systems management and other advanced concepts of industrial processes, data transmission and product warehousing and distribution, constantly leads to innovations in office equipment and rapid obsolescence of products that had been successful in the past. While the industry is expected to continue to expand, only those companies with substantial resources of technology will remain at the forefront in the manufacture, sale and service of increasingly complex and sophisticated product lines.

SCM's present status as a major American company is to a large extent a result of its active participation and leadership in office equipment since 1956. The Company's technological competence in the three primary product lines of today—copiers, calculators and typewriters—has been amply demonstrated over the past several years. Aided now by research and development capabilities in related technologies, together with ongoing internal product development programs, SCM will continue to share in the expansion of the office equipment industry.

TELECOMMUNICATIONS

The *communications electronics* industry, though far smaller than office equipment, is also growing at an accelerating rate. A 242 per cent increase, from \$1.3 billion to \$4.2

A technician conducts an experiment in the course of studying methods of manufacture of micro-circuits at SCM's Advanced Research Center in Switzerland. A high voltage discharge is released in the coating unit to clean a metal substrate by means of ion bombardment. After this, a layer of silicon oxide will be deposited by evaporation in the high vacuum provided within the glass container. Micro-circuits have application to a growing number of SCM products.

Top: This is an experimental pattern recognition system devised to study the logic processes used by the human brain in recognition of two-dimensional shapes such as written or printed characters on paper. The system makes use of several technologically advanced concepts including adaptive logic, integrated circuitry and fiber optics. The pattern read appears in the read-out matrix as shown in this picture made at SCM's research facility in Switzerland.

The microphotograph below shows the surface of an experimental paper which develops an image in a new and unique way under stimulation by electric current. The phenomena associated with this process may find application in such areas as non-impact printing, facsimile systems and office copying.

billion, is projected for the 1966-1975 decade. Of course, a considerable portion of the manufacturing end of this business consists of "captive" manufacturing for the companies engaged in message communication.

In assessing the growth prospects of this segment of SCM's business, expansion of the business of data handling should also be considered. In this connection, the phenomenal growth in computers (from a handful to 55,000 installations in about 20 years) must be considered. The problems of feeding data into and taking data out of main frame computers has created an industry ancillary to computers, but one without which many of the advances the computer is credited with would not have been achieved.

Kleinschmidt's skill in data handling grew out of its capabilities in telecommunications. High-speed page printers, tape perforators and switching equipment are examples of the high-technology products turned out by this Division. Long a prime supplier of military teleprinters and related equipment to the Government, Kleinschmidt Telecommunications has kept SCM abreast of and involved in the technology revolution in communications electronics.

CHEMICALS

SCM's technical strength in chemistry is of increasing importance to many parts of its total business. *Organic chemicals*, an industry estimated to be growing at a compounded 6 per cent a year in its own right, consists of many segments, some of which grow even faster.

It is increasingly apparent, for example, that *synthetic flavor oils* will eventually replace natural oils in many of the foods, soft drinks, candy, chewing gum and confectionery items sold today. Synthetic oils have many advantages over nature's own product for these applications: They are more stable during processing, have absolute uniformity and contain none of the impurities and residues of the natural oils. Supply, of course, is not subject to the vagaries of the weather or politics when synthetic oils are used, and this is of key importance to the maintenance of manufacturing

and delivery schedules. Synthetic products, based on organic chemistry, are likewise increasingly important to ethical drug, vitamin and perfumery products, all fields in which Glidden's Organic Chemicals Group has made significant progress.

In the *foods industry*, when the Food Additive Amendment to the Food and Drug Administration Act was passed in 1958, experts expected the new law would require the registration of perhaps 300 food additives. Just ten years later, the number of substances in that category has exceeded 1,500, and is still growing as chemistry technology transforms the foods industry. An active technical staff in this important area has assured SCM a "ground-floor" position in an expanding industry.

World population growth has placed seemingly impossible demands on food supplies. For example, there will simply not be enough cows to supply as basic a necessity as milk for a world population of 3,000,000,000. The demand for *imitation dairy products* and high-energy *protein foods* can only increase as a result. These are among product categories being developed at Durkee Foods aided by Glidden Chemistry for SCM in this rapidly growing area.

In the field of *inorganic chemicals* Glidden is a technological leader in *powder metallurgy*, among other product categories. Metal powders as an industry group are expected to grow at an accelerating pace as materials with high strength-to-weight ratio become of increasing importance in the automotive and metal-working industries. Automobiles produced in the U.S. typically use 80 to 100 separate parts made of compressed metal powders. Other applications for this new product seem to occur to manufacturers almost daily, with the result that SCM now estimates the total market for metal powders of the type it produces at about \$55 million in 1968 and growing at about 10 per cent a year.

POLYMERS

Polymers, considered by many to be the fastest-growing industry group of all, is expected to grow 8.5 per

cent a year to 1975, with total annual sales of close to \$600 million by that time. Polymers are substances formed by a chemical process in which many small molecules combine to form a large molecule.

A vast variety of high-performance plastics, synthetic fibers, adhesives and other composites based on polymer research may be expected to transform whole industries in the future. The new Glidden polymer plant at Huron, Ohio will make possible contributions by SCM in this area. The Huron plant now produces sophisticated materials for use in complex *coatings and resins* for both consumer and industrial application.

The rapidly growing *adhesives* segment also is supplied with polymers, monomers and latices manufactured at Huron. The increased use of adhesives in structural materials of all varieties is a trend that will become even more pronounced in the future. The total market for this product category is estimated at \$144 million and growing at over 5 per cent a year, according to SCM studies.

PAPER

The paper industry, like chemicals, is a basic industry characterized by certain segments which are growing far more rapidly than others. The *business forms* industry, for example, is expected to exceed \$1 billion in annual sales within the next two years, and to reach \$1.8 billion by 1975. This is growth at approximately double the rate of the paper industry as a whole. *Continuous forms*, increasingly specialized in by Allied Paper, is expected to grow even faster as a product category.

Certain other paper products in which SCM has important market positions also exceed the overall industry in annual rate of growth. *Reprographic paper*, such as that used in office copiers, represent a market for some two million tons of paper annually. Together with associated equipment, this output represents a value to the paper industry of over \$1 billion. Annual growth in this area has been estimated at 15 per cent, as more than 15 billion sheets of coated paper

move through office copiers each year.

GRAPHIC ARTS

The market for *reprographic systems*, long a prime area of SCM interest, is expected to continue its dramatic growth of recent years. In this category are information processing, storage and retrieval, transmission, imaging and other aspects of handling data.

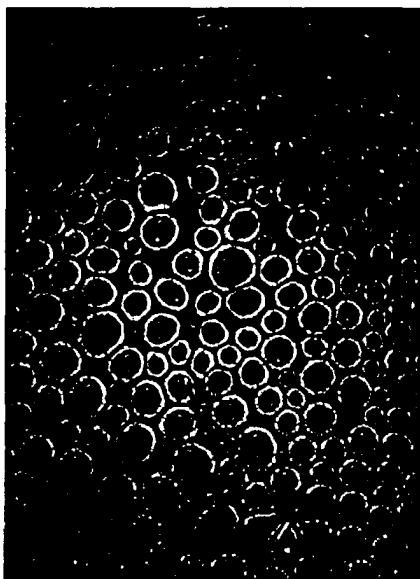
The Company's technological position has been improved by acquisitions of the past year. Now, in addition to the work being carried forward at the Advanced Research Center in Switzerland, some elements of which are pictured on these pages, newer SCM operations are approaching the problem from a different angle. Glidden research into resin binders has already proved useful, and the possibility that breakthroughs in organic chemistry may provide an entirely new approach to reprographics must not be discounted.

Allied Paper, in addition to being a leading supplier of reprographic papers, also has conducted promising research in the area. The acquisition of the Phoenixville, Pennsylvania Specialty Coating operation provides a laboratory atmosphere for testing new concepts in paper coating even while producing a significant proportion of SCM's coated-paper requirements.

These new research and technical assets are increasingly integrated with existing capabilities in electronics, electro-optics, electro-mechanics and copier research activities within the Smith-Corona Marchant Division. That Division's proven manufacturing and marketing organization makes it clear that SCM has the opportunity to continue its contributions to this industry.

THE PRIME OBJECTIVE

It has been demonstrated that every SCM Division commands respect as a technological and marketing leader in the important growth industries SCM has chosen to enter. To achieve and develop this stature has been SCM's prime objective for a dozen years, and will remain our objective in the future.



REVIEW OF OPERATIONS

Office Equipment

Office equipment, as an industry category, continued its remarkable expansion in 1968. While much of this growth was accounted for by increased sales and installations of main frame computers, peripherals and related softwares, the non-computer-related aspects are expected to continue to expand at an equally satisfactory rate. Buyer's determination to improve office procedures, increase efficiency, and reduce costs will continue to provide support for business equipment generally. SCM activities in office equipment consist primarily of Smith-Corona Marchant Division operations in office copiers and supplies, office typewriters, and desk calculators.

OFFICE COPIERS AND SUPPLIES

Placements of Coronastat copiers showed continued improvement in 1968 over 1967, but higher manufacturing and marketing costs, plus the deferred profitability of machines placed on Copy Service plans, combined to hold down profits.

Two new desk-top copiers, Model 66 and Model 88, were introduced in the second quarter and have met with gratifying acceptance in the market place. SCM retained its position in the desk-top copier line despite greatly increased competition from a growing number of companies.

In October 1967, SCM began manufacturing its own zinc oxide-coated paper designed for use in Coronastat copiers. The new plant in eastern Pennsylvania will supply a substantial portion of SCM's overall coated paper requirements at a lower cost. There has been a marked improvement in weight and other characteristics of SCM's coated paper.

Copy paper prices have continued under heavy pressure as competing paper suppliers attempt to establish themselves in this profitable and growing market.

OFFICE TYPEWRITERS

Smith-Corona introduced an all-new office electric typewriter in the first quarter, the Secretarial 315,

which was well-received by cost and quality conscious businesses. Production has been somewhat delayed so that the full market potential of which the Secretarial 315 is capable has not yet been achieved. Changes in the traditional market structure for office typewriters, which will benefit particularly this machine and SCM's 250, have been reflected in a thorough realignment of our office typewriter marketing program.

CALCULATORS

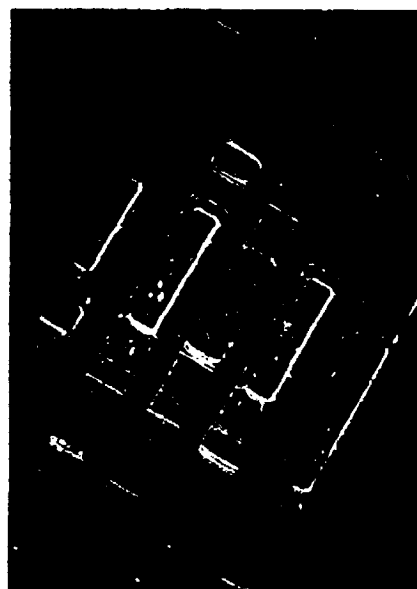
The calculator segment of the office equipment industry has expanded severalfold in recent years. At the same time, this segment reflects the impact of modern technology as electro-mechanical rotary calculators give way to printing calculators and electronic models. The opportunity presented to companies with well-established distribution and service organizations is clear. However, from a manufacturing standpoint, the new products require an engineering approach entirely new to the field. To focus Company efforts in this highly complex industry, Marchant Electronics was formed within the Smith-Corona Marchant Division. Marchant Electronics is energetically pursuing advanced developments in the calculator art and will provide assistance to other Divisions using electronic techniques.

Scheduled for introduction about the time of publication of this Report is the Model 120, an electronic printing calculator at a new low price for a machine with its features and flexibility for desk-top computing. This new calculator reflects SCM's determination to keep Marchant Calculators the standard of the industry.

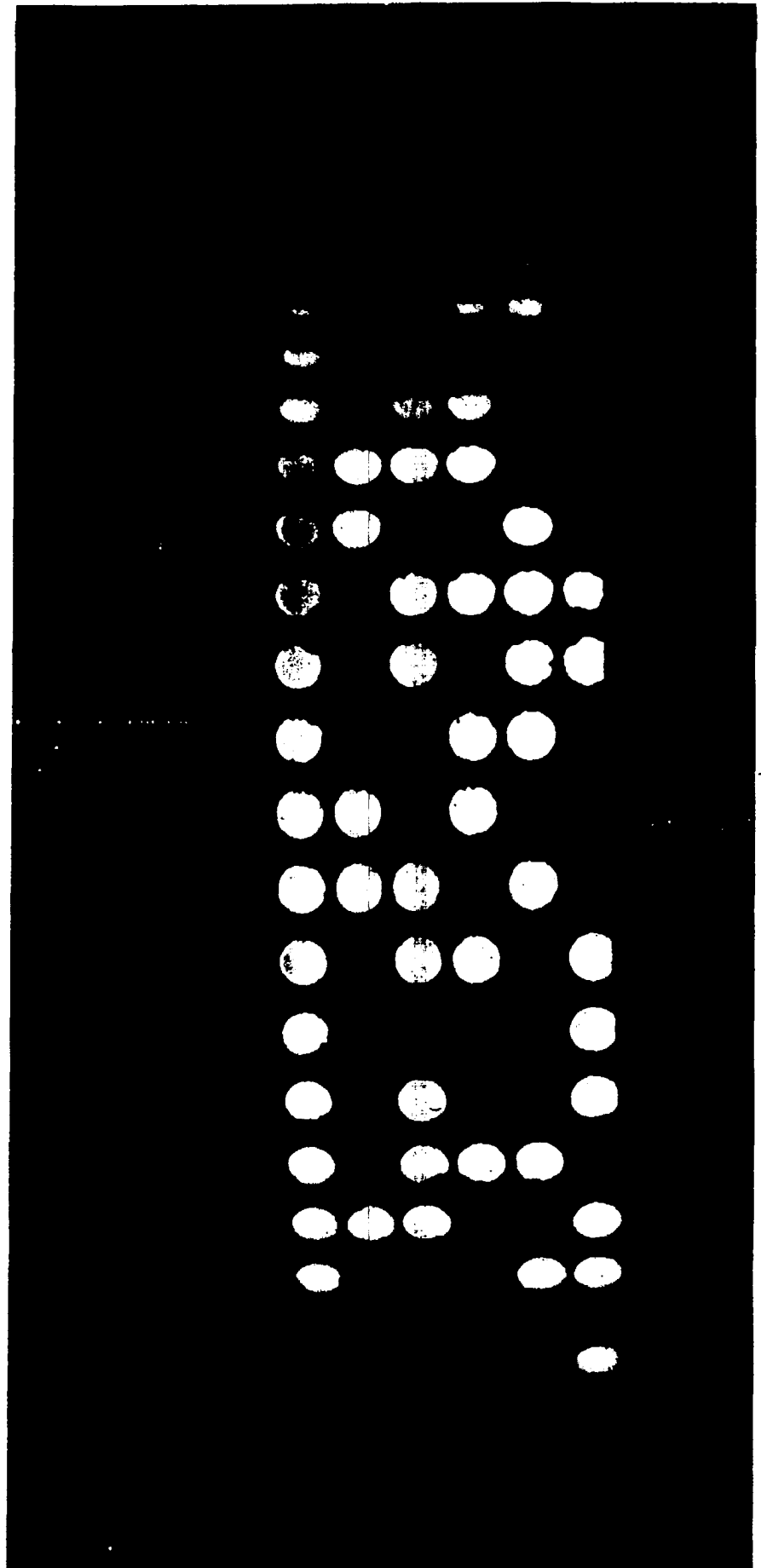
Portable Typewriters

SCM is the nation's leading producer of portable typewriters. Consumer preference for Smith-Corona portables continued in 1968 as SCM machines achieved both higher sales and an increased share of the domestic market. Late in the fiscal year Smith-Corona introduced the 210 Automatic Portable, an all-electric portable with a power carriage return, power spacing and other new features.

In recognition of the increased sales



The small picture made at Marchant Electronics in Oakland, California shows a beam-lead semi-conductor device in a thick film circuit. The circuit, here enlarged 450 times, is being prepared for use in a new line of electronic calculators in the early development stage. The large picture shows technology of a somewhat different category—automation. The machine shown produces one of a great many typewriter sub-assemblies, untouched by an operator. In this case, the automated machine goes through assembling operations at 23 stations and turns out finished assemblies at the rate of 45 per minute.



The facing page shows another aspect of the Kleinschmidt Teleprinter, a code wheel for identifying the particular type character on the cylinder shown on the cover as it passes the print positions. Only when the light pulse from within the code wheel "opens the gate," by activating the photo-electric diodes, can the printing function be actuated.

of portables by non-specialized dealers such as department stores, a shift in marketing strategy was undertaken during the year. For the first time, almost 40 per cent of all dealers will be able to provide across the counter a complete line of Smith-Corona portables. Sales should be significantly expanded as a result of this new marketing concept.

Principal consumer products are portable typewriters and light duty adding machines, sold mainly for student, home, and small office use.

ADDING MACHINES

SCM markets a highly successful adding machine for home and business use under the Figurematic brand. These adding machines, which are increasingly popular as a gift and premium item, are natural product companions to portable typewriters. Figurematic sales and profits were significantly improved in 1968.

Telecommunications

SCM expects the communications equipment industry to maintain its recent high rate growth. Industry sales are expected to triple between 1965 and 1975, reaching 4.2 billion by 1975. Computer remote terminals and associated support equipment will be a significant factor in this expansion.

Kleinschmidt Telecommunications Division of SCM has demonstrated the technological capability to assume leadership in this growth industry.

Kleinschmidt produces page printers, tape perforators, automatic switching equipment and related products. Although the bulk of its output is currently sold for military applications, the proportion sold to commercial users is increasing.

The commercial market for Kleinschmidt systems and components results from the proliferation of computer installations. Kleinschmidt's 311 Data Printer, for example, designed to fit directly into any telecommunication system, provides speeds of up to four times as fast as most other teleprinters and has shown great reliability even under extreme operating conditions. Kleinschmidt printers have already

been established in the transportation industry. Airlines use them in connection with ticket reservation systems, for example, while the Federal Aviation Administration uses similar Kleinschmidt equipment to keep track of aircraft in air traffic control centers.

A significant new product application for the 311 Data Printer this year has been for rapid printout of regional weather forecasts. The user is able to supply his client at more than 100 installations with more complete and up-to-the-minute weather forecasts because of the 311's greater printing speed.

Kleinschmidt's latest innovation, the mobile-mounted Telescriber printer, has been the object of increasing interest, especially by police departments around the country. The Telescriber printer can be plugged into any two-way radio and presents mobile units such as police and fire vehicles, railroad equipment, trucks, taxicabs, and doctors' and salesmen's cars with a totally reliable printed message, even when the operator is not in his vehicle.

The Division's operational plan calls for expansion in present markets as a prelude to exploring new ones. With a constantly growing number of computers on-line, the burden on communications circuits is increasing rapidly. These problems Kleinschmidt equipment is designed to help solve.

Chemicals

Glidden's specialized chemical operations represent a growing percentage of SCM's total business. Included in those operations are organic chemicals, of which the most important are synthetic flavor oils, fragrances, and other terpene-based chemicals. The balance is represented by a variety of inorganic chemical products and materials. In the latter group are colors and pigments and certain building materials.

ORGANIC CHEMICALS

The Glidden-Durkee Division's Organic Chemicals Group is situated in Jacksonville, Florida. Originally devoted to production of "wood naval stores" (pine tar, pitch, pine oils and

the like), the facility now produces a wide variety of terpene-based intermediate and fine chemical products. A satellite plant, located in Port St. Joe, Florida and run almost entirely by computer from Jacksonville, produces tall oil derivatives.

To some extent, results for this Group are related to raw material costs. In recent periods, shortages of raw materials have affected costs adversely while higher prices for finished products were not possible in most cases because of competitive factors. Continued introduction of new products with good potential is expected to continue to diminish the impact of raw material costs.

New product development proceeds at a rapid rate in this high technology area of SCM's business; a significant percentage of the Group's sales is derived from products developed in the past five years, and most of these new products are proprietary. Holding the greatest promise for rapid growth in organic chemicals is the expanding line of synthetic flavor and fragrance chemicals and synthetic substances for use in ethical drug and vitamin manufacture.

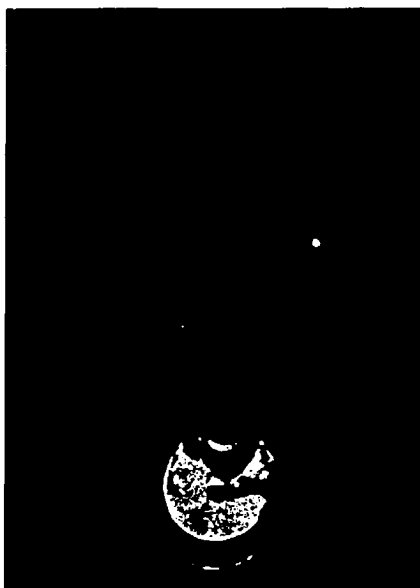
INORGANIC CHEMICALS

Strikes in two facilities of Glidden's Pigments and Color Group affected the Group's earnings in fiscal 1968. Titanium dioxide and other inorganic pigments continued in high demand throughout the year, however.-----

Of key importance to the future of this Group is the decision to expand titanium dioxide manufacture by construction of a chloride-process plant. Currently, TiO_2 , a superior white pigment for use in the paint, paper, rubber and plastics industries, is produced by the Group by the sulfate process. The new highly automated plant will cost approximately \$20 million and will increase production by 50 per cent.

Glidden's Ceramics Group produces ceramic glazes and porcelain enamels for application as metal coatings and decorative tile finishes. This aspect of SCM's business—as is true of paints and specialty coatings—is related to the home construction industry, for which long-term prospects for growth are good.

The small picture shows a distillation column for analyzing terpene substances at Glidden-Durkee's Organic Chemicals Group in Jacksonville, Florida. The process aids in identifying the components of the raw material. The large photograph shows the exterior of the plant, the largest refinery of crude sulphate turpentine in the world. Through the use of modern organic chemical techniques, the crude turpentine is refined into more than 50 basic products ranging from synthetic flavor oils and perfume essences to pine oils and solvents.





SCM's Allied Paper Division produces over 450 tons of pulp daily at its Southern Mill in Jackson, Alabama. The bulk of this output is put to use in one of Allied's four paper mills. This photograph of stacked pulp was taken in Kalamazoo, Michigan. Pulps of different grades and qualities are carefully blended in huge vats for the production of a variety of paper products.

Results of Glidden's powdered metals operation were substantially improved over last year. Part of the increase was due to the increased demand for copper powders resulting from the protracted copper strike (the strike did not otherwise affect SCM operations). The Metals Group expects to maintain and improve its position in the ever-expanding market for powdered metals.

New grades of powdered iron were introduced by the Group during the year which have proved particularly useful in automobiles and home appliances. These powders, formed by compression and finished into solid masses at high temperature, provide economies in many manufacturing applications and greater strength and durability over machined parts. Although present industry capacity is somewhat more than adequate, demand is expected to increase 200 per cent over the next five years.

Pulp, Paper and Paper Products

Allied Paper Corporation became a part of SCM at the end of 1967. Allied is an integrated paper manufacturer and converter whose products range from pulp to greeting cards.

There are five aspects of Allied's operations: Southern Mill Division, Kalamazoo Paper Mill Division, Allied/Egry Business Systems, Penrite Division, and Gates Paper, operating as a sales organization.

As is true in other SCM Divisions, Allied Paper has concentrated on developments in the most rapidly growing parts of the industry. While the industry as a whole will grow at about the average rate for the economy in general, consumable office and educational supplies (pads, notebooks, pencils and the like) should grow more than three times faster. Similarly, the business forms industry is expected to grow at twice the all-industry rate, and continuous forms for computer application somewhat faster still.

PULP OPERATIONS

Allied's Southern Mill Division in Jackson, Alabama is a modern industrial complex which produces 200 tons of fine paper and over 450

tons of pulp daily. Allied uses the bulk of its pulp output at its own paper mills and sells the small remainder on the open market. Reflecting conditions in the industry generally, resulting from a reduction in the rate of annual consumption increase and an unusual amount of expansion of production capacity, earnings in pulp and paper operations were reduced in fiscal 1968.

Increasing integration in pulp operations, and careful attention to the control and technical aspects of the pulping process, has enabled Allied to achieve quality standards in pulp that are the foundation of its fine paper and converting production.

ALLIED/EGRY BUSINESS SYSTEMS

Allied's subsidiary, Allied/Egry, is among the nation's largest producers of business forms, a converted paper product with excellent prospects for growth. As the volume of data processing increases, the need for business forms and particularly *continuous forms*, rises directly.

To serve this growing market most efficiently, Allied/Egry has strategically located distribution centers and coordinated marketing functions involving direct sales, associated distributors, and government sales.

Business forms, a rapidly growing aspect of the paper industry, is in a transitional phase. This is reflected in competitive factors which affected SCM's business forms operations in 1968. Newly installed, higher-speed production equipment and expanded marketing programs should improve the competitive situation in coming periods.

PAPER

The market for fine quality book papers has also been expanding, reflecting in part increased education expenditures by Americans. Federal aid to education programs, for example, have been a great stimulus to the book trade. There is also a vastly increased demand for books of all kinds as Americans fill more leisure hours by reading.

Allied Paper has produced book paper for over half a century and is the recognized leader in the special lightweight paper used in diction-

aries, encyclopedias and Bibles. But even though books currently represent the most important market for these papers, the integration and plant expansion recently completed has made possible the production of other fine quality printing papers. Using a newly installed, advanced blade coater of substantial capacity, Allied is now supplying lightweight paper of superior print quality and texture. Higher postage rates for magazine publishers and direct mail advertisers will make Allied's proven abilities in lightweight papers even more important in the years ahead. A dictionary to be published in 1969 will use a specially developed lightweight paper by Allied.

Allied is also a leading manufacturer of electrostatic copier paper base stock. Before its association with SCM, Allied had already conducted research into the art of electrostatic, dielectric and other copying processes. The addition of Allied's effort to the reprographics research and development of other Divisions is being pursued.

PAPER CONVERTING

Educational and office consumable supplies are manufactured by the Penrite Division, the fourth principal part of Allied Paper. This is another rapidly expanding segment of the paper industry, both because of increased numbers of students and vastly larger numbers of white-collar workers in America. A growing line of stationer's supplies is marketed by Gates Paper. Construction papers, in 30 bright colors, are also provided for sale to artists, advertisers and schools. In a related converted product area, Allied introduced a line of contemporary greeting cards for distribution through franchised dealers in 1968.

Coatings and Resins

The coatings industry is a large and important segment of American industry with over \$2 billion in sales annually. Although its size precludes large percentage increases each year, resourceful firms, utilizing new technology, are able to grow rapidly within the industry.

SCM's Coatings and Resins Group

Both the domestic and foreign automotive industries are prime markets for electrocoating materials. This photograph made near Tokyo shows a truck body manufactured by Nissan Diesel Industries Ltd. The vehicle, having emerged from the electrocoating bath, is undergoing a baking operation in which the coating is dried. Glidden pioneered in the development of electrocoating, a process in which coatings may be applied with absolute



experienced very substantial sales growth and profit improvement in 1968. Most of the increase came from successful introduction of new and advanced products, marketing and distribution efficiencies, and continued emphasis on manufacturing cost reductions.

Apart from its size and degree of competition, the coatings industry is remarkable for the rapidity of change it continues to see. Both the new demands imposed on protective coatings (resistance to corrosion and abrasion and ease and speed of application) and the complex chemicals developed to meet these needs have made the industry a full-fledged member of the organic chemicals industry.

Typical of new products is a floor coating that will withstand a bath of 30 per cent sulfuric acid, and a long-molecule latex-based interior house paint that can be applied in one coat that dries in half an hour. Resins for these products and many others are manufactured by polymerization techniques. Complex additives and vehicles and a variety of special pigments are required in the manufacture of modern coatings, using highly advanced process control techniques.

Synthetic and modified natural resins are an important part of the technology of coatings manufacture. SCM's Glidden-Durkee Division provides its own resins for this purpose in a new polymer plant, as well as in processing units located within coatings plants. The new polymer plant, located at Huron, Ohio also produces co-polymers, specialty monomers and latices. One leading scientist has predicted that these substances will in time become the basic structural materials of our civilization. This promise is reflected in recent growth in this industry.

Sales of Glidden coatings and resins consist primarily of industrial sales to manufacturers who apply Glidden coatings to coil stock, metal products, can linings, etc.; trade sales direct to the homeowner, professional painters and painting contractors; and Macco Adhesives, which produces a variety of products for the building and construction industry.



uniformity even to the most inaccessible crevices and niches.

The lower picture on this page shows a metalescent paint, later to be used in electrocoating operations, being mixed in an experimental coating laboratory in Chicago.

SCM's San Francisco Coatings and Resins plant is viewed (upside down and backwards) through a new clear resin developed by Glidden research. Resins this clear, the product of years of research, are expected to have particular applicability in casting resins for architectural materials.

Research has played a significant role in Glidden's success in the coatings and resins industry. This research will continue under optimum conditions with the completion this fall of the new Research Center at Strongsville, Ohio. The facility will house 250 scientists, technicians, and other employees. Designed with separate wings for Foods and Coatings and Resins activities, the new facility will aid substantially in the maintenance of the Glidden and Durkee names as synonymous with technology.

New product introductions by Glidden in 1968 include New Spred Satin, the first major improvement in latex-based paint since Glidden invented it; a new line of exterior house paints; and several new state-of-the-art products in the industrial coatings category.

Macco Adhesives finds its markets primarily in the construction industry. The long-term outlook for new housing must be regarded as bright in view of continued increases in population growth, family formation rate and disposable personal income. The current decline in the rate of housing starts is expected to last through fiscal 1969 and is primarily a result of economic conditions in that industry.

Appliances

Sales by the total housewares industry are estimated at well over \$12 billion annually. SCM activities are concentrated in a segment of the industry with a particularly high rate of growth: small electric housewares with current annual sales of over \$2 billion.

Application of technology in the appliance industry has taken two primary forms: development of new, proprietary products and manufacturing efficiencies. In the first category, Proctor-Silex's innovation, the "Lifelong" appliance, received favorable attention from department store and appliance dealers as well as consumers. In the second category, 1968 was a year in which further perfection of mass production methods reduced costs and improved profit margins.

SCM, through Proctor-Silex, has specialized in toasters, coffee-makers, irons and ironing tables. Through

Shetland Floor Care Products, a part of the Proctor-Silex Division, SCM produces a wide range of products in the \$500 million floor care industry. 1968 results for Proctor-Silex appliances continued the favorable trends established in earlier periods. National distribution of "Lifelong" irons, toasters and coffee-makers—appliances made up of easily assembled, readily obtainable parts—was completed during the year. The new design virtually assures the end of repair shop service for these appliances. The "Lifelong" feature is credited by Proctor-Silex as the prime factor behind doubling its share of the market for electric percolators. Proctor will introduce this fall a full line of "push button" blenders which should result in a substantial volume increase in the next year.

PROCTOR & SCHWARTZ

Proctor & Schwartz, a part of Proctor-Silex, was affected in the year by continued pressures against capital investment. Proctor & Schwartz provides systems controlled, continuous process equipment for the food, chemicals, textile and tobacco industries. Proctor is also among the world's leading manufacturers of processing machines for the rapidly growing non-woven fabric and indoor-outdoor carpeting industries.

The impact of technological change is particularly pronounced in continuous process equipment. Changes in processing techniques and the development of new products will require more and more of the type equipment that Proctor & Schwartz manufactures.

Foods

The foods industry is the largest business in America. Total sales in 1967 reached \$96.5 billion and will easily exceed \$100 billion in calendar 1968. Rising levels of disposable personal income make it possible for Americans to eat better at less cost in terms of the percentage of income spent on food. Spending on food is expected to account for 17.3 per cent of disposable personal income in 1968, compared with 20 per cent as recently as a decade ago. A corollary trend to rising income

levels is the desire for the elimination of as much home food preparation as possible. This has led and will continue to lead to a demand for packaged convenience foods and food services that make it possible for the modern homemaker to serve flavorful meals that are quick and easy to prepare.

SCM, through Durkee Foods, serves the food industry in three ways. Pre-portioned and pre-processed entree items along with sauces, cooking oils and packaged snacks are sold to restaurants, institutions and other elements of the food service business. Consumer foods and spices are sold directly to the consumer through food stores across the country. Industrial food products are sold to food processors such as the baking and confectionery industry, margarine manufacturers and manufacturers of dairy product substitutes.

FOOD SERVICE

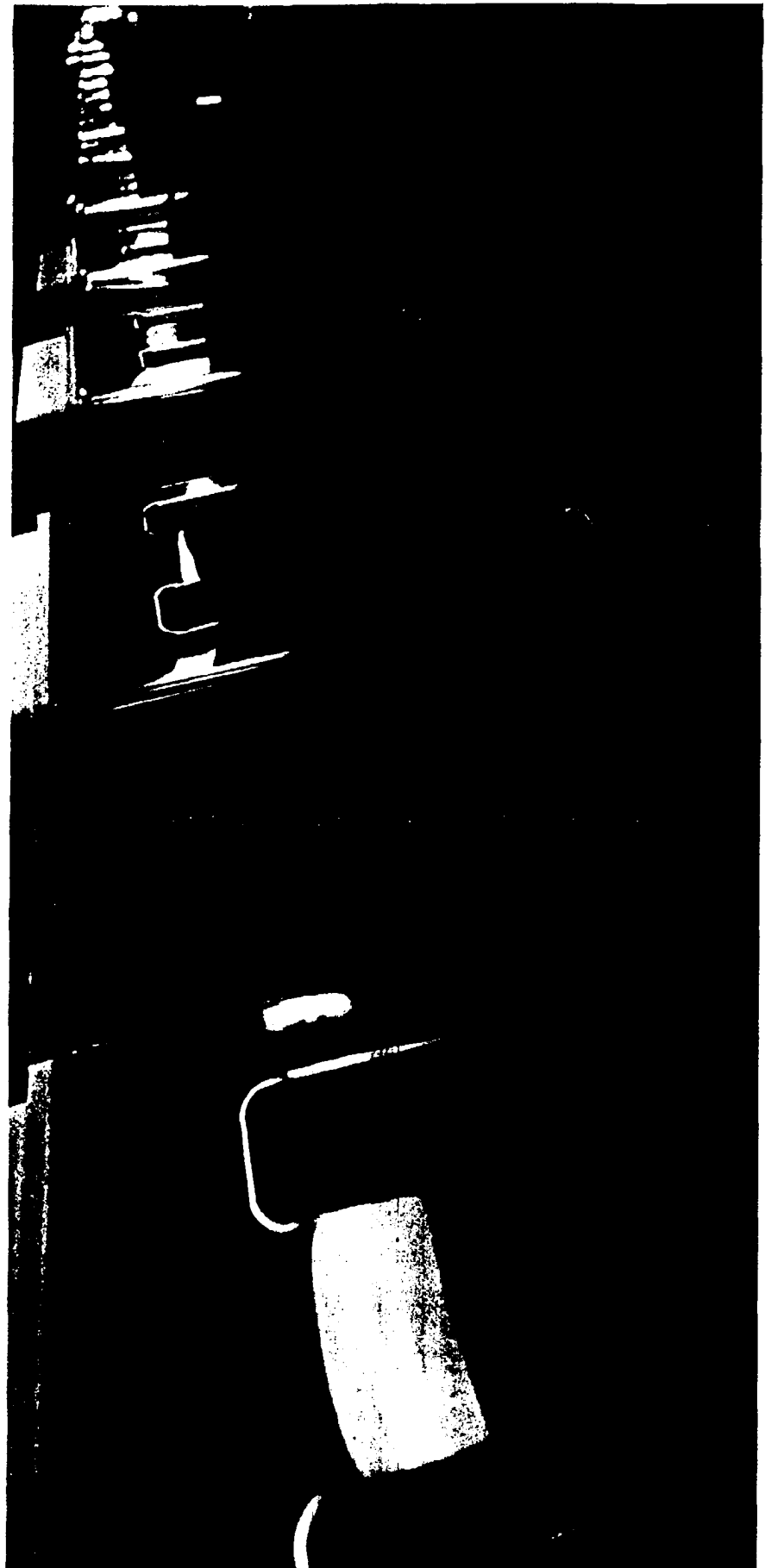
Food service is the part of the food industry growing most rapidly today. More than one out of every four meals served in the United States are prepared and served away from home—in restaurants, drive-ins, schools, institutions, hospitals and the like. The number is expected to become one in three by 1975, resulting in annual food service sales in excess of \$30 billion.

Of key importance to the future of food service industry is the increasing quality and acceptability of pre-processed meals. Pre-processed meals served by airlines and other in-transit feeders have received wide passenger acceptance and are becoming the standard. Dietary kitchens in modern hospitals are designed completely around this concept. Durkee uses the latest techniques of food preparation to produce portion controlled, pre-processed entree items that are as tasty as if cooked to order by a master chef. Added to the convenience and economy of pre-processing, this good taste will provide the basis for a growing dominance of the overall food market by the food service segment.

INDUSTRIAL FOODS

The largest of the three Durkee operations is in industrial foods. The

Technology has made SCM's Proctor-Silex Division a uniquely efficient producer of small electric home appliances. Highly automated manufacturing processes, represented by this final test line for electric toasters, are one demonstration of the efficiency of Proctor-Silex manufacturing operations. But technological ability notwithstanding, there is just one way to make sure a toaster will work—put a piece of bread in it and see that it pops up at exactly the right time to give the golden-brown color that customers are looking for.



developing technology of food chemistry in the past two decades has had a substantial impact on food processing and nowhere is this more strikingly evident than in the refining and processing of edible oils. Chemistry has become basic to the industry over that period and Durkee scientists have been at the forefront of the development effort. The result has been the creation of a wide range of completely new industrial food products and innovations in consumer foods now considered commonplace: artificial creamers, whipped toppings, low-calorie desserts, and confectionery coatings are but a few of the better-known products.

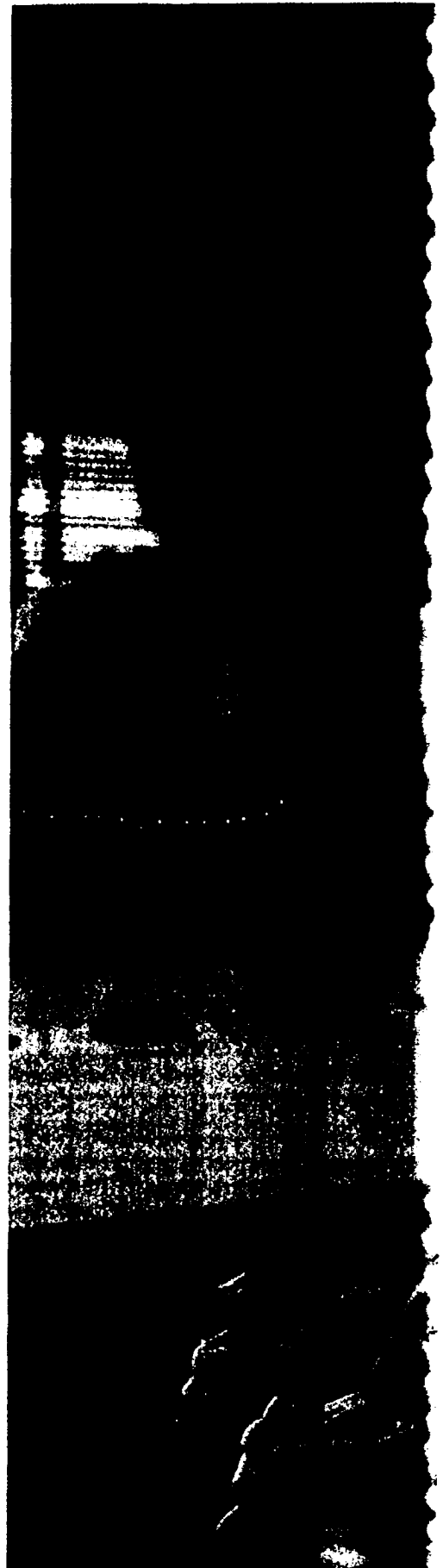
In this aspect of the food business, vegetable oils such as soybean and cottonseed oils are subjected to many of the processes common to petroleum refining, including catalytic reforming, fractional distilling, hydrogenation and similar processes. The resulting substances, with the addition of chemicals and with additional processing, form the basis of an expanding variety of processed foods.

1968 was a particularly good year for the Industrial Foods Group as significant progress was made in increasing the portion of its oil through-put converted into more exotic products, many exclusive with Durkee. Other Industrial food products are based on spices, natural and synthetic flavors and other natural products, prepared or formulated to meet particular requirements of food processors.

CONSUMER PRODUCTS

Continued improvement in manufacturing and marketing techniques, and increased sales of Durkee spices reflecting these techniques combined to make 1968 an improved year for Durkee Foods. In addition to spices packaged for the consumer, Durkee's well known O & C brand French Fried Onion Rings and Durkee sauces and gravy mixes continued to develop a strong consumer franchise. Of these, sauces and mixes in particular show technology at work. Both product groups are the result of flavor chemistry and edible oils research conducted within the Glidden-Durkee Division.

Another thing for which no technology has yet devised a satisfactory substitute is the human hand. The manufacturing process for these frozen hors d'oeuvres from the Kitchens of Gretchen Grant is almost totally automated. But the machine has yet to be devised that can give these hors d'oeuvres the extra non-uniform twirl that seems to make each one an individual taste experience. This spotless kitchen is at Maplewood, New Jersey.



MARKETS**TRADE NAMES**

Office Equipment and
Related Consumer Products

Shuttleworth
Polaroid
Gibson
Sylvania

Telecommunications Equipment

Organic and Inorganic Chemicals

Pulp and Paper Products

Coatings and Resins

Household Appliances

Industrial Process Equipment

Foods

PRODUCTS

Electric and Manual Office and Portable Typewriters	Office Copiers and Supplies Office and Home Adding Machines	Electronic Rotary and Electronic Calculators
<i>Electronic Copiers</i> <i>Electronic Calculators</i> <i>Electronic Adding Machines</i> <i>Electronic Typewriters</i>	<i>Electronic Copiers</i> <i>Electronic Calculators</i> <i>Electronic Adding Machines</i> <i>Electronic Typewriters</i>	
<i>Electronic Copiers</i> <i>Electronic Calculators</i> <i>Electronic Adding Machines</i> <i>Electronic Typewriters</i>	<i>Electronic Copiers</i> <i>Electronic Calculators</i> <i>Electronic Adding Machines</i> <i>Electronic Typewriters</i>	
<i>Electronic Copiers</i> <i>Electronic Calculators</i> <i>Electronic Adding Machines</i> <i>Electronic Typewriters</i>	<i>Electronic Copiers</i> <i>Electronic Calculators</i> <i>Electronic Adding Machines</i> <i>Electronic Typewriters</i>	

Italics indicates all or a significant portion of the output is marketed directly to consumers.

FINANCIAL REVIEW

Sales:

Total net sales were \$744.8 million, up 6% over last year's \$705.2 million. Of the Company's five Divisions, all except Kleinschmidt were above last year. The other four Divisions each had about the same percentage increase in sales. Among individual product lines showing sizeable increases were office copiers and Proctor-Silex appliances.

Earnings:

Net income after taxes, but before extraordinary items, was \$17.8 million, a decrease of 29% from last year's \$25.1 million. As stated in the President's Letter to Shareholders, the decrease was general and due to a variety of causes.

All of the Company's five Divisions operated on a profitable basis during the year.

Glidden-Durkee Division profits were ahead of last year, but profits of the other Divisions were lower. Increased cost pressure and some dips in demand were experienced in office equipment and portable typewriters. Government backlog in the Kleinschmidt Division decreased, and Allied Paper experienced cost and price pressures common to the paper industry during the year. The Shetland operation, acquired last year, had a high cost of operation.

On the other hand, the food business performed very well, and coatings and resins also had a good year. Results for the Pigments & Color Group were affected by strikes of 46 and 24 days in the titanium dioxide and cadmium color plants respectively.

Overall manufacturing costs and other expenses were slightly higher as a percentage of sales, and interest expense was substantially higher. Of the increase in interest expense, about half was due to the costs associated with the acquisition of the shares of The Glidden Company (see below), a portion of which are non-recurring, and the balance was due to increased

working capital borrowing and higher interest rates.

SCM's tax rate on ordinary income was 42.4%, about the same as last year. This rate results partly from lower taxes on foreign and certain other earnings, but principally from \$1.3 million of investment tax credit. From the beginning, the Company has elected the "flow-through" method of recognizing the investment tax credit.

Extraordinary Items:

During the year a number of actions were taken to discontinue unprofitable or marginal operations. The principal step was the discontinuance in January, 1968 of the Company's Data Processing Operations. In addition, an extraordinary credit arose from the conformance of Allied Paper accounting to SCM's practice in valuing inventories. In accordance with current accounting practice, these extraordinary items are deducted in arriving at net income but are shown separately and net of their tax effect.

Earnings Per Share:

Net income before extraordinary items was \$2.22 per share, a decrease of 26% from the preceding year's \$3.01 per share, based on 8,282,000 average shares outstanding this year and 7,841,000 average shares outstanding fiscal 1967. Average shares outstanding are computed on the basis of the present capitalization, with retroactive adjustments for poolings of interests, stock dividends, and shares issued in retiring temporary financing of Glidden shares acquired.

A part of this recapitalization involved the issuance of convertible debentures. If these were all converted and all outstanding employee stock options exercised, net income per share would be reduced from \$1.65 to \$1.62.

Dividends:

The cash dividend rate was increased 50% in the first quarter of the year to an annual dividend rate of 60¢ a share. In addition, our policy of stock dividends was continued with

the issuance early in the year of a 3% stock dividend.

Return on Investment:

Operations generate almost \$4 in sales for every \$1 of shareholder equity invested in the business. This is a relatively high utilization of assets. However, profit return on these sales dollars was low, and, as a result, the return after taxes from operations on average shareholder investment was 9%, a somewhat lower figure than we should be achieving.

Increase in working capital was less than in the previous year and was in line with sales increases.

During the current year the Company moved into new Corporate headquarters in New York City. In August, we purchased an important new plant in eastern Pennsylvania equipped to coat copy paper for Coronastat copiers. Also during the year the Company disclosed plans for three future major plant programs: a titanium dioxide plant utilizing the new chloride process, a new edible oil refinery, and relocation and expansion of certain of our appliance manufacture.

Recapitalization:

At the beginning of the year the Company purchased 30% of the shares of The Glidden Company from a shareholder who had acquired them earlier through a tender offer. The shares were purchased with the proceeds of temporary financing, due in one year. SCM Corporation then issued shares of its common stock for the remaining shares of The Glidden Company in a merger treated as a pooling of interests. The temporary financing and some other short-term borrowings were retired through the sale of 589,880 shares of common stock in November 1967, \$41,489,300 of convertible subordinated debentures and \$20 million of sinking fund debentures in May 1968. The issuance of these securities was part of the program of merger with The Glidden Company.

On December 31, 1967 the Company acquired the assets of Allied Paper Corporation in a pooling of interests.

SCM CORPORATION STATEMENT OF CONSOLIDATED INCOME

	Years Ended	
	June 30, 1968	June 30, 1967
Net Sales	<u>\$744,758,000</u>	<u>\$705,160,000</u>
Costs and expenses:		
Cost of sales	532,291,000	499,132,000
Selling, administrative, and research expenses	169,828,000	156,656,000
Interest expense—net	11,819,000	5,746,000
	<u>713,938,000</u>	<u>661,534,000</u>
Income before income taxes	30,820,000	43,626,000
United States and foreign income taxes	13,061,000	18,550,000
Income before extraordinary items	17,759,000	25,076,000
Extraordinary items	4,700,000	
Net Income	<u>\$ 13,059,000</u>	<u>\$ 25,076,000</u>
Earnings per share:		
Income before extraordinary items	\$2.22	\$3.01
Extraordinary items	.57	
Net income	<u>\$1.65</u>	<u>\$3.01</u>

SCM CORPORATION STATEMENT OF CONSOLIDATED SOURCE AND APPLICATION OF FUNDS

Source of funds:		
Net income	\$ 13,059,000	\$ 25,076,000
Depreciation and depletion	17,807,000	15,384,000
Provision for deferred income taxes	383,000	2,703,000
Amortization of deferred charges and intangibles	236,000	431,000
Cash flow from operations	<u>31,485,000</u>	<u>43,594,000</u>
Net increase from issuance of long-term debt	3,512,000	40,667,000
Sale of common stock	23,834,000	993,000
Stock issued for net assets of companies acquired		5,578,000
Total	<u>\$ 58,831,000</u>	<u>\$ 90,832,000</u>
Application of funds:		
Net capital expenditures	\$ 27,818,000	\$ 36,116,000
Reduction of long-term debt	8,437,000	4,382,000
Cash dividends	4,763,000	8,782,000
Other applications, net	3,163,000	1,140,000
Increase in working capital	14,650,000	40,412,000
Total	<u>\$ 58,831,000</u>	<u>\$ 90,832,000</u>

See accompanying notes to financial statements.

SCM CORPORATION CONSOLIDATED BALANCE SHEET

	June 30, 1968	June 30, 1967
Assets		
Current assets:		
Cash	\$ 13,725,000	\$ 14,640,000
Marketable securities—at cost	601,000	2,971,000
Accounts receivable—net	109,531,000	102,615,000
Inventories	182,687,000	181,280,000
Prepaid taxes and expenses	4,038,000	4,159,000
Total current assets	310,582,000	305,665,000
Property, plant and equipment—net	148,152,000	138,141,000
Other assets	11,275,000	7,596,000
Total	<u>\$470,009,000</u>	<u>\$451,402,000</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Loans payable to banks	\$ 18,613,000	\$ 23,631,000
Accounts payable and accrued liabilities	56,783,000	58,389,000
United States and foreign income taxes	902,000	8,756,000
Deferred revenue on maintenance agreements	5,951,000	5,588,000
Long-term debt payments due within one year	6,615,000	2,233,000
Total current liabilities	88,864,000	98,597,000
Deferred income taxes	10,796,000	10,413,000
Temporary financing of Glidden shares acquired		66,867,000
Long-term debt	161,115,000	98,124,000
Shareholders' equity	209,234,000	177,401,000
Total	<u>\$470,009,000</u>	<u>\$451,402,000</u>

See accompanying notes to financial statements.

DETAILS OF BALANCE SHEET ITEMS

	June 30, 1968	June 30, 1967
Accounts receivable:		
Due from customers	\$112,381,000	\$105,431,000
Less allowance for doubtful accounts	2,850,000	2,816,000
Net accounts receivable	<u>\$109,531,000</u>	<u>\$102,615,000</u>
Inventories, at the lower of current cost or market:		
Raw materials and work in process	\$ 77,126,000	\$ 83,236,000
Finished goods	105,561,000	98,044,000
Total inventories	<u>\$182,687,000</u>	<u>\$181,280,000</u>
Property, plant and equipment:		
Cost:		
Land and mineral deposits	\$ 9,284,000	\$ 9,392,000
Buildings	70,458,000	67,596,000
Machinery and other equipment	204,576,000	183,301,000
Total cost	284,318,000	260,289,000
Less accumulated depreciation and depletion	136,166,000	122,148,000
Net	<u>\$148,152,000</u>	<u>\$138,141,000</u>
Long-term debt:		
5¾% sinking fund debentures due 1972-1987	\$ 20,000,000	\$ 20,000,000
5½% sinking fund debentures due 1969-1983	22,500,000	23,995,000
7¼% sinking fund debentures due 1973-1988	20,000,000	
Bank term loans due 1969-1978 interest at prime rate plus a fraction	41,000,000	28,000,000
Notes payable to insurance companies due 1969-1979	10,125,000	11,375,000
Other loans	6,001,000	14,754,000
5½% convertible subordinated debentures due 1978-1988	41,489,000	
Total long-term debt	<u>\$161,115,000</u>	<u>\$ 98,124,000</u>

NOTES TO FINANCIAL STATEMENTS

Principles of Consolidation

The consolidated financial statements include the results of operations of all wholly owned operating subsidiaries.

In December, 1967 Allied Paper Corporation was combined into SCM in exchange for 606,754 shares of SCM common stock. This transaction has been treated as a pooling of interests and the 1967 financial statements have been restated to include Allied.

U.S. Income Taxes

The Company is contesting deficiencies in income taxes asserted against Allied Paper of approximately \$4,600,000. No provision has been made in the financial statements for such additional taxes since management and tax counsel believe that it is impracticable to estimate the amount of such additional taxes which may be paid. Further, management believes that any additional taxes would not have a material effect on SCM's financial position and would have no effect on the results of operations for subsequent years.

Long-Term Debt

During the next five years long-term debt maturities will be: 1969, \$6,615,000; 1970, \$11,269,000; 1971, \$12,966,000; 1972, \$14,370,000; 1973, \$14,973,000.

Under the most restrictive provisions of the loan agreements, at June 30, 1968, \$10,000,000 of retained earnings was available for cash dividends.

Capital Stock

The authorized capital stock of the Com-

pany consists of 500,000 shares of preferred stock, par value \$50 each and 15,000,000 shares of common stock par value \$5 each.

At June 30, 1968 8,297,204 shares of common stock were issued and outstanding, 397,707 shares were reserved for issuance under the Company's stock option plans, and 855,450 shares of common stock were reserved for issuance upon conversion of the subordinated debentures.

Allied Paper Corporation stock options outstanding at the merger date were converted into options to purchase SCM common stock and no additional options may be granted under the Allied plan. During the year options to purchase 119,549 shares were granted, options for 39,310 shares were exercised and options for 21,673 shares were cancelled. At June 30, 1968 options for 336,877 shares were outstanding. Options granted prior to January 1, 1964 were at 95% of the fair market value of the stock on dates granted; all other options were granted at the fair market value on the dates granted.

Extraordinary Items

The sale of the Company's data systems operations in January 1968 resulted in an after tax loss of \$4,750,000 (\$.57 per share). The Company also disposed of certain other assets which resulted in a net after tax loss of \$700,000 (\$.09 per share).

Allied Paper formerly used the LIFO method for determining costs of certain inventories. To conform to the SCM practice of using current costs, the Company changed to the FIFO method of determining cost. The after tax effect of revaluing opening inventories on this basis

increased net income by \$750,000 (\$.09 per share).

Earnings Per Share

Earnings per share assuming the conversion of debentures and exercise of outstanding options, with related adjustment for interest net of tax, were:

	1968	1967
Income before		
extraordinary items	\$2.12	\$2.81
Extraordinary items	.50	—
Net income	<u>\$1.62</u>	<u>\$2.81</u>

Retirement Plans

The Company has several pension plans covering substantially all of its employees.

During the year the actuarial cost method and actuarial assumptions used to determine pension cost under the Glidden plan, which continued in effect after the merger with SCM in 1967, were changed to conform to the method and assumptions used in the SCM plans. In addition a change was made in the method of recognizing unrealized appreciation in the value of investments in the pension funds. Primarily due to these changes, no pension provision was required in 1968 under current accounting practice. Had the changes not been made, net income would have been lower by \$300,000 (\$.04 per share). There are no unfunded vested benefits as of June 30, 1968.

Commitments

At June 30, 1968 the Company's annual rental for real property under leases expiring after June 30, 1971 was approximately \$8,000,000. These leases have varying expiration dates through 2017. This obligation will decrease by about \$2,000,000 by 1975 and by an additional \$2,000,000 by 1985.

SCM CORPORATION STATEMENT OF CONSOLIDATED SHAREHOLDERS' EQUITY,

Year Ended June 30, 1968

	Common Stock	Additional Paid-in Capital	Retained Earnings	Total Shareholders' Equity
Balance at beginning of year, as restated	\$37,309,000	\$ 70,547,000	\$69,545,000	\$177,401,000
Net income			13,059,000	13,059,000
Cash dividends			(4,763,000)	(4,763,000)
Stock dividends	1,031,000	9,779,000	(10,810,000)	
Sale of common stock under option plans	197,000	768,000		965,000
Costs in connection with pooling		(297,000)		(297,000)
Sale of common stock on exercise of rights, less costs	2,949,000	19,920,000		22,869,000
Balance at end of year	<u>\$41,486,000</u>	<u>\$100,717,000</u>	<u>\$67,031,000</u>	<u>\$209,234,000</u>

See accompanying notes to financial statements.

AUDITORS REPORT

Haskins & Sells
Certified Public Accountants
Two Broadway
New York, N.Y. 10004

To the Stockholders
SCM Corporation

We have examined the financial statements of SCM Corporation and its subsidiaries for the year ended June 30, 1968. 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 accompanying consolidated balance sheet and the statements of consolidated income and consolidated shareholders' equity present fairly the financial position of the companies at June 30, 1968 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year, and the accompanying statement of consolidated source and application of funds presents fairly the information shown therein.

Haskins & Sells

August 19, 1968

SCM CORPORATION TEN YEAR STATISTICAL SUMMARY All dollar amounts presented in thousands, except figures

	1968	1967	1966	1965
Income				
Net sales	\$744,758	\$705,160	\$644,787	\$558,393
Income before income taxes	30,820	43,626	40,408	29,431
U.S. and foreign income taxes	13,061	18,550	18,956	14,070
Income before extraordinary items	17,759	25,076	21,452	15,361
Extraordinary items, net of tax	(4,700)	—	1,207	403
Net income	13,059	25,076	22,659	15,764
Dividends on common stock	4,763	8,479	7,666	5,547
Income reinvested	8,296	16,294	14,474	8,934
Depreciation and depletion	17,807	15,384	12,835	11,821

Per Common Share				
Income before extraordinary items	\$ 2.22	\$ 3.01	\$ 2.68	\$ 2.04
Net income	1.65	3.01	2.83	2.10
SCM cash dividends	.60	.40	.30	—
Stock dividends	3%	3%	2½%	5%
Cash flow from operations	3.87	5.41	4.92	4.47
Book value	25.22	23.13	26.60	25.52

Financial Position				
Working capital	\$221,718	\$207,068	\$165,245	\$143,484
Property, plant and equipment—net	148,152	138,141	108,680	107,727
Total assets	470,009	451,402	382,329	331,223

Other Statistics				
Net capital expenditures	\$ 27,818	\$ 36,116	\$ 22,435	\$ 14,701
Return from operations on equity	8.5%	14.1%	9.8%	7.7%
Return from operations on net sales	2.4%	3.6%	3.3%	2.8%
Current ratio	3.50	3.10	2.84	3.03
Number of employees	33,200	33,100	31,300	29,900
Number of shareholders	47,500	45,600	47,000	42,500
Average common shares outstanding	8,282,000	7,841,000	7,455,000	6,391,000

given on a per share basis. All amounts restated for poolings of interests, except dividends.

1964	1963	1962	1961	1960	1959
\$470,633	\$453,126	\$429,315	\$392,970	\$366,128	\$353,330
22,921	20,066	20,416	12,737	16,108	16,416
11,140	9,188	9,524	6,513	6,830	8,601
11,781	10,878	10,892	6,224	9,278	7,815
—	—	912	(85)	351	295
11,781	10,878	11,804	6,139	9,629	8,110
4,920	4,663	7,592	4,622	4,719	6,158
5,624	5,335	3,794	1,316	4,881	1,913
11,484	12,042	10,795	11,989	10,699	9,847
\$ 1.53	\$ 1.45	\$ 1.53	.82	1.33	1.10
1.53	1.45	1.68	.81	1.38	1.15
—	—	—	—	—	—
3%	3%	2%	—	—	—
3.71	3.71	3.69	2.60	3.13	2.77
25.53	24.64	24.00	23.01	23.17	22.69
\$138,389	\$134,885	\$115,434	\$114,497	\$110,885	\$112,453
104,028	103,909	107,652	102,213	107,703	97,824
319,261	301,084	293,800	280,354	273,991	254,793
\$ 11,631	\$ 6,876	\$ 16,235	\$ 6,198	\$ 20,572	\$ 14,412
6.2%	6.0%	6.6%	4.1%	6.0%	5.2%
2.5%	2.4%	2.5%	1.6%	2.5%	2.2%
3.08	3.51	2.83	2.97	3.26	3.90
25,900	24,900	24,200	22,900	22,200	21,500
37,500	37,200	41,400	37,700	38,600	36,800
6,207,000	6,193,000	6,173,000	6,149,000	6,141,000	6,062,000

Directors

Emerson E. Mead, *Chairman**
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Transfer Agents

Marine Midland Grace Trust Company of New York
140 Broadway, New York, New York 10015
Bank of America National Trust & Savings Association
300 Montgomery Street, San Francisco, California 94104

Registrars

Manufacturers Hanover Trust Company
One Whitehall Street, New York, New York 10015
United California Bank
95 Hawthorne Street, San Francisco, California 94105

Corporate Headquarters

299 Park Avenue, New York, New York 10017
Telephone: 212-752-2700

Annual Meeting

The Annual Meeting of Shareholders will be held at 9:30 a.m. on October 17, 1968, at the Company's Plant, 3901 Hawkins Point Road, Baltimore, Maryland.

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