BOARD OF DIRECTORS

ADRIAN D. JOYCE	DWIGHT P. JOYCE
ROBERT H. HORSBURGH	PAUL E. SPRAGUE
RICHARD W. LEVENHAGEN	HOWARD BEATTY
WILLIAM J. O'BRIEN	CLIFTON M. KOLB

OFFICERS

ADRIAN D. JOYCE, President
ROBERT H. HORSBURGH, Executive Vice-President
RICHARD W. LEVENHAGEN, Vice-President
WILLIAM J. O'BRIEN, Vice-President
DWIGHT P. JOYCE, Vice-President
PAUL E. SPRAGUE, Vice-President
HOWARD BEATTY, Vice-President
JOHN A. PETERS, Treasurer
CLIFTON M. KOLB, Secretary
WILLIAM W. CONANT, *Assistant Secretary*
CLARENCE L. COLE, Controller

Transfer Agent
THE NEW YORK TRUST COMPANY
New York City

Registrar
THE CHASE NATIONAL BANK
New York City

THE GLIDDEN COMPANY

CLEVELAND, OHIO

ANNUAL REPORT
Year Ended October 31, 1942

GLD30317

THE GLIDDEN COMPANY

CLEVELAND, OHIO

December 30, 1942.

To the Shareholders of
The Glidden Company:

The annual report of your Company for the fiscal year ended October 31, 1942, is submitted herewith. This report marks the twenty-fifth anniversary of the founding of The Glidden Company and some remarkable records have been established.

The net sales for the year amounted to $81,705,731.65 as compared with sales of $68,901,706.48 for the previous year. For the first six weeks of our present fiscal year our sales show an increase over the same period for last year of $1,323,720.00.

The net profit for the year, after all charges except income and excess profits taxes, was $4,119,300.13 as compared with $4,165,389.92 for the preceding year. After income and excess profits taxes the final net profit was $1,853,752.60 against $3,010,389.92 for the preceding year. This is equal to $1.70 per share on the outstanding Common stock of the Company. Income and excess profits taxes for the year amounted to $2,292,000.00 against $1,155,000.00 for the previous year.

It is interesting to note that all of the divisions of the Company — Paint, Chemical and Pigment, Metals Refining, Naval Stores, Vegetable Oil Processing and Food Products, showed profits.

Our new processes of manufacturing iron powder and cuprous oxide in the Metals Refining division are progressing satisfactorily and it is apparent that there is going to be a constantly increasing demand for these products.

In the Soya Bean division the development of soybean flour and soybean food products for the Government and for supplying under Lend-Lease has taxed our capacity. Plans have been worked out for increasing the production of soybean products and the future for this division seems to be very bright.

During the year two new hydrogen gas plants were completed; one in Chicago and one in Hillside, New Jersey, thus making two of our vegetable oil processing plants independent from outside sources of this essential material, of which we were unable to get a regular and adequate supply.

The world-wide shortage of butter and lard has given tremendous impetus to our production and sales of margarine and vegetable shortening. It is apparent that the Government is encouraging the use of these products in its efforts to make sure of an adequate supply of essential foods.

Our Paint and Varnish division is supplying large quantities of material for war and defense purposes, including some very large contracts on camouflage paints.

The Company's policy of using the last-in, first-out method of inventory pricing on certain raw materials and goods in process remains in effect. As of October 31, 1942, these inventories were carried on our books at a value of approximately $1,600,000 under the replacement market values on that date, against approximately $1,115,000 on October 31, 1941. It will be readily seen that the profit for the current year before income and excess profits taxes has been reduced to the extent of the approximate difference of $485,000. This provides an excellent cushion against any future drop in commodity prices.

Just before the close of the fiscal year your Company purchased the properties formerly owned by Standard Cereals, Inc., at Indianapolis, Indiana, and has converted this plant to the production of soybean products and to the supplying of stock feeds. This addition makes a total of thirty-four integrated factories. Judging from commitments and from orders on our books, it is apparent that all of our plants will be operated at capacity in this new year.

Your Directors are pleased with the mutually satisfactory labor conditions existing throughout the organization and take pleasure in expressing their appreciation of the good work of all the executives and employees whose loyal efforts have contributed to our progress.

By order of the Board of Directors.

ADRIAN D. JOYCE,
President.

GLD30318

CONSOLIDATED BALANCE SHEET
The Glidden Company and Consolidated Subsidiaries
October 31, 1942

ASSETS

CURRENT ASSETS		
Cash		$ 2,240,345.74
Trade notes and acceptances receivable	$ 31,835.98	
Trade accounts receivable	6,413,990.16	
	$ 6,445,826.14	
Less reserves	143,786.33	6,302,039.81
Inventories — *raw materials, in process, finished goods, and supplies* — Note A		17,107,785.44
Other current accounts receivable and advances:		
Commodity Credit Corporation	$ 1,376,360.82	
Miscellaneous, less reserve of $45,000.00	314,329.69	1,690,690.51
TOTAL CURRENT ASSETS		$27,340,861.50
INVESTMENTS IN SUBSIDIARY COMPANIES		
California mining companies, at less than cost — Note B:		
Capital stock (100% owned)	$ 15,000.00	
Bonds — principal amount $500,000.00	187,500.00	
Advances	913,300.95	1,115,800.95
OTHER ASSETS AND INVESTMENTS		
Cash surrender value of life insurance	$ 557,808.00	
Miscellaneous notes and accounts receivable and advances, less reserves of $69,157.31	125,227.59	
Other investments	46,822.47	729,858.06
PROPERTY, PLANT, AND EQUIPMENT		
Land — Note C	$ 2,252,000.04	
Buildings, machinery, and equipment — Note C	24,872,636.83	
	$27,124,636.87	
Less reserves for depreciation and depletion	9,837,593.00	17,287,043.87
PATENTS AND RIGHTS TO MANUFACTURE		
At cost, less amortization		113,129.34
DEFERRED CHARGES		
Inventories of advertising stock and stationery, prepaid insurance, and expenses	$ 539,326.04	
Special new products development	81,999.23	621,325.27
		$47,208,018.99

LIABILITIES, CAPITAL STOCK, AND SURPLUS

CURRENT LIABILITIES				
Notes payable to banks:				
Short-term loans			$ 1,600,000.00	
Serial notes maturing July 1, 1943			1,000,000.00	$ 2,600,000.00
Accounts payable				3,649,724.04
Accrued taxes, royalties, interest, and insurance				618,373.82
Federal, state, and dominion taxes on income — estimated				2,407,289.52
TOTAL CURRENT LIABILITIES				$ 9,275,387.38
LONG-TERM DEBT				
3% Debentures due July 1, 1947			$ 3,000,000.00	
Serial notes payable, maturing $1,000,000.00 annually 1944 to 1946, interest at 2%			3,000,000.00	6,000,000.00
MINORITY INTEREST				
In capital stock and surplus of subsidiary companies				183,427.78
CAPITAL STOCK AND SURPLUS				
Capital stock:				
Convertible preferred, 4½% cumulative, par value $50.00 a share, redeemable at $52.50 a share, convertible into seven-tenths share of common stock:				
Authorized 200,000 shares				
Issued and outstanding, including treasury shares, 199,940 shares			$ 9,997,000.00	
Common, without par value:				
Authorized 1,200,000 shares				
Outstanding, including treasury shares, 835,591 shares				
Reserved for conversion, 139,958 shares				
Stated capital			4,180,655.00	
			$14,177,655.00	
Surplus — Notes D and E:				
Capital surplus	$ 8,441,922.48			
Earned surplus	9,269,889.90			
	$17,711,812.38			
Less capital stock in treasury, at cost:				
Common 8,348 shares, convertible preferred 400 shares	140,263.55	17,571,548.83		31,749,203.83
				$47,208,018.99
CONTINGENT LIABILITIES				
Letters of credit outstanding	$ 86,917.48			

See notes on following page.

GLD30319

NOTES TO CONSOLIDATED BALANCE SHEET

Note A — Inventories of principal raw materials are stated at cost (last-in, first-out method) which did not exceed replacement market; other inventories are stated at the lower of cost (accumulated average) or replacement market.

Note B — Investments in California mining companies, whose assets consist almost entirely of properties not being operated, are stated herein at less than cost, which carrying amount on the basis of unaudited balance sheets, was $[illegible] more than the aggregate net assets as shown by the books of those companies. Losses (aggregating $373,510.33 in excess of provisions or other credits of The Glidden Company applicable thereagainst) have been experienced by these companies from date of acquisition to October 31, 1942, however, the losses for the past few years, since operations of the properties were suspended, have represented principally expenses in maintaining the properties. Certain of the properties are located in areas that will be flooded as a result of the construction of Shasta Dam in the State of California by the United States Government, and the Company has filed a claim for damages in excess of written-down amounts included herein.

Note C — Property, plant, and equipment are stated at cost or less, reduction having been made in 1932 to eliminate appreciation and to provide for further write-downs.

Note D — The indenture relating to the issue of debentures contains an agreement that as long as any of the debentures shall be outstanding the Company will not declare or pay any dividends (other than dividends payable in common stock) on any shares of its common stock except out of consolidated net earnings derived from operations of the Company and its subsidiaries subsequent to October 31, 1940; and will not expend in excess of an aggregate of $200,000.00 in the purchase, redemption, or other retirement of any shares of any class except out of such consolidated net earnings. Consolidated net earnings (as defined in the indenture) since October 31, 1940, less dividends paid, amount to $1,618,194.76.

Note E — Net assets of Canadian subsidiary included herein comprise net current assets, $549,939.34 included at the Control Board rate of exchange, and property, plant, and equipment and other assets, $320,163.44, included at amounts shown by the books of that subsidiary. Consolidated earned surplus includes $1,344,026.64 of surplus of the Canadian subsidiary.

CONSOLIDATED PROFIT AND LOSS STATEMENT

The Glidden Company and Consolidated Subsidiaries

Year Ended October 31, 1942

Net sales		$81,705,731.65
Cost of goods sold, selling, administrative, and general expenses, including provision of $1,055,136.78 for depreciation and depletion — Note A		77,280,826.16
		$ 4,424,905.49
Other income		441,193.92
		$ 4,866,099.41
Other deductions:		
Interest on serial notes and bank loans	$ 225,218.96	
Miscellaneous	521,580.32	746,799.28
PROFIT BEFORE TAXES ON INCOME		$ 4,119,300.13
Taxes on income — estimated:		
Federal normal income tax and surtax	$ 1,090,000.00	
Federal excess profits tax	1,062,000.00	
Dominion and state taxes	140,000.00	2,292,000.00
NET PROFIT		$ 1,827,300.13
Portion of net loss of subsidiary companies applicable to minority interest		26,452.47
NET PROFIT TO SURPLUS		$ 1,853,752.60

See notes on following page.

CONSOLIDATED SURPLUS

The Glidden Company and Consolidated Subsidiaries

Year Ended October 31, 1942

CAPITAL SURPLUS			
Balance November 1, 1941			$ 8,374,036.92
Add portion of reserve for contingencies provided from capital surplus in 1932			67,885.56
Balance October 31, 1942			$ 8,441,922.48
EARNED SURPLUS			
Balance November 1, 1941		$ 8,942,329.15	
Add net profit for the fiscal year		1,853,752.60	
		$10,796,081.75	
Deduct cash dividends paid:			
Convertible preferred — $2.25 a share	$ 448,985.95		
Common — $1.30 a share	1,077,205.90	1,526,191.85	
Balance October 31, 1942			9,269,889.90
TOTAL SURPLUS OCTOBER 31, 1942			$17,711,812.38

Note A — Depreciation claimed in the Company's federal income tax return for the year 1942 exceeded the amount included in this statement by $71,682.91 due to depreciation claimed on costs written off or credited to revaluation reserve during 1932.

Note B — Provision has not been made in the foregoing statement for losses of wholly owned, nonoperating California mining companies for the year, amounting to $38,851.98 including provision for depreciation in the amount of $28,0[illegible].08.

Note C — The net profit shown in the foregoing statement includes $84,351.47 for the Canadian subsidiary, representing that subsidiary's net profit for the year after giving effect to adjustment of its net current assets to Control Board rate of exchange in effect at October 31, 1942.

Note D — In prior years certain items of discount and expense, provision for contingencies, and losses on dismantlements have been charged to capital surplus. If such items together with additional depreciation claimed for federal income tax purposes for the year 1932 to 1942 inclusive, had been charged against earned surplus instead of capital surplus, the respective amounts of such surplus accounts would be $7,947,915.49 and $9,763,896.89 at October 31, 1942.

Note E — Certain sales under government contracts during the year are subject to the provisions for renegotiation contained in Section 403 of the Sixth Supplemental National Defense Appropriation Act, wherein the government is authorized to recover or retain any portion of sales prices found to represent excessive profits. No determination has been made as to the effect, if any, such renegotiation may have on the financial statements of the Company.

ERNST & ERNST
CLEVELAND
UNION COMMERCE BUILDING

Board of Directors,
The Glidden Company,
Cleveland, Ohio.

We have examined the consolidated balance sheet of The Glidden Company and consolidated subsidiaries (California mining companies excluded) as of October 31, 1942, and the consolidated statements of profit and loss and surplus for the fiscal year then ended, have reviewed the system of internal control and the accounting procedures of the companies and, without making a detailed audit of the transactions, have examined or tested accounting records of the companies and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary. Such procedures included test confirmation of trade receivables and observation of procedures employed by the companies in ascertaining inventory quantities at locations selected by us.

In our opinion, the accompanying balance sheet and related statements of profit and loss and surplus, excluding the California mining companies, present fairly the consolidated position of The Glidden Company and its consolidated subsidiaries at October 31, 1942, and the consolidated results of their operations for the fiscal year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ERNST & ERNST,
Certified Public Accountants.

Cleveland, Ohio,
December 28, 1942.

GLD30320