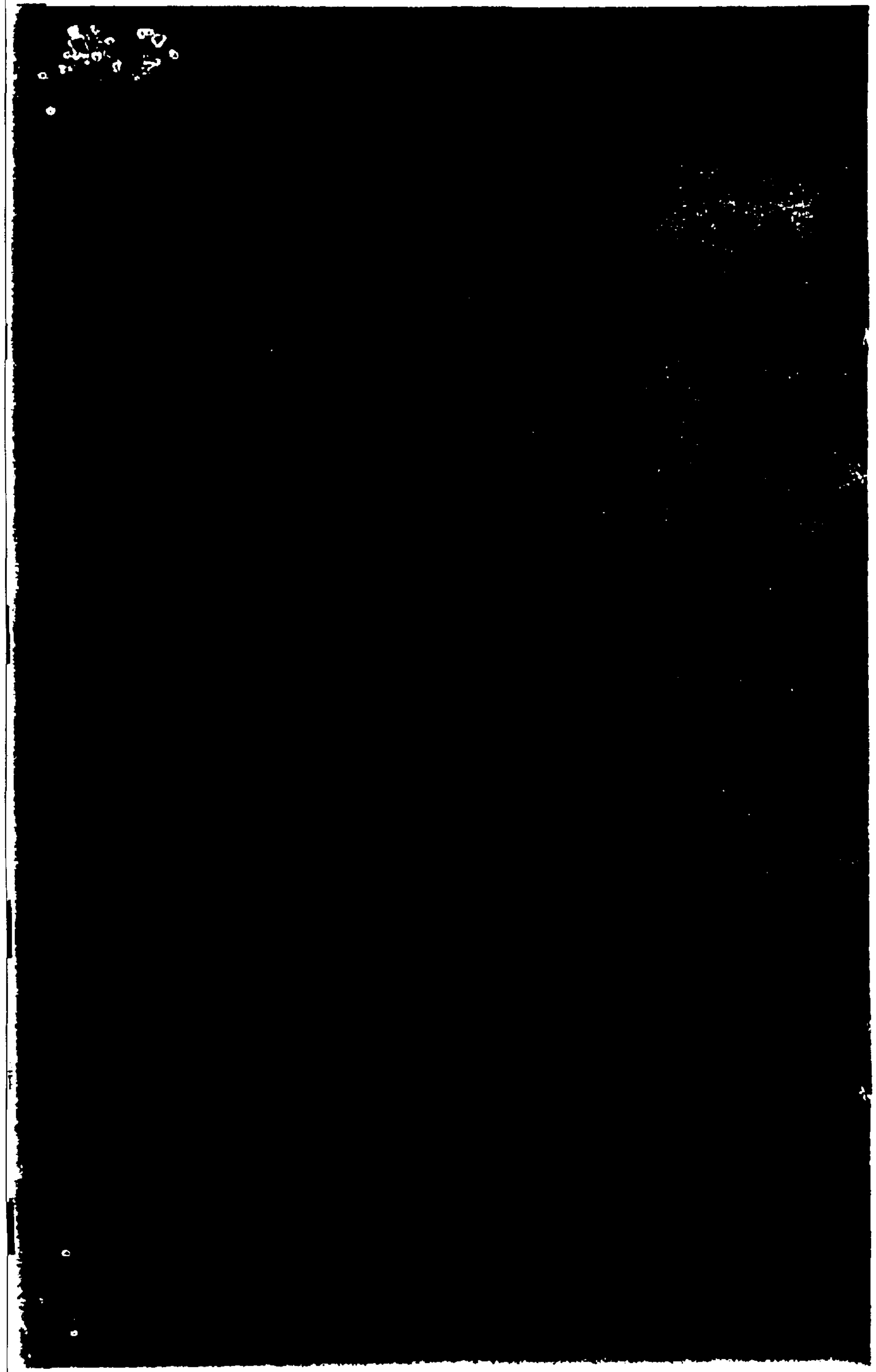
SCM CORPORAT
ANNUAL REP
FOR THE YEAR EN
JUNE 30.1

SCM Corporation • 299 Park Avenue • New York, N.Y. 10017



SCM Corporation is a diversified manufacturing company that people depend upon for a wide spectrum of products and services. Its name has become associated with quality products in office equipment, appliances, foods, coatings, chemicals, paper and telecommunications.

As the Company has evolved from a relatively small and narrowly-channelled enterprise into a major U.S. corporation, its management has not lost sight of the fact that people depend on SCM.

In 1969, more people depended on SCM than ever before. They included 50,000 individual shareholders, 33,500 employees, tens of thousands of dealers, distributors and retailers, and millions of users of SCM products. This report is prepared in their behalf.

Contents

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To Our Shareholders:

Fiscal 1969 was a year of progress for your company. Sales reached $807.6 million, an 8.4 percent increase over last year's record $744.8 million. Net income was $20,639,000, 16 percent higher than 1968's $17,759,000 income before extraordinary items.

As shown in the table on the facing page, earnings per share were $2.42, an increase of 11 percent over last year's $2.17 per share, before extraordinary items, as adjusted. Income before taxes rose 27.8 percent.

Our two largest divisions account for three quarters of the Company's sales. In 1969, both of these—Glidden-Durkee and Smith-Corona Marchant—performed well.

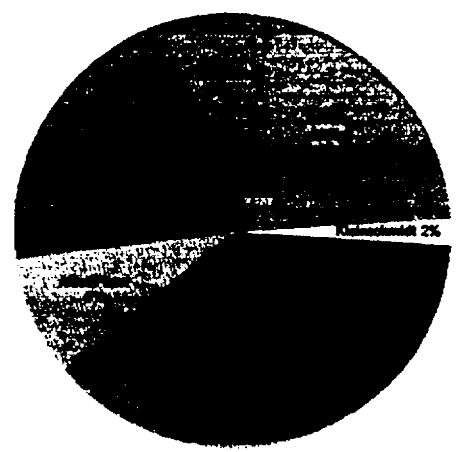
The Smith-Corona Marchant Division showed the greatest percentage of profit improvement in 1969 over a low in 1968. Photocopy operations, both domestic and foreign, and portable and office typewriters, all shared in the improved results. Late in the year the division introduced a family of U.S.-manufactured electronic calculators which is expected to make an important contribution to earnings.

In two of the three areas of Glidden-

Financial Highlights

For The Year Ended June 30	1969	1968
Net sales	$807,648,000	$744,758,000
Income before income taxes	39,391,000	30,820,000
United States and foreign income taxes	18,752,000	13,061,000
Income before extraordinary items	20,639,000	17,759,000
Extraordinary items	—	4,700,000
Net income	20,639,000	13,059,000
Earnings per share, on average shares Income before extraordinary items	2.42	2.17
Extraordinary items	—	.55
Net income	2.42	1.62
Net income per share, assuming conversion of debentures and exercise of stock options	2.29	1.58
Net capital expenditures	39,530,000	27,818,000
Depreciation and depletion	19,372,000	17,807,000
Cash flow from operations	42,306,000	31,485,000
Per share	4.95	3.80
Cash dividends per share	.60	.60
At Year End		
Working capital	231,785,000	221,718,000
Property, plant and equipment—net	168,310,000	148,152,000
Long-term debt	172,959,000	161,115,000
Shareholders' equity	226,628,000	209,234,000
Number of shareholders	50,000	47,500
Number of employees	33,500	33,200

Sales by Division



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Durkee operations—coatings and chemicals—sales and profits grew at rates higher than those of their respective industries and were higher than the record levels of a year ago. Foods sales increased, but profit was at the same level as last year's good performance.

Proctor-Silex household appliances and industrial drying equipment also did well. Floor-care and Canadian operations showed unsatisfactory results and held profit for this division below last year's level.

Allied Paper operated at a slightly improved rate over last year. Paper manufacture and business forms both showed moderate gains, improving at year end.

Kleinschmidt Telecommunications Division had a substantial loss. This division has been in a period of transition in preparation for government contract awards and a higher level of commercial business in the future.

SCM's increase in sales volume of $62.9 million this year was generated almost entirely by increased sales in existing operations. In fiscal 1969 four small companies were acquired. Two of these were foreign coatings companies; the others were Walton Printing Company and Melabs, a Palo Alto, California electronics research and engineering firm. Our investment in a German coatings company was increased to majority ownership.

SCM revenues are more than nine times greater than as reported in 1959. Over the decade which ended on June 30, 1969, about three-quarters of this expansion resulted from acquisitions and mergers, and the remainder from internal growth. It is anticipated that these proportions may be reversed over the next five years, but management intends to remain alert to opportunities in promising new markets.

Recognizing that our present rate of return on sales is not satisfactory, in 1969 we took a number of steps to improve it. Among them were the following:

Our two largest divisions, Glidden-Durkee and Smith-Corona Marchant, performed well

- Invested $40 million in new plant and equipment as plans for upgrading and expanding production and distribution facilities throughout the Company continued.
- Began construction of a new $19 million chloride-process plant that will increase our output of titanium dioxide.
- Recapitalized our European subsidiaries with the aid of a $15 million Eurodollar bond issue to allow for expansion of European sales and manufacturing activities.
- Opened a $5 million center for coatings and resins and foods research.
- Broke ground for a new $14 million edible oil refinery.
- Opened a factory for the production of motor driven household appliances.

These and other developments of interest are further described in the pages that follow.

While the inflationary spiral and the steps taken by the Government to end it continue to give some cause for concern about the state of business, we believe that any slackening in the growth of the economy will be relatively short-lived and that the 1970 fiscal year should be a prosperous one for your Company.

To the 50,000 SCM shareholders, I want to express appreciation on behalf of the Board of Directors for the support and loyalty they continued to show in 1969. On behalf of SCM management, our thanks to the 33,500 men and women who work with us at SCM, for another year's outstanding effort.

SCM revenues are more than nine times greater than as reported in 1959

Emerson E. Mead
President

August 27, 1969

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SCM'S MAJOR MARKETS

Business and Office Markets

More than most segments of the economy, the U.S. business and office markets benefit from the impact of technological advances. Local, state and federal reporting requirements, management's need for quicker and more detailed data, widespread use of credit and rising retail sales help make the manufacture and sale of business and office equipment one of America's most exciting growth markets.

Total U.S. business machine shipments will approximate $8.7 billion in 1969, a 15 percent increase over 1968. Even excluding computers, the market for office equipment is expanding at better than three times the rate of the U.S. Gross National Product. In service, new machines and old must be supported with substantial amounts of peripheral equipment. Also, in presenting the data they assemble, they consume continuing quantities of office supplies and materials. One obvious case in point is the business forms industry: during the past 10 years it grew 145 percent to projected annual sales in 1969 of almost $1 billion.

The business equipment market, including computers, is expected to reach almost $25 billion by 1975. Markets for supporting equipment and materials will grow more than proportionately, and the market for business forms will again more than double.

Participation in business markets accounted for 20 percent of SCM's 1969 sales, or a total of $162 million.

Consumer Product Markets

At the beginning of the present century, basic necessities for his family consumed almost all of the wage-earner's paycheck. Despite ever-higher living standards the ratio has been drastically reduced. In the 1970's, it will dwindle still further.

Annual increases in discretionary spending power and the 1.5 million new households being formed each year have created vigorous and growing markets for consumer products of many types.

Within the past decade, manufacturer's shipments of electric household appliances jumped from $559 million to $1.4 billion. Many existing products still have virtually untapped markets. By the close of 1968, for example, more than 12 million American homes had electric blenders—a threefold gain since 1958. Yet approximately 80 percent of wired U.S. homes did not yet have this desirable household appliance.

For the 1970's all of the economic and demographic indicators point to continued growth in markets for consumer products.

Participation in consumer product markets accounted for 38 percent of SCM's 1969 sales, or a total of $305 million.

Industrial Markets

U.S. industrial production currently is expanding at the rate of about four percent a year. But, as new technology creates new industries and transforms old ones, many segments of the American industrial economy grow far more rapidly. Giant strides in the physical sciences, growing reliance on expensive and intricate equipment and the ever increasing technical competence of men make possible the creation and mass manufacture of products undreamed of only a few years ago.

Serving American industry today means providing not only raw materials but also the technology—and often the equipment—required to make production of new products or services economically feasible.

As a nation, what we now produce in a month approximates the total annual output of thirty years ago. Within the next 15 years, the national economy is expected to double again. By 1975, the U.S. Gross National Product, in 1968 dollars, should reach $1.25 trillion.

In a trillion dollar economy, helping meet the needs of other businesses will continue to be a profitable enterprise for firms capable of supplying the technology and the products required.

Participation in industrial markets accounted for 40 percent of SCM's 1969 sales, or a total of $327 million.

Military/Government Markets

In 1968, combined outlays by government at all levels neared a total of $225 billion. Of this amount, $78.4 billion, or about 9 percent of the U.S. Gross National Product, went for national defense.

Whether or not defense spending continues at this level, by 1980 the cost of providing government services to what will then be almost 240 million Americans is expected to be over $400 billion. Urban renewal, rail and air transportation facilities, air and water pollution control, public health and safety measures and new approaches to welfare and medical care are only a few of the areas in which government spending will have a marked impact on the quality of American life.

As a result, government programs will inevitably continue to create markets of impressive dimensions for the goods and services of many American companies. SCM will be among them.

Participation in military/government markets accounted for 2 percent of SCM's 1969 sales, or a total of $14 million.

SCM serves the four markets described on these two pages with products in seven major categories. The operating results for each of these facets of SCM's overall business are described in the pages that follow.

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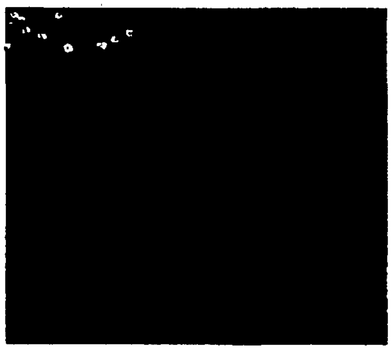


Office Equipment and Related Products

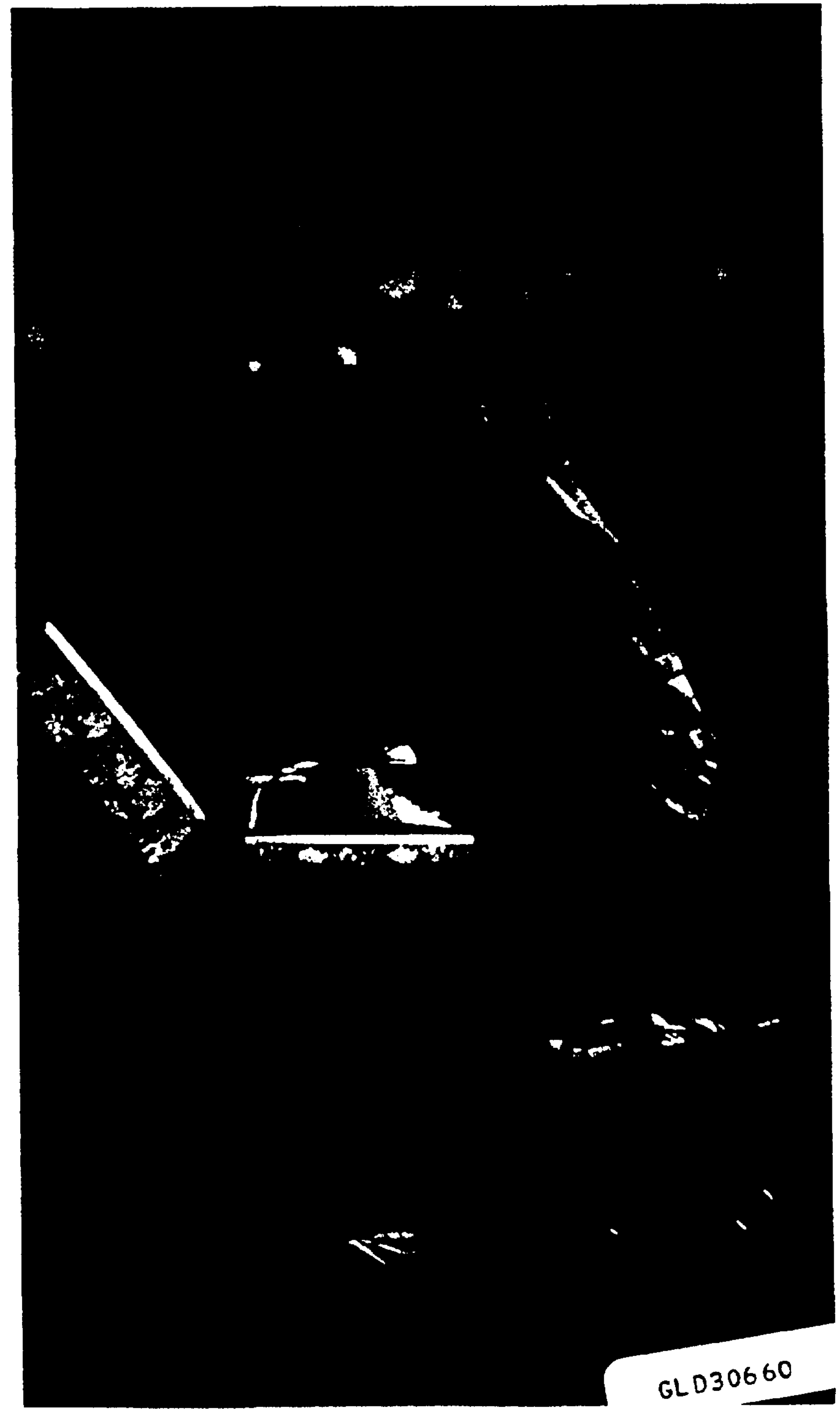
The office equipment industry, excluding computers, expanded in 1969 at a 13 percent annual rate. New businesses are being formed at a rate of over 225,000 a year, increasing the demand for ways to record, assemble, copy and communicate data.

Recognizing the increased sophistication that will characterize the industry in the 1970's, SCM's Smith-Corona Marchant Division broadly increased its research and engineering capabilities. This was accomplished both internally, through the establishment of a semiconductor laboratory at Marchant Electronics, and externally, through the acquisition by SCM of Melabs (see section 7 of this Report). A review of operations by major product category follows.

The office copier industry is expected to grow at a rate of 15 percent a year well into the 1970's. Smith-Corona Marchant continued research and development work on extending its wide range of electrostatic office copiers, as well as its research into new copying techniques. The division offers high-speed console and desk-top copiers.

In 1969, Smith-Corona Marchant increased production of coated paper

This co-ed is one of seven million students returning to college this fall. Countless term papers will be typed on Smith-Corona portables—not all of them in airports.



Below: the keyboard and readout of the new Cogito 414.

SCM's office copier products help simplify routine office procedures. Single or multiple copies are produced in only seconds on the high-speed desk-top and console models now available

and related copier supplies. The division's Phoenixville, Pa., operation continues to be its major source of copier paper.

During the year, Smith-Corona Marchant introduced three new electronic calculators. Cogito 414, the first American-made compact electronic calculator using MOS (metal oxide silicon) chip technology, was introduced in April. The Cogito 616 and 1016PR electronic printing calculators were introduced earlier in the year. The Cogito 1016PR, a desk-top machine, can be programmed and is particularly suitable for engineering applications.

The very rapid change from electromechanical to electronic calculators has transformed the calculator industry over the past two years. Smith-Corona Marchant is phasing out production of rotary calculators, long the industry mainstay, and its forward development is now wholly electronics oriented. During the year, its Orangeburg, S.C., plant, previously used for manufacturing rotary calculators, was converted to assembly operations for other office products.

Increased sales of portable typewriters, particularly electric portables, helped the Company maintain its number one position in this industry. Sales of electric portables rose over 29 percent during the year.

Adding machines for home and light office use also contributed to the division's improved results in 1969. Smith-Corona Marchant led the way in opening this market with new distribution and marketing techniques.

International operations continued to make a very substantial contribution to the division's sales. Among the notable developments in the year were increased revenues from European and Latin American copier sales, the expansion of typewriter production facilities in England, consolidation of European sales headquarters and the reorganization of Canadian manufacturing facilities

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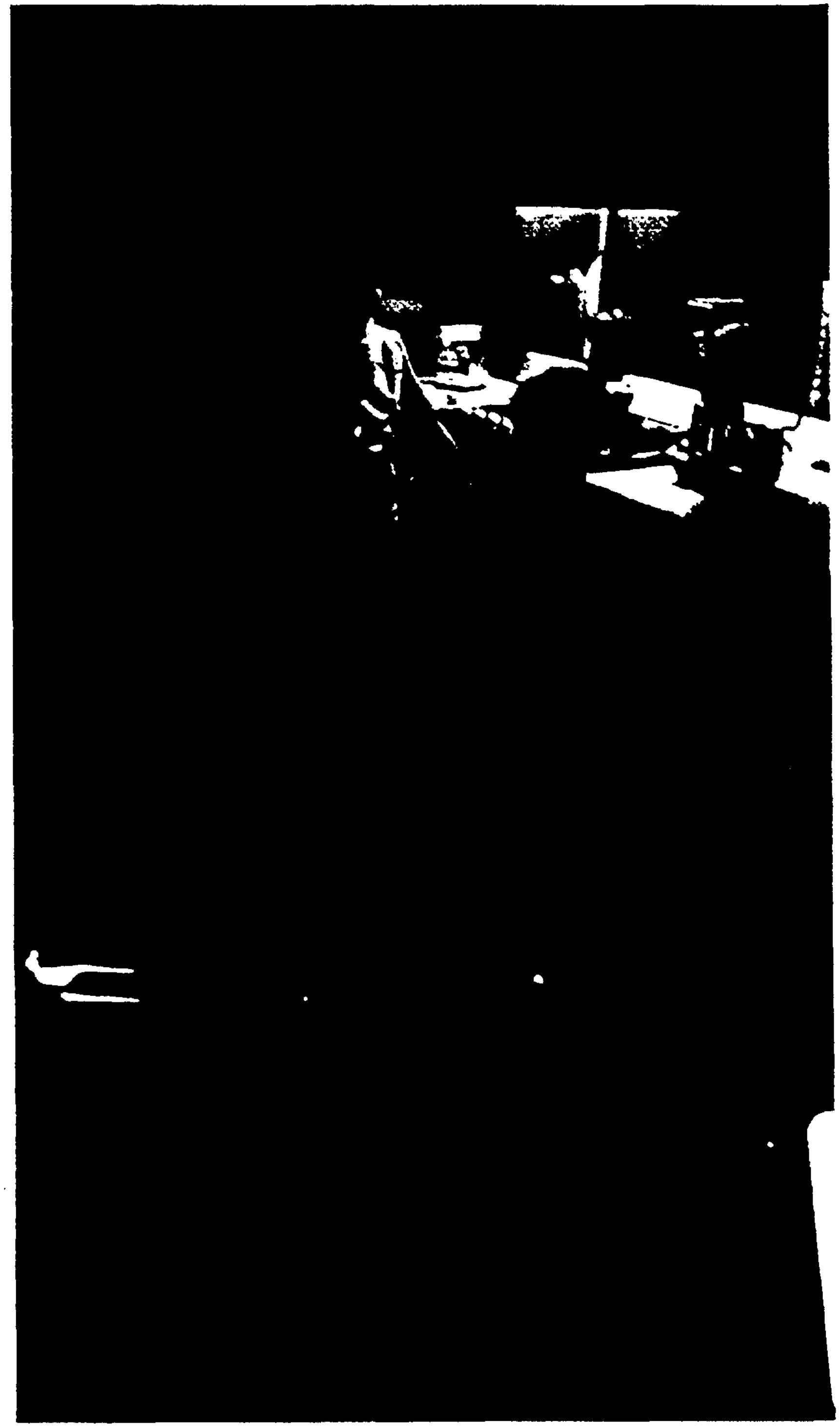
Appliances

Nearly a million new American families are formed and an estimated 1.5 million private dwelling units are built and furnished each year. These facts account in part for the growth of the market for small electric housewares, already over $1.4 billion in annual sales.

Sales of Proctor-Silex appliances continued to improve in 1969. As noted in the Letter to Shareholders, however, there was a decrease in the overall profit of the division because of declines in floorcare products and Canadian operations. The latter should be improved by the cessation of strike costs and the fact that Canadian manufacture of Shetland and Proctor-Silex products has been combined in a single plant at Picton, Ontario. Sales administration has also been consolidated in Canada under the brand name Proctor-Lewyt. All appliance and floor care operations have been consolidated.

During the year, Proctor-Silex closed an older plant in Chicago and consolidated the production of motor driven appliances in a new factory in Altoona, Pa. The 150,000 sq. ft. facility was built and staffed in record time with production lines operating

Millions of busy housewives depend on Proctor-Silex appliances throughout the day. Small electric housewares constitute a growing $1.4 billion market for U.S. manufacturers.



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The "Life-long" concept developed by Proctor-Silex makes possible quick and easy replacement of snap-together modules. As a bonus, by reversing the cord, the iron becomes either right or left-handed.

28 weeks after ground was broken.

Several new products will be introduced by the division in the coming year. Among them will be a "Lifelong" vacuum cleaner. "Lifelong" is the Company's trade name for appliances made up of small, snap-together modules. A replacement part can easily be inserted by the housewife, thus eliminating the need for costly and time-consuming repair shop service.

Soon to be introduced are a new hair dryer and an electric can opener.

1969 saw the introduction of Shetland's "Electra Sponge," a combination "Sweeper Vac" and water-pickup, and a new blender by Proctor-Silex. The "Bon Vivant," a new concept in coffee makers that guarantees a gourmet cup of coffee every time, also was introduced by Proctor-Silex.

PROCTOR & SCHWARTZ: Sales of industrial drying and fiber processing equipment were improved in 1969, reflecting a resumption of high rates of spending by industry for new plant and equipment. Proctor & Schwartz, associated with the Proctor-Silex Division, recovered to prior levels despite business uncertainty over continuation of the investment tax credit for capital equipment.

Proctor & Schwartz, drawing on extensive knowledge and experience in heat transfer for industrial drying purposes, introduced a thermal regenerative air purification system ("TRAPS"™). The device is capable of oxidizing organic particles from certain industrial processing operations. The gases can then be released into the atmosphere without causing harmful pollution. The first commercial TRAPS installation is scheduled to be made in Toronto in the fall of 1969.

Total spending by industry and government for air pollution control devices is expected to reach $10 billion in 1970. Proctor & Schwartz TRAPS will provide SCM with entry into this growing market

GLD30663

Restaurants and institutional food users depend on SCM for Durkee's Mel-Fry, a clear fractionated deep frying oil. Durkee is the largest independent marketer of edible oils.

Foods

Durkee Foods operates in three distinct markets: industrial, institutional and consumer sales. All three product groups reported sales gains over the previous year.

Industrial foods, the largest of the Durkee operations, had record sales and earnings for the second straight year, reflecting high levels of operation and continued emphasis on higher grade products.

Durkee's position in the industrial foods business has been based on wide-ranging research into sophisticated chemical techniques for modifying the physical characteristics of edible fats and oils. Durkee's record in this regard is unparalleled in this industry. The development of new industrial food products will be assisted by the central research and development facility for all Durkee groups, which was opened at Strongsville, Ohio, in June, 1969.

Durkee's industrial foods business is closely related to many of the fast-moving segments of the food industry —snacks, vegetable oil products, imitation dairy products and convenience foods.

Such fabricated products as coffee

creamers, whipped toppings, specialty desserts, confectionery coatings and flavored snacks continued to grow in importance during the year. Durkee is the largest independent supplier of materials based on edible fats and oils in the domestic food industry.

To provide additional manufacturing capacity, the Industrial Foods Group started construction during the year on a new edible oil refinery near Joliet, Illinois. The Joliet facility will use the most modern chemical techniques available to the foods industry.

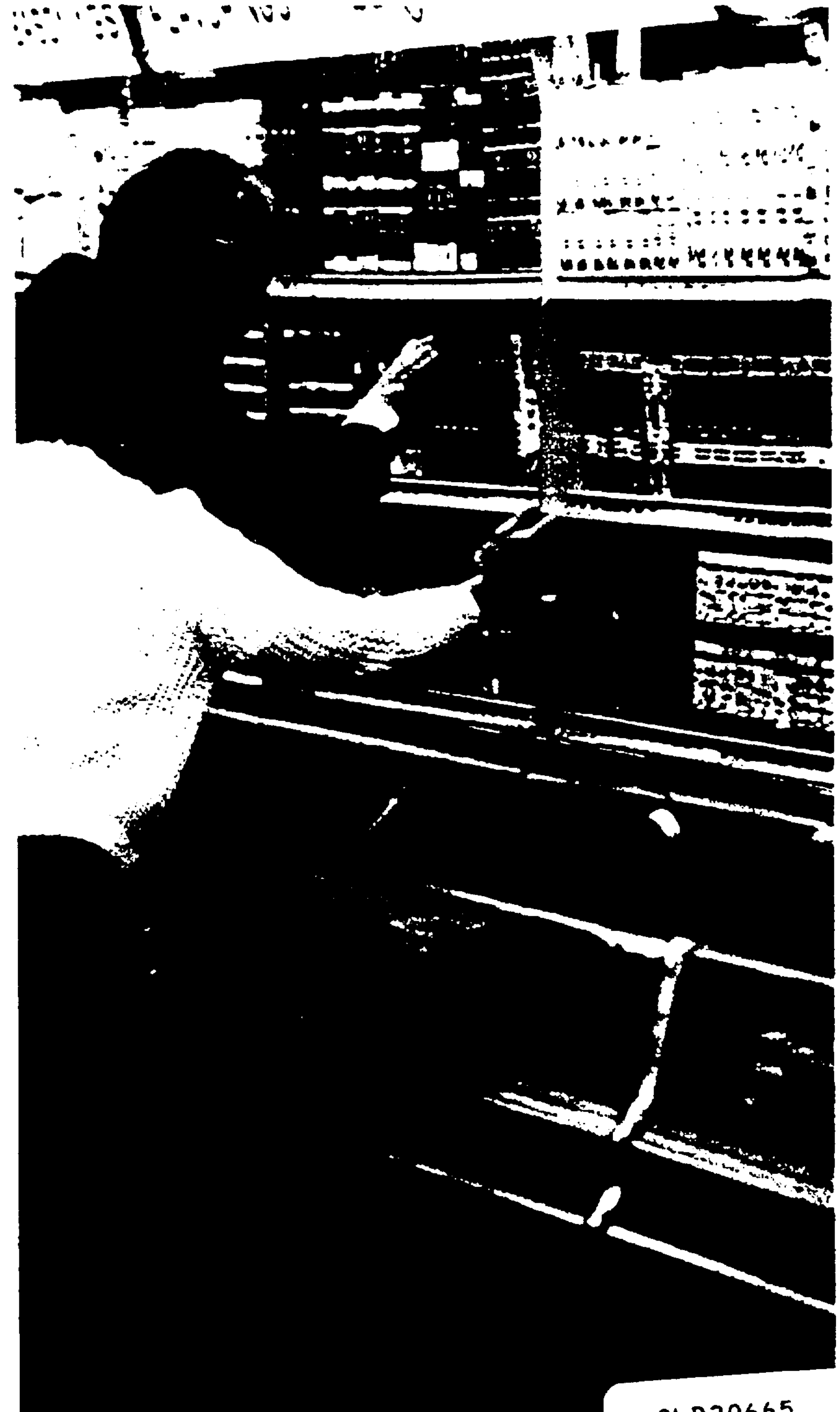
Durkee's food service operation was the most rapidly growing part of Durkee foods both in volume and profit. It continued to benefit from the development of wider lines of products and specialized channels of distribution directed to particular markets Durkee serves.

These encouraging results also reflect the decision to emphasize quality pre-processed foods for use in restaurants, drive-ins, schools, hospitals and other institutions.

While established products continued to benefit from the growth inherent in the food service industry, new Durkee products, including frozen entrees, frozen puff pastry dough and frozen Danish pastry dough also began to make an appreciable contribution to SCM's enlarging position in this market.

In consumer foods, progress was made in uniting all food products under the Durkee brand name, as development of new products for Durkee's broad line of spices, seasonings and convenience foods continued.

A variety of new products further established the Durkee name as a growing producer of convenience and snack foods for the busy American housewife. Snack and convenience foods constitute one of the most rapidly growing segments of all food product markets.



Durkee's Famous Foods enjoy continued customer acceptance which, along with development of new markets, accounted for important sales gains during the year.

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Coatings and Resins

Following the pattern of progress set in the previous year, SCM's Glidden-Durkee Coatings and Resins Group operated at record levels in 1969. The increase was more than double the rate for the coatings industry as a whole.

Much of the sales gain was in consumer coatings and international operations. One of the four largest U.S. coatings manufacturers, Glidden continues to benefit from its leadership in research and technology.

In coatings, new products are being developed at an ever-faster rate to meet the requirements of our highly developed economy, and all sales gains depend on a steady flow of new and improved products.

New consumer products introduced in 1969 continued SCM's strong position in latex paint products, which Glidden pioneered two decades ago. These are especially useful for the do-it-yourself homeowner who needs superior results with a minimum of labor. More and more, painting contractors and the maintenance users also turn to these materials.

There were substantial increases in consumer sales of trade products, and

More than 30 million automobile wheels have been coated with Glidden electrocoating materials since 1964. Electrocoating gives more complete coverage in the deep recesses between wheel and seam. Glidden electrocoating has achieved wide acceptance in dozens of metal fabricating plants in the United States, Europe and Japan.

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Customers throughout the nation have for years been able to depend on Glidden paint products. One reason: extensive research and testing in the laboratory, long before the lady has to decide.

in painter-maintenance, light industry and government sales. Improved sales in this area depend on highly effective marketing practices and a first class distribution system. A number of new company-owned distribution units were added this year. There are now more than 350 company-operated outlets throughout the nation and thousands of dealers.

Coil coatings for manufacturers of metal products, materials for factory-finishing of wood siding and paneling, metal decorating coatings, and plastics, such as polyester resins and gel-kotes, were the principal areas of sales increase during the year. The continued growth in the use of fiber glass for boats, structural materials and, especially this year, in molded one-piece bathroom units, created demand for Glidden's high-performance polyester resins and gel-kotes.

Sales of materials for electrocoating, especially in the non-automotive markets, increased substantially during the year.

Additions to capacity at Glidden's resin plant at Huron, Ohio, and further upgrading of coatings manufacturing facilities at Carrollton, Texas; Bramalea, Ontario; Reading, Pennsylvania; and Atlanta, Georgia, moved ahead during the year. These improvements are part of a paced program aimed at lowering manufacturing costs and improving product quality.

The Coatings and Resins Group also achieved substantial gains in sales and profit from its several operations outside North America as well as from export sales and technical service.

For the future, research capabilities should realize their fullest potential with the recent opening of a new $5 million research facility near Cleveland, Ohio. More than 160 scientists and technicians in the new center will be supported by the largest research and development budget in the C&R Group's history

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Chemicals

Glidden's ability to develop and bring to market successful new products has enabled it to expand—both in volume and profitability. Research continues to provide a strong base for further growth. The specialty chemicals markets in which SCM is a significant factor include those for a wide range of materials based on crude sulphate turpentine, titanium dioxide, and inorganic pigments.

In the field of organic chemicals, Glidden's primary interest has been on developing synthetic substitutes for many natural products.

In 1969, many natural products used in industry were in short supply and of uneven quality. This increased the demand for the man-made substitutes which SCM's Organic Chemicals Group manufactures from crude sulphate turpentine and crude tall oil. They provide uniformly high quality and an assured supply of synthetic pine oil, lemon grass oil, citronella oil and other products.

Other synthesized flavors and perfume intermediates such as lemon, lime, spearmint and bergamot also were supplied to the food, confectionery and perfume industries.

Construction was completed on a

Flour beetles show a marked distaste for the left hand portion of this test paper treated with an experimental repellent chemical. Research in chemicals with insecticidal or repellent properties continues at the Organic Chemicals Group laboratories in Jacksonville, Fla.

Powder metallurgy offers industry certain distinct advantages in making metal parts. This gear wheel was formed by compacting metal powder. It has properties superior to similar parts fabricated by machine tooling.

new laboratory and greenhouse for biochemicals research. Among areas of potential interest to SCM are the fields of agricultural pesticides, herbicides and insect repellents. Although this effort is still in the development stage, the long-term prospects are encouraging.

Production of titanium dioxide and other inorganic pigments continued at capacity levels in 1969 resulting in record operations for the Pigments and Color Group.

A new chloride-process titanium dioxide plant in Baltimore, scheduled for completion early in 1970, will enable the Company to increase titanium dioxide capacity by 50 percent.

Titanium dioxide in "slurry" or "slip" form was introduced during the year. This new product provides paper industry customers with savings in transport and handling.

Reflecting high levels of activity in the appliance industry, particularly in the manufacture of refrigerators and ranges, in 1969 SCM's Ceramics Group experienced a significant increase in demand for ceramic glazes and porcelain enamels.

Metals Group operations continued to show an upward trend throughout 1969, reflecting progress in both marketing and manufacturing of metal powders. Uncertainties in metals markets, however, have continued to push raw materials costs higher.

Development of a strong technical service organization, consolidation of sales order service and improvements in quality control and production techniques also contributed to improved operating results.

Continued emphasis on new technology in metals was also responsible for the gains during the year. The effort to shift production toward more specialized areas also met with success and promises to further improve operating results in the future.

Allied Paper is a world leader in the production of reference book papers. This new edition of a Rand-McNally Atlas used Allied paper to update the face of the world.

Pulp, Paper & Paper Products

Operating results improved moderately in 1969 for SCV's Allied Paper Division. The bulk of the improvement came from the division's modern Southern Mill, which operated at capacity levels during the year.

Allied Paper produced 215,000 tons of paper and 200,000 tons of pulp in 1969. Pulp operations are primarily centered in the division's Southern Mill at Jackson, Ala.; while paper is produced in both Jackson and Kalamazoo, where division headquarters are located.

Well over $3 million was spent in modernizing the division's plant and equipment during the year. Most individual capital investments were designed to increase efficiency of present operations.

As this report went to press, the first vertical paper forming machine in the U.S. paper industry was being installed in Allied's paper mill in Kalamazoo. Considered the industry's greatest technological advance in more than a century, the Verti-Forma produces paper of superior texture and strength with practically identical printing characteristics on both sides of the sheet.

The new machine, to be in operation

this fall, is designed primarily for the production of light-weight book and business forms papers. It is expected to further enhance Allied's position in these important areas by producing a uniform, high quality paper faster and at less cost than the equipment it will replace.

Under the trade name Allied/Egry, Allied Paper manufactures business forms, with special emphasis on continuous forms for computer print-out. Sales of continuous forms for electronic data processing reflect the phenomenal rise in business' reliance on computers for communications and administrative functions. In 1969, Allied/Egry further concentrated its efforts in the development of direct sales to the users of such forms.

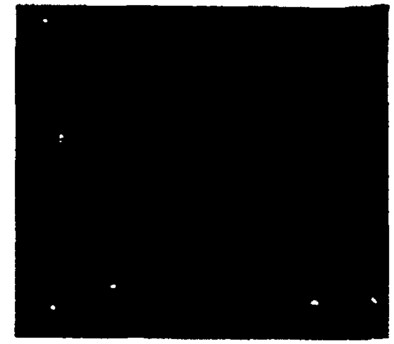
After a generally disappointing year, Allied/Egry showed an improved rate of sales and profits at the end of the year. This reflected the consolidation of manufacturing operations at Dayton and Leipsic, Ohio, consequent greater efficiency in Allied/Egry operations, and generally improved industry conditions.

The acquisition of Walton Printing Company of Buena Park, Calif., also had a favorable impact on business forms operations during the year. In addition to its modern plant, Walton has two California sales offices. Its acquisition provided the framework for consolidating SCM's west coast business forms operations and sales administration. The result was much improved performance in this aspect of SCM's business.

Allied Paper's research efforts into areas related to office copiers continued in 1969. A patented device that may lead to a new method of office copying was announced during the year, and early developmental work is continuing.

Allied also continued to provide assistance to SCM's basic and applied research into improved office copier papers.

SCM's Allied/Egry is a leading supplier of continuous forms used in computers, the largest segment of growth in the business forms industry.



Military/Government Communications Systems

The Kleinschmidt Telecommunications Division, in a transitional stage, had substantial losses in 1969. Research, tooling up and extensive field testing of prototype models have been costly and account in large part for the disappointing results of the division.

Kleinschmidt has for many years been a prime supplier of telecommunications equipment to the U.S. military. Equipment for tactical use in military operations must meet many rigid criteria including lightness of weight, resistance to heat, dust and repeated shocks during use.

Kleinschmidt recently announced the first electronic telecommunications equipment for tactical field use. Modular construction of sub-assemblies, combined with the use of integrated circuits and a minimum of moving parts, has resulted in a new standard for ease of maintenance and reliability. The equipment is designed to be compatible with the most modern communications and data systems.

Another Kleinschmidt innovation, the mobile-mounted teleprinter, is not yet in volume production. The "TeleScripter," as the device is called, is primarily designed for police and safety vehicles, though extensive testing has shown it adaptable to a variety of communications tasks. Several were used for television coverage of the 1968 Presidential nominating conventions.

In August, 1969, the Federal Communications Commission issued rules permitting police and fire departments to use mobile radio teleprinters over public safety frequencies for law enforcement and related purposes. The device is also expected to find wide use in the railroad industry. It is now practical for Kleinschmidt to begin volume production of the "TeleScripter."

Velabs, a Palo Alto, Calif., electronics research and engineering firm, joined SCM in March 1969. The new unit, now operated as part of the Smith-Corona Marchant Division, marked a major forward step for SCM in sophisticated electronics.

Velabs activities are concentrated in three principal areas. First, components are supplied to industrial and military users. They include microwave, point-to-point communications equipment and supporting UHF and VHF devices. Velabs is a leader in the development and manufacture of ferrite components.

Scientific instruments produced by Velabs include devices for temperature, weight, elasticity and tension determinations. This equipment is used in chemical analysis, rubber and plastic production and similiar industrial processes. One recently developed instrument uses gas chromatography in the detection and sampling of air pollution.

The third area of activity is land-mobile communications. The "Attache Phone," a unique radio telephone designed into a brief case, has attracted wide attention. This device has the potential, in combination with Kleinschmidt technology, to provide a commercial communications systems capability comparable to that available to the military

Air traffic controllers depend on Kleinschmidt teleprinters to help sort out traffic in today's crowded skies. This photo was made at the Federal Aviation Administration facility in Indianapolis

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SALES: Total net sales were $807.6 million, up 8.4 percent over last year's $744.8 million.

All of the operating divisions except Kleinschmidt, which experienced a decline, were ahead of last year. Glidden-Durkee, Proctor-Silex, and Allied Paper all experienced about the same percentage increase. Smith-Corona Marchant also had an increase despite the discontinuance last year of data processing equipment sales.

EARNINGS: Net income after taxes was $20.6 million, an increase of 16 percent over last year's $17.8 million income before extraordinary items.

The increase over last year's net income, after deduction of extraordinary charges related to the disposition of the Data Processing Systems Division and certain other unprofitable operations, was $7.6 million or 58 percent.

Of the Company's five divisions all except Kleinschmidt operated profitably during the year.

Smith-Corona Marchant Division showed the greatest increase in profit over the preceding year. Photocopy sales, especially of paper, contributed to this, as did the flow-through into income of profits from leases of photocopy equipment placed in prior periods. Improvement occurred both domestically and abroad. Maintenance of high volume and good margins on typewriters and adding machines was also a key factor in the division's performance.

Glidden-Durkee Division again showed substantial profit gains this year. They occurred in two of its three basic areas: coatings and resins, and chemicals; food was about the same as last year. Chemicals profits were up substantially even after eliminating the effect of a strike in the preceding year. An improvement in food profit this year came from the rapidly emerging food service area—the providing of convenience foods to the away-from-home market. The market for consumer paints and industrial coatings was especially strong. Profit gains in this area were further increased by two developments. Our total international coatings and resins business is up substantially over last year, and reflecting our increased investment and involvement in international coatings operations, this year our share of the earnings of all majority-owned subsidiaries is included. It was not significant in prior years. Secondly, a substantial gain in the value of our investment in a foreign licensee was realized as a result of recapitalization of that company. This is reflected in "Other Income."

In the Proctor-Silex Division, electric housewares again showed improved sales, market share, and profits, notwithstanding the fact that during the year we absorbed the cost of closing an antiquated plant for motor-driven appliances and started up operations in a new and modern facility at Altoona, Pa. Our Proctor & Schwartz industrial drying equipment and textile machinery showed strong improvement in both domestic and foreign profits. Our Shetland Floor-care Division, however, continues to be beset by high manufacturing costs, and our Canadian operations were subject to costly interruptions during much of the year due to a strike, now concluded. As a result, the division overall did not show profit gains over the preceding year.

Allied Paper showed a modest gain in profit. Good demand and firming pulp and paper prices helped, and our Business Forms operations showed some profit turn-around.

The Kleinschmidt Division experienced substantial losses. We have been spending money to maintain a technical team and develop new equipment that shows great promise in both commercial and military markets. Because of delayed government clearance this process has been expensive but should be nearing an end soon.

SCM's tax rate was 47.6 percent, up from last year, due to the inclusion for a full year of the surcharge which affected earnings per share by 20 cents this year, and by 7 cents before extraordinary items last year. The rate is also reduced by lower taxes on foreign and certain other earnings, but principally by $1.3 million of Investment Credit.

In fiscal 1970, we expect the surcharge to be discontinued for the last half of the year. We also expect the investment credit to be discontinued, but there will be a large amount of carry-over in that year, particularly since our two major new plant investments are expected to be eligible in large part for the investment credit.

EARNINGS PER SHARE: Net income was $2.42 per share, an increase of 11 percent from the preceding year's $2.17 per share before extraordinary items, based on 8,545,000 average shares outstanding this year and 8,447,000 shares outstanding in fiscal 1968.

A part of our capitalization consists of two issues of convertible subordinated debentures. If these were converted and outstanding employee stock options exercised, net income per share would be reduced from $2.42 to $2.29.

DIVIDENDS: Our quarterly cash dividend was continued at the annual rate of 60¢ per share. In addition, our policy of stock dividends was continued for the 8th year with the issuance early in the year of a two percent stock dividend.

CAPITALIZATION: In February, the Company formed a subsidiary, SCM Overseas Capital Corporation, for the purpose of issuing $15,000,000 of subordinated debentures initially convertible at $47.50 into 315,790 shares of parent company stock. This issue was fully subscribed in Western Europe. Half of the net proceeds were used to retire foreign obligations or otherwise retained abroad. The balance was remitted to the United States in satisfaction of obligations of our foreign subsidiaries. Following this financing, certain of our foreign subsidiaries were recapitalized to reflect our more permanent investment in them.

During the year, 213,330 shares of common stock were issued and $698,000 was invested to acquire the businesses of five companies. The acquisitions of Melabs, a west coast electronics firm, and Walton Printing Co., now part of our forms operation, were accounted for as poolings of interests. Since results for these two companies, negative in the one case and positive in the other, were not significant, prior financial statements were not restated.

In addition, during the year, we acquired the business of Pintec-Daca, two inter-related coatings and resins companies with an important share of the markets in Ecuador. One of our wholly-owned subsidiaries increased its ownership in Lackwerke-Wulfing from one-third to two-thirds. This company is an important factor in the automotive Coatings & Resins market in West Germany.

INVESTMENTS: Net capital expenditures were $39.5 million in 1969. Expenditures began on our two major

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new plant facilities: one will amount to $19 million for expansion of inorganic chemical production, the other will amount to $14 million for expansion of industrial fats and oils production. These expenditures will reach significant proportions in fiscal 1970. Completion or continuation of a number of other capital expenditure programs took place. The most important were modernization of our C & R plant facilities, transfer of certain appliance manufacture to Altoona, Pa., relocation of business forms production, and establishment of initial facilities and operations for biochemical research and product development.

These investments were financed in part by net income and by depreciation of $19.4 million, which together with certain deferred items resulted in cash flow of $4.95 per share. The balance was financed from cash on hand or remitted and continued improvement in the level of working capital required.

We were also able to reduce bank borrowings. During the last part of the year, we were free of all domestic borrowings, maintaining only certain foreign borrowings necessary for these operations and as protection against devaluation. Devaluation of the French franc occurred after the close of the year. The effect on overall asset values was small, and had been anticipated.

RETURN ON INVESTMENT: Operations generated about $3.70 in sales for every $1 of shareholder equity. This is a relatively high utilization of assets. However, profit return on these sales dollars was 2.6 percent, and as a result, return after taxes on average shareholder investment was 9.5 percent. This return is not yet up to our goals but shows improvement over last year.

Statement of Consolidated Income

	Years Ended June 30, 1969	Years Ended June 30, 1968
Net sales	$807,648,000	$744,758,000
Cost of sales	571,296,000	532,291,000
Gross profit	236,352,000	212,467,000
Selling, administrative, and research expenses	186,051,000	170,785,000
Operating profit	50,301,000	41,682,000
Add other income, net	975,000	957,000
Interest expense, net	11,885,000	11,819,000
Income before income taxes	39,391,000	30,820,000
United States and foreign income taxes	18,752,000	13,061,000
Income before extraordinary items	20,639,000	17,759,000
Extraordinary items, mainly loss on disposition of data processing operations	—	4,700,000
Net income	$ 20,639,000	$ 13,059,000
Earnings per share:		
Income before extraordinary items	$2.42	$2.17
Extraordinary items	—	.55
Net income	$2.42	$1.62
Fully diluted earnings per share:		
Income before extraordinary items	$2.29	$2.08
Extraordinary items	—	.50
Net income	$2.29	$1.58

Statement of Consolidated Source and Application of Funds

	1969	1968
SOURCE OF FUNDS:		
Net income	$20,639,000	$13,059,000
Depreciation and depletion—straight line method	19,372,000	17,807,000
Provision for deferred income taxes	2,041,000	383,000
Amortization of deferred charges	254,000	236,000
Cash flow from operations	42,306,000	31,485,000
Net increase from issuance of long-term debt	20,871,000	3,512,000
Sale of common stock	628,000	23,834,000
Stock issued for net assets of companies acquired	1,263,000	—
Total	$65,068,000	$58,831,000
APPLICATION OF FUNDS:		
Net capital expenditures	$39,530,000	$27,818,000
Reduction of long-term debt	9,531,000	8,437,000
Cash dividends	5,136,000	4,763,000
Other applications, net	804,000	3,163,000
Increase in working capital	10,067,000	14,650,000
Total	$65,068,000	$58,831,000

See accompanying notes to financial statements

Consolidated Balance Sheet

	June 30, 1969	June 30, 1968
Assets		
Current assets:		
Cash	$ 16,460,000	$ 13,725,000
Marketable securities—at cost	375,000	601,000
Accounts receivable—net	122,187,000	109,531,000
Inventories	197,874,000	182,687,000
Prepaid taxes and expenses	6,461,000	4,038,000
Total current assets	343,357,000	310,582,000
Property, plant and equipment—net	168,310,000	148,152,000
Other assets	12,565,000	11,275,000
Total	$524,232,000	$470,009,000
Liabilities and Shareholders' Equity		
Current liabilities:		
Loans payable to banks	$ 8,672,000	$ 18,613,000
Accounts payable and accrued liabilities	71,411,000	56,783,000
United States and foreign income taxes	17,135,000	902,000
Deferred revenue on maintenance agreements	7,074,000	5,951,000
Long-term debt payments due within one year	7,280,000	6,615,000
Total current liabilities	111,572,000	88,864,000
Deferred income taxes	13,073,000	10,796,000
Long-term debt	172,959,000	161,115,000
Shareholders' equity	226,628,000	209,234,000
Total	$524,232,000	$470,009,000

See accompanying notes to financial statements

Details of Balance Sheet Items

	June 30, 1969	June 30, 1968
Accounts receivable:		
Due from customers	$125,029,000	$112,381,000
Less allowance for doubtful accounts	2,842,000	2,850,000
Net accounts receivable	$122,187,000	$109,531,000
Inventories, at the lower of current cost or market:		
Raw materials and work in process	$ 84,005,000	$ 77,126,000
Finished goods	113,869,000	105,561,000
Total inventories	$197,874,000	$182,687,000
Property, plant and equipment:		
Cost:		
Land and mineral deposits	$ 10,210,000	$ 9,284,000
Buildings	84,780,000	70,458,000
Machinery and other equipment	226,386,000	204,576,000
Total cost	321,376,000	284,318,000
Less accumulated depreciation and depletion	153,066,000	136,166,000
Net	$168,310,000	$148,152,000
Long-term debt:		
5¾% sinking fund debentures due 1972-1987	$ 20,000,000	$ 20,000,000
5½% sinking fund debentures due 1970-1983	21,000,000	22,500,000
7¼% sinking fund debentures due 1973-1988	20,000,000	20,000,000
Bank term loans due 1970-1978 interest at prime rate plus a fraction	36,000,000	41,000,000
Notes payable to insurance companies due 1970-1979	8,875,000	10,125,000
Other loans	10,595,000	6,001,000
5½% convertible subordinated debentures due 1978-1988	41,489,000	41,489,000
5¼% convertible subordinated debentures due 1979-1989	15,000,000	—
Total long-term debt	$172,959,000	$161,115,000

Statement of Consolidated Shareholders' Equity

	Common Stock	Additional Paid-in Capital	Retained Earnings	Total Shareholders' Equity Years Ended June 30 1969	1968
Balance at beginning of year	$41,486,000	$100,717,000	$67,031,000	$209,234,000	$177,401,000
Changes relating to poolings of interests	1,067,000	(278,000)	474,000	1,263,000	(297,000)
Net income	—	—	20,639,000	20,639,000	13,059,000
Cash dividends	—	—	(5,136,000)	(5,136,000)	(4,763,000)
Stock dividends	833,000	5,662,000	(6,495,000)	—	—
Sale of common stock under option plans	117,000	511,000	—	628,000	965,000
Sale of common stock on exercise of rights, less costs	—	—	—	—	22,869,000
Balance at end of year	$43,503,000	$106,612,000	$76,513,000	$226,628,000	$209,234,000

See accompanying notes to financial statements

Notes to Financial Statements

Principles of Consolidation

The consolidated financial statements include the financial statements of all * subsidiaries.

The business of five companies were acquired in 1969 for 213,330 shares of common stock and $698,000. Two of these acquisitions were treated as poolings of interests, but since the operations of these companies are not significant in relation to total consolidated operations, prior financial statements were not restated. Operations of the three businesses purchased are included from the dates of acquisition.

United States Income Taxes

The Company is contesting deficiencies in income taxes asserted against Allied Paper of approximately $4,000,000. 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: 1970, $7,280,000; 1971, $13,041,000; 1972, $14,201,000; 1973, $16,081,000; 1974, $8,893,000. Under the most restrictive provisions of the loan agreements, $15,000,000 of retained earnings was available for cash dividends at June 30, 1969.

Capital Stock

The authorized capital stock of the Company 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, 1969, 8,700,648 shares of common stock were outstanding, 388,602 shares were reserved for issuance under the Company's stock option plans, 872,899 shares were reserved for issuance upon conversion of the 5½% subordinated debentures due 1978-1988, and 315,790 shares were reserved for issuance upon conversion of the 5¼% subordinated debentures due 1979-1989. During 1969 options to purchase 70,439 shares were granted, options for 23,544 shares were exercised, and options for 44,967 shares were cancelled. At June 30, 1969, options for 345,788 shares were outstanding. Options are granted at fair market value.

Earnings Per Share

Earnings per share are computed by dividing net income by average shares outstanding. Fully diluted earnings per share are computed as above, with the appropriate adjustment assuming exercise of options as of July 1, 1968, and assuming the conversion of all debentures with related adjustments to net income for interest, net of tax.

Retirement Plans

The Company has several retirement plans providing pensions for substantially all of its employees. In 1969 $700,000, including interest on unfunded prior service liabilities, was provided for the Company's share of pension expenses. It is the Company's policy to fund pension cost only when actuarial computations prescribe such funding. There are no unfunded vested benefits as of June 30, 1969.

Commitments

At June 30, 1969, the Company's annual rental for real property under long-term leases was approximately $8,800,000. These leases have varying expiration dates through 2017, although these obligations will decrease by about $1,000,000 by 1975 and by an additional $3,000,000 by 1985.

Auditors' Report

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

To the Shareholders
SCM Corporation

We have examined the financial statements of SCM Corporation and its subsidiaries for the year ended June 30, 1969. 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, 1969 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 15, 1969

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Ten Year Statistical Summary

All dollar amounts presented in thousands, except figures given on a per share basis. All amounts restated for poolings of interests, except dividends.

	1969	1968	1967	1966	1965	1964	1963	1962	1961	1960
Income										
Net sales	$807,648	$744,758	$705,160	$644,787	$558,393	$470,633	$453,126	$429,315	$392,970	$366,128
Income before income taxes	39,391	30,820	43,626	40,408	29,431	22,921	20,066	20,416	12,737	16,108
U.S. and foreign income taxes	18,752	13,061	18,550	18,956	14,070	11,140	9,188	9,524	6,513	6,830
Income before extraordinary items	20,639	17,759	25,076	21,452	15,361	11,781	10,878	10,892	6,224	9,278
Extraordinary items, net of tax	—	(4,700)	—	1,207	403	—	—	912	(85)	351
Net income	20,639	13,059	25,076	22,659	15,764	11,781	10,878	11,804	6,139	9,629
Dividends on common stock	5,136	4,763	8,479	7,666	5,547	4,920	4,663	7,592	4,622	4,719
Income reinvested	15,503	8,296	16,294	14,474	8,934	5,624	5,335	3,794	1,316	4,881
Depreciation and depletion	19,372	17,807	15,384	12,835	11,821	11,484	12,042	10,795	11,989	10,699
Per Common Share										
Income before extraordinary items	$ 2.42	$ 2.17	$ 2.95	$ 2.61	$ 2.00	$ 1.50	$ 1.42	$ 1.50	$ .81	$ 1.30
Net income	2.42	1.62	2.95	2.77	2.06	1.50	1.42	1.64	.80	1.35
SCM cash dividends	.60	.60	.40	.30	—	—	—	—	—	—
Stock dividends	2%	3%	3%	2½%	5%	3%	3%	2%	—	—
Cash flow from operations	4.95	3.80	5.31	4.83	4.38	3.64	3.64	3.61	2.55	3.07
Book value	26.05	24.72	22.68	26.08	25.33	25.35	24.42	23.80	22.85	23.03
Financial Position										
Working capital	$231,785	$221,718	$207,068	$165,245	$143,484	$138,389	$134,885	$115,434	$114,497	$110,885
Property, plant and equipment—net	168,310	148,152	138,141	108,680	107,727	104,028	103,909	107,652	102,213	107,703
Total assets	524,232	470,009	451,402	382,329	331,223	319,261	301,084	293,800	280,354	273,991
Other Statistics										
Net capital expenditures	$ 39,530	$ 27,818	$ 36,116	$ 22,435	$ 14,701	$ 11,631	$ 6,876	$ 16,235	$ 6,198	$ 20,572
Return from operations on average equity	9.5%	9.2%	12.8%	10.6%	8.5%	7.0%	6.8%	6.9%	4.0%	6.1%
Return from operations on net sales	2.6%	2.4%	3.6%	3.3%	2.8%	2.5%	2.4%	2.5%	1.6%	2.5%
Current ratio	3.08	3.50	3.10	2.84	3.03	3.08	3.51	2.83	2.97	3.26
Number of employees	33,500	33,200	33,100	31,300	29,900	25,900	24,900	24,200	22,900	22,200
Number of shareholders	50,000	47,500	45,600	47,000	42,500	37,500	37,200	41,400	37,700	38,600
Average common shares outstanding	8,545,000	8,447,000	7,998,000	7,604,000	6,518,000	6,331,000	6,317,000	6,297,000	6,272,000	6,264,000

Corporate Data

Directors

Emerson E. Mead, *Chairman**
Richard C. Bond*
John T. Booth
George F. Burns
Lewis H. Durland
Paul H. Elicker*
George E. Hall
Ward D. Harrison
Wallace W. Knox*
Paul W. Neidhardt
Crocker Nevin
Walter M. Schwartz, Jr.
James V. Symes*
George S. Warner
William I. Myers, *Emeritus**

* Member of Executive Committee

Corporate Officers

Emerson E. Mead
President

G. Robert Boller
Vice President-Corporate Development

George F. Burns
Vice President; President, Smith-Corona Marchant Division

Emilio J. Cadamagnani
Vice President; President, Kleinschmidt Telecommunications Division

William V. Cawley
Treasurer

Paul H. Elicker
Vice President-Finance

Donald E. Erskine
Vice President and Controller

George E. Hall
Vice President and General Counsel; Secretary

Ward D. Harrison
Vice President; Chairman, Allied Paper, Incorporated

Richard B. Le Vino
Vice President-Research

Paul W. Neidhardt
Vice President; President, Glidden-Durkee Division

Walter M. Schwartz, Jr.
Vice President; President, Proctor-Silex Division

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 16, 1969 at the Company's Research Center, Sprague Road at Interstate 71, Strongsville, Ohio 44136