SCM Annual Report FOR THE YEAR ENDED JUNE 30 1971

1971: a year of decision

SCM Corporation, a diversified manufacturing company, is best known to the general public through its consumer products: Smith-Corona typewriters, Glidden paints, Durkee foods and Proctor-Silex appliances. These products accounted for about 38 per cent of the company's fiscal 1971 sales of $875 million. An additional 18 per cent consisted of sales of products equally well known in the office equipment business: Marchant calculators and SCM copiers. A variety of industrial products, including chemicals, coatings and resins, industrial foods, pulp and paper, powdered metals and industrial processing equipment, accounted for an additional 43 per cent of sales. Approximately 1 per cent of 1971's sales were of military telecommunications equipment to the U.S. Army.

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To Our Shareholders

1971 was a year marked by improvements in many areas of our business, but also by the lingering effects of the recession of 1970.

The improvements can be measured in part by the 66 per cent increase in SCM's pre-tax operating profit over the disappointing level of 1970. More important for the longer term prospects for your company, however, is the elimination of several income-draining operations and the establishment of a unified, more responsive operating structure throughout the company.

Income in the year rose from 71 cents in 1970 to 77 cents per share, before extraordinary charges of 50 cents in 1970 and $1.01 per share in 1971 (see Financial Review). The moderate increase in income, as opposed to the two-thirds increase in earnings before taxes, is explained by last year's low tax rate. U.S. and foreign income taxes were $1.4 million in 1970 and $6 million in 1971. That the sales increase was modest, from $854.5 million in 1970 to $875.1 million in 1971, reflects conditions in the general economy, severe, if temporary, economic dislocations in specific SCM businesses, and the closing of certain loss operations.

Recovery from the recent recession has been much slower than was generally expected at the beginning of 1971. In contrast to the consumer sector where there were signs of improvement at year end, the recession in the industrial sector continued in full swing. Prices for a number of industrial products—some of them of critical importance to SCM, such as titanium dioxide—dropped to post-war lows during the year.

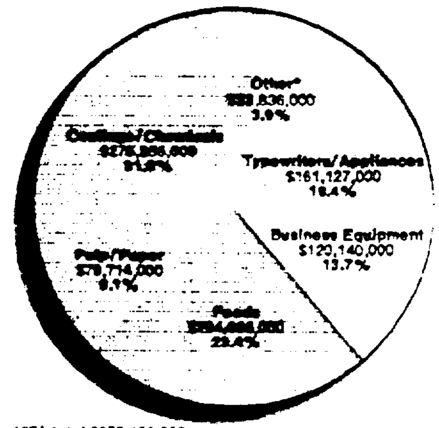
year, of course, but following a most difficult year in 1970, decisions made in 1971 tended to affect long established human and community relationships. While each such decision is difficult, we are confident that they have been made in the necessity of insuring the future profitability of the company.

Perhaps the most difficult single decision in the year was the suspension of payment of the cash dividend in August 1970. This decision affected the thousands of our shareholders adversely, and the Board regretted having to take that action. We believe payment of an appropriate cash dividend is both highly desirable and a high priority use of cash, but that it would be irresponsible to pay a dividend before earnings return to satisfactory levels. I can assure you that the dividend will be reinstated at the earliest time deemed by the Board to be consistent with sound business policy.

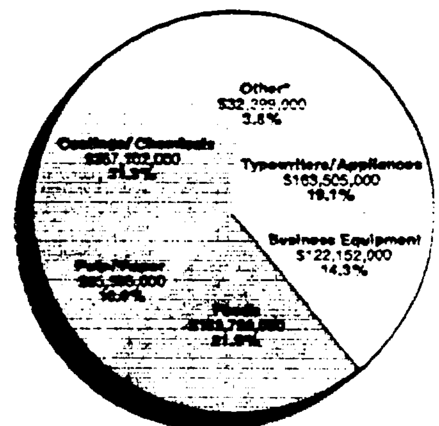
Other difficult decisions involved the closing of a number of loss or marginal operations during the year, and continued vigorous cost reduction programs throughout the company. As a result of

Financial Highlights *All dollar amounts presented in thousands, except per-share figures*

For the Year Ended June 30	1971	1970
Net sales	$875,138	$854,511
Income before income taxes	13,073	7,884
United States and foreign income taxes	6,012	1,446
Income before extraordinary loss	7,061	6,438
Extraordinary loss	9,252	4,542
Net income (loss)	(2,191)	1,896
Earnings per common and common equivalent share:		
Income before extraordinary loss	.77	.71
Extraordinary loss	1.01	.50
Net income (loss)	(.24)	.21
Additions to property, plant and equipment	25,543	54,527
Depreciation	22,439	21,832
Cash dividends per share	—	.60
At Year End		
Working capital	230,712	233,976
Property, plant and equipment—net	184,122	197,112
Long-term debt	178,422	192,922
Shareholders' equity	224,696	226,795
Number of shareholders	53,400	53,500
Number of employees	[illegible]	



1971 total $875,128,000



1970 total $854,511,000

*Kleinschmidt/Proctor & Schwartz/Histacount

these moves expenses have been cut in all phases of operations with only a minimal impact on net sales. Total employment, for example, has been reduced by 5,565, or 16 per cent, in the past 15 months. This has resulted in increased sales per employee (see chart p. 35), a good indicator of improved efficiency.

In other respects, our financial position has been strengthened dramatically, relative to a year ago. Total debt, for example, has been reduced by $30.8 million, $16.7 million of which represents retirement of short term borrowings. Accounts receivable were reduced by $4.3 million and inventories by $11.3 million, on higher sales. Our investment in total assets was reduced impressively from 1970. These reductions are largely due to our continuing emphasis on asset management and control.

Accordingly, we feel considerably more optimistic about 1972 than we felt about 1971 at this juncture a year ago. All told, it was not a year in which everything we hoped for came to pass. But we can say, with a sense of accomplishment, that we have set in motion programs that in 1972 and in later years will return SCM to its past rates of growth and profitability.

E. E. Veed
President

August 16, 1971

We have set in motion programs that will return SCM to growth and prosperity

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The past year was devoted to organizing the company's operations and personnel for increased efficiency, weeding out loss operations and otherwise cutting expenses, and strengthening the company financially. This next year will be spent tackling our remaining problem areas and moving our stronger businesses forward into the 1970's.

Paul H. Elicker
Executive Vice President

Not since the beginning of the Industrial Revolution has business in a free society been caught in a bramble of regulation like that applied to American business today. Organizing to respond to this environment and to the many conflicting demands made on managers is now an important consideration in effective planning. Measures taken in the past year have resulted in a noticeable decrease in our response time to new pressures.

George E. Hall
Senior Vice President

We have taken several product lines—typewriters, household and floorcare appliances and adding machines—and put them under unified management in the Consumer Products Division. Our objective is to increase our profitability by grouping together products with similarities in manufacturing and distribution techniques and to use our resulting marketing strength effectively.

George F. Burns *President, Consumer Products Division*

The products of our new Business Equipment Division are in some extremely competitive areas—copiers, where one company dominates the market, and calculators, where imports have captured more than half of the market. The new realignment isolates these matters for intensive attention, and gives us the opportunity to study—and perhaps change—some basic business strategies. We are doing so, and our 1972 results should show improvement over a very poor 1971.

George S. Warner *President, Business Equipment Division*

Two new Glidden-Durkee plants are now on stream and their fairly heavy start-up costs are behind us. Additions to two of our paint plants are also operating very well. Our paint business had a record year domestically and should improve further next year. Nearly all our other businesses, including foods and organic chemicals, are contributing to profits and should improve on these good results in 1972.

Paul W. Neidhardt *President, Glidden-Durkee Division*

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Results of the profit improvement programs begun in 1970 have so far been clouded by national economic conditions. However, as we begin the new fiscal year our operating cost and asset investment posture is very much improved so that the anticipated upswing in the nation's general economic condition will directly and promptly affect profitability of the company.
Herbert H. Egli
Vice President and Controller

Due to the exercise of strict control over inventories, accounts receivable, capital expenditures and other working capital items, we were able to reduce our total short- and long-term debt by $31 million during the 1971 fiscal year. A further decrease, though not as large, is expected during the 1972 fiscal year and as a result no public financing is anticipated at least through fiscal year 1972.
William V. Cawley
Vice President and Treasurer

As a part of the overall corporate cost control program, employment was further reduced by about 10 per cent during the year. These reductions affected all divisions. Although close controls over manpower will be continued, we believe we have reached the practical lower limit in employment for our company. In fact, we may have some selective increases in response to demand for our products, but continued high productivity remains our main concern.
Jack B. Bredt *Vice President, Employee Relations*

The decision to close one of our paper mills will be a real help in increasing Allied Paper profits. The mill was old and non-competitive and we transferred its production to our southern mill in Alabama. Our concentration in the remaining northern mills is now wholly directed toward more specialized book and bible weight papers, electrostatic photocopy base stock and other specialized papers. This will be reflected in improved operating results.
Ernest J. Klimczak *President, Allied Paper Division*

Our task at Kleinschmidt has been to cut back drastically on expenditures while continuing to make progress in designing and testing a new generation of military telecommunications equipment. We succeeded in cutting our losses in half and did make good progress in our design and research efforts. As we enter the third phase of the new military program we should continue our improvement into 1972.
Harry S. Gaples *President, Kleinschmidt Division*

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SCM's Major Markets

The decade of the sixties saw the metamorphosis of SCM from a small, narrowly-channelled office and business products company into a large, well-balanced and diversified manufacturer of an imposing array of consumer, business and industrial products.

In the first half of that decade, the company was primarily a supplier of business products and typewriters sold to the consumer. Fully 15 per cent of its sales was accounted for by sales to the government. Almost none of its production was industrial in nature.

By 1970 SCM had undergone an enormous change. It had industrial and consumer sales in almost equal parts, and business products accounted for only about 20 per cent. Government and the military's share was about one per cent.

This balanced product mix, with an emphasis on consumers and industry, should aid SCM in exploiting the most rewarding markets of the 1970's. But the two latter areas—business products and government—are two of the hardest hit of all the sectors of the economy in the current economic slowdown.

Consumer Products account for 38 per cent of the company's total sales, or $334 million.

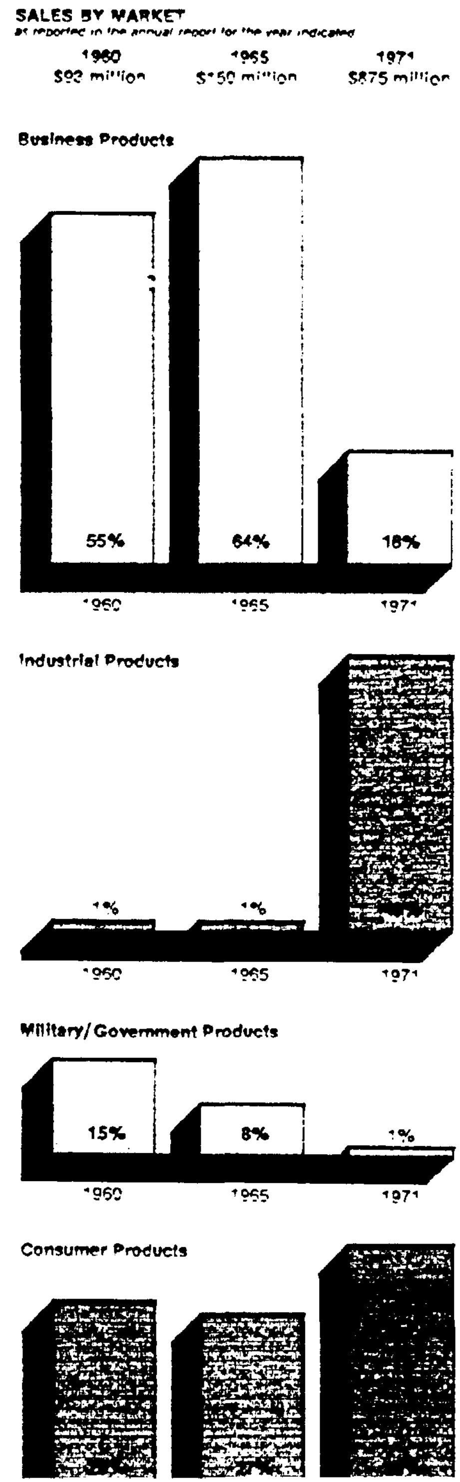
Consumer products made by SCM—paint, convenience foods, typewriters, household appliances, floor care equipment and home adding machines—are generally aimed at making the buyer's life easier.

The purchase of many of these kinds of products comes from discretionary spending power—the amount of money available after necessities have been purchased. This is growing at an increasing rate, even in a depressed economy, and SCM's consumer products are aimed directly at this part of the market. Our task is to devise new products—the new toaster oven (see page 25) is one example—that will meet consumer needs and return a good profit to the company.

Industrial Products account for 43 per cent of our total sales, or $372 million.

Generally, our industrial products are sold to manufacturers for use in their manufacturing process. These include coatings to go on everything from automobiles to toys, shortenings and emulsifiers for cake mixes, pigments for plastics and flavors for a variety of consumer products.

Changes in the economy tend to impact industrial markets later than consumer products for most of our businesses, and the current recession followed this pattern. While consumer prod-



year 1971, there were only faint signs of growing strength in industrial markets.

Business and Office Products account for 18 per cent of SCM's total sales, or $161 million.

This market, though affected by the general economic slowdown, was primarily impacted by rigorous competition from a host of foreign and domestic firms. In the late 1960's, the annual growth rate of business machines excluding computers was as high as 15 per cent. The comparison between 1970 and 1971 showed only a 7 per cent increase: still healthy and an exciting growth industry, but one in which new patterns of distribution are continually emerging, paralleling new products and manufacturing techniques.

To exploit all of these markets effectively requires sophisticated and aggressive marketing, and that ability has always been one of our basic strengths. SCM has become a major competitor in more than a dozen businesses, and we are in a position to apply that marketing ability in a large segment of the U.S. and world economy.

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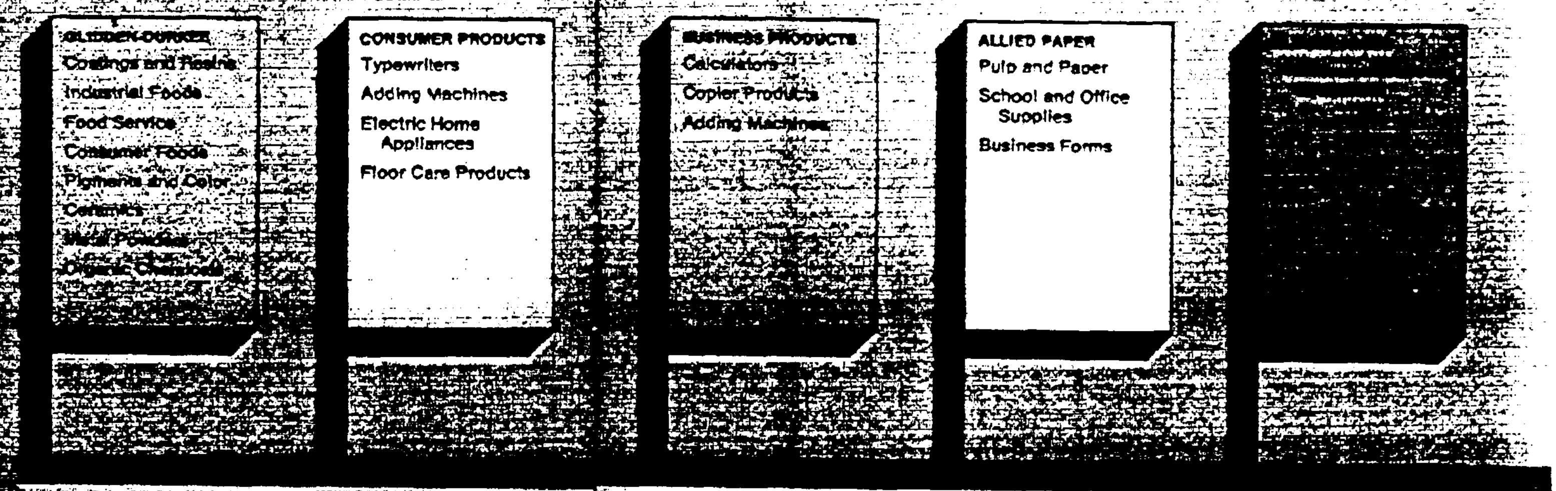
We are melding our divisions into an operating entity



Glidden-Durkee's Coatings and Resins Group produces a complete line of paints and finishes. Its customers range from do-it-your-selfers and painting contractors to the most demanding of industrial users.

Glidden Coatings and Resins continued to increase volume and profits in a recession year. This reflects sound technology, proven performance, an efficient and growing distribution system and a powerful consumer franchise.

After a slow winter season business conditions improved and the paint business enjoyed a sharp upturn. In the fourth quarter a major improvement was noted in consumer-related aspects of the business, and a lesser but still significant improvement in industrial coatings markets. Glidden's relatively small foreign operations had a generally unsatisfactory year, but improvement is expected to be reflected in the present year's operations.

Major expansions at plants in Reading, Pa., and Carrollton, Texas, added incremental, low-cost capacity and thus assisted in maintaining margins in the face of continuing inflationary pressures.

About two-thirds of Glidden's coatings products are sold to consumers and painting contractors, and the balance to industry. Demonstrating our technology, test marketing began of a new, almost solid, alkyd exterior house paint, Royale Gel-Flo, which is about the consistency of soft margarine. On application it becomes a smooth flowing liquid. Test marketing will continue in the present year.

In industrial coatings, electrocoating continues to expand into new applications. Glidden has introduced a new electrocoating system for both automotive and non-automotive manufacturers.

As a leading resin supplier to the fiberglass reinforced plastic industry Glidden was affected by declines in boat manufacturing and other similar areas. However the growing market for furniture and fixtures made from this material took up part of the slack.

Glidden-Durkee Chemicals operates in four product areas. These are: Pigments and Color, the principal product being titanium dioxide, a superior white pig-

Now in market test is Glidden's Royale Gel-Flo, a paint that is so thick it can be molded into a brick, but is applied to a surface in normal fashion.

Exhaustive testing in exposure panels farmed in different parts of the nation tell Glidden researchers how well coatings will survive various weather conditions.

More and more complex automobile parts are being made of low-cost, fiber reinforced polyester resin, here being sprayed with a Glidden acrylic coating.

ment sold to the paint, paper, plastics and rubber industries; Organic Chemicals, producers of synthesized flavor and perfumery products and chemical intermediates; Ceramics, which produces glass compositions and colors for porcelain enamels, glazes and glass enamels; and Metal Powders, including copper, tin and lead powders and iron and steel alloys.

A new titanium dioxide plant involving advanced techniques of chemical processing is producing at rated capacity after a difficult and costly start-up period, not untypical of highly complex continuous process facilities. Market conditions, however, are poor, and there appears to be little chance for immediate improvement in the extraordinarily low prices. Fine particle silica, a new product of Glidden-Durkee technology, is being tested by producers of a wide variety of products who have use for this material with its special abrasive and flatting agent properties.

Organic Chemicals continues to progress as a supplier of proprietary synthetic compounds to the perfumery and

... variety of copper parts, such as these. Powders are also produced from iron, steel, tin, lead and metal alloys.

flavors industry. New products from the group include a new and superior grade of synthetic lemon oil. Adequate supplies of crude sulphate turpentine, a principal raw material, which had been of concern because of unprecedented demand, became available at lower prices at year end.

Organic Chemicals continued its long range program of research and evaluation of new biochemical compounds that show promise for use as weed killers and pesticides. The first of these products was released for use late in the year.

Glidden-Durkee continues as a leading producer of ceramic glazes and porcelain frit. During the year the Glidden system for coating ovens with continuous self-cleaning materials was adopted by an additional number of manufacturers. This product enables ovens to clean themselves at normal cooking temperatures, rather than by advancing the heat to a special self-cleaning setting.

Last year Glidden's Metals Group suspended production of most of its iron powders. This enabled the operation to concentrate on more profitable and technologically advanced powders. These efforts have resulted in improved results in a difficult year.

SCM's Consumer Products Division, created late in the year, consists of Smith-Corona, from the former Smith-Corona Marchant Division, and Proctor-Silex and Shetland Floorcare from the former Proctor-Silex Division. Consolidation of these essentially similar businesses will permit coordinated market-oriented management.

Smith-Corona is famous for typewriters —portable and compact office machines. Smith-Corona is now the only manufacturer of portable typewriters in the United States. All other famous American brand names are now applied to machines built overseas and shipped, duty-free, into American markets. However, advances in manufacturing techniques and in machine design and close attention to our quality reputation have maintained the competitiveness of American-made Smith-Corona products.

Electric portables continue to capture

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Students are buying Smith-Corona portable typewriters in increasing numbers to help with their studies.

more and more of the market as the superior quality of the work they do is recognized. Smith-Corona pioneered the electric portable and continues to lead the field.

Compact office machines, related to electric portables, continue to displace standard manual office machines, as well as extra large electric office typewriters, at an increasing rate.

Proctor-Silex and Shetland/Lewyt, manufacturers of electric household appliances and floor care products, had a mixed year. Demand for electric housewares was weak well into the third quarter, before improving noticeably.

The continuing increase in manufacturing costs in a period of inflation continued to concern us. To maintain the low costs required for these products, manufacturing of a canister vacuum cleaner was begun in Baltimore and motor production was expanded in the Altoona facility. Proctor-Silex's new Toaster Oven went into production late in the year and demand has exceeded initial expectations.

Throughout the newly-organized Division a new marketing emphasis stressing the high quality of Proctor-Silex, Shetland and Smith-Corona products is expected to produce improved results in 1972.

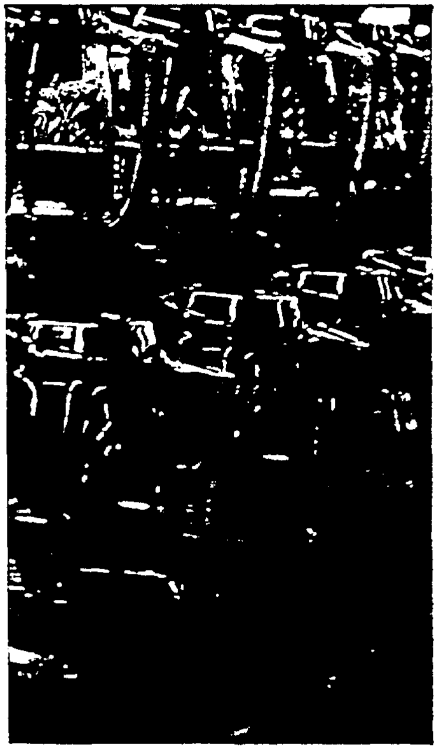
Durkee Famous Foods operates in three basic areas: Consumer Foods, with supermarket sales of such products as sauce and gravy mixes, spices, flavors, extracts, olives, pickles, canned potato and onion products, coconut and frozen hors d'oeuvres; Industrial Foods, producers of a large variety of food ingredient systems based on refined edible oils; and Food Service, serving the growing away-from-home eating industry.

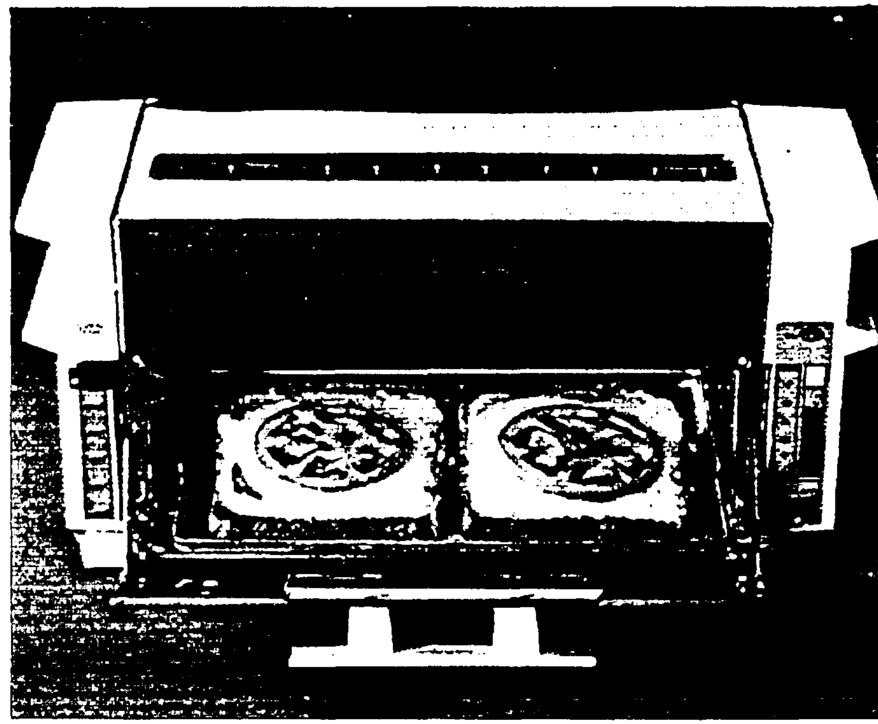
Consumer Foods had a good year, particularly in olives where it holds a leading position as importer and processor of Spanish olives, and in sauce and gravy mixes, spices, blends, extracts and flavors, and frozen pastry. We continued to experience difficulty in our pickle business, but our west coast operation improved over last year.

Industrial Foods started up its new edible oil refinery in Joliet, Ill. during the year and by year-end it was in full operation producing a variety of oils. Due mostly to refinery start-up costs, increased raw material prices and reduced demand, Industrial Foods, normally very profitable, had a difficult year. Durkee edible oils technology continues to anticipate exacting new requirements in the form of more sophisticated products. Given a satisfactory economy this business should do well in fiscal 1972.

Increased sales of frozen doughs to bakeries and to restaurants and large

Each of the hundreds of thousands of Proctor-Silex glass percolators produced yearly goes through rigorous testing in the plant in Baltimore before entering distribution channels.





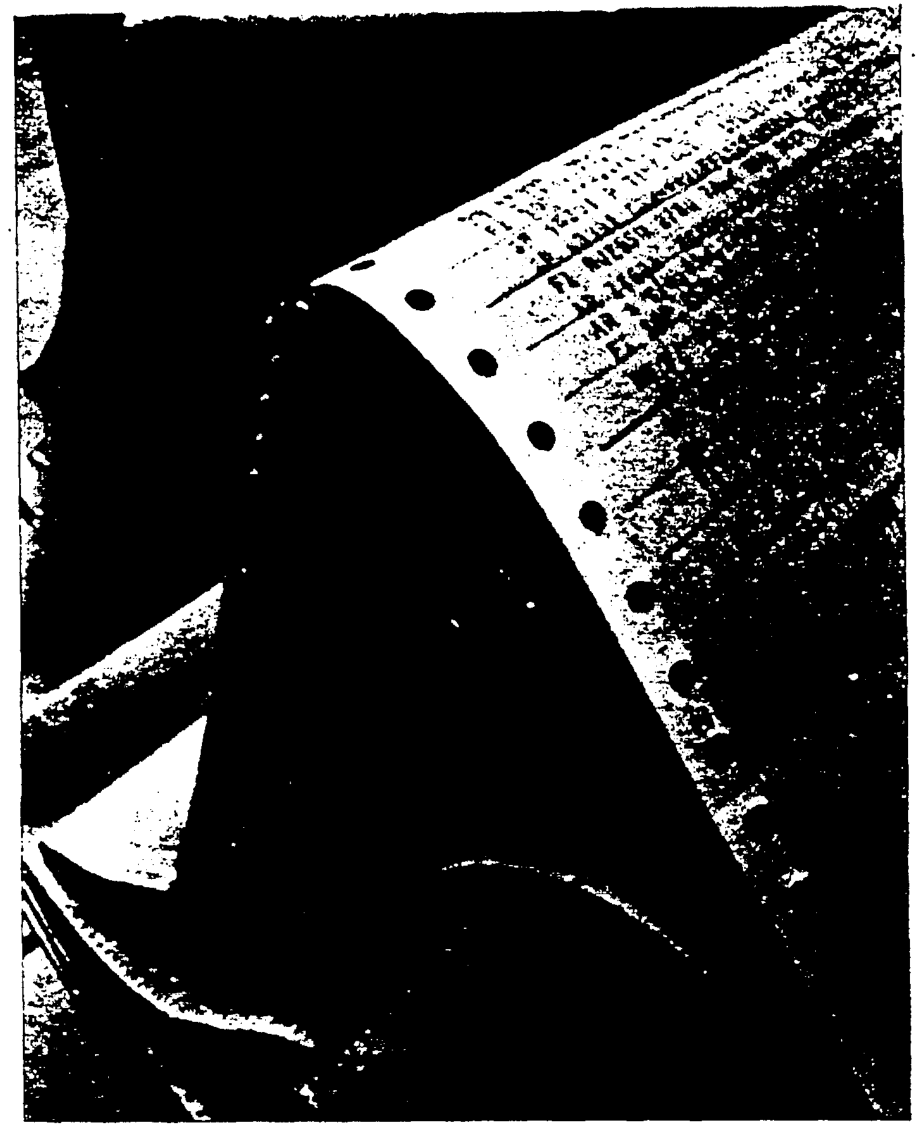
The new Proctor-Silex Toaster Oven (above) is the only product on the market offering a pop-up toaster in addition to the traditional oven. Quality assurance on [illegible] (left) [illegible] checks out each Shetland modular-designed canister vacuum cleaner.

school systems highlighted Food Service operations during the year. Our line of preportioned seafood entrees processed for these customers had a good year, but beef and poultry items encountered very severe competition as large meat packing companies continue to enter the food service industry.

SCM's Allied Paper Division saw both pulp and paper prices declining in 197" while costs of labor, transportation and raw materials continued to rise. Nevertheless, the division improved its operating results over the preceding year. During the year in response to conditions in the paper industry the division closed one of the three mills in Kalamazoo, Mich. and its greeting card operation in Chicago. The other two mills now concentrate on more profitable specialty paper lines. This realignment represents the bulk of the extraordinary charge of $1.0" per share (see Financial Review). Our mill at Jackson, Ala. continues to produce over 475 tons of pulp and 235 tons of paper daily.

Durkee is the nation's largest packer of Spanish olives. A new packing plant in Spain, a joint venture with a Spanish company, will be in full production this fall and will help Durkee serve its present markets and open new ones.

...used in a data center in New York. Continuous computer forms are capturing an increasingly large portion of the business forms industry.



Business forms, pre-printed, computer-continuous and a variety of snap-apart forms, are a sensitive indicator of the level of business spending. The year just concluded was, accordingly, a disappointing one for Allied/Egry as it was for forms manufacturers generally. As the economy begins to recover, last year's programs for strengthening Allied/Egry are expected to be reflected in improved performance.

Walton Printing, the west coast business forms subsidiary, continued its good performance in the face of especially difficult business conditions.

SCM's Business Equipment Division sells a broad line of office copiers and supplies and sells and services calculators and adding machines in worldwide markets. Over a period of years office equipment has been subjected to the effects of low-cost foreign imports as much as any industry in America. The effect of this competition on the Business Equipment Division in 1971 was reflected in disappointing results. Both copiers and calculators were affected adversely by a proliferation of domestic and foreign firms in the market, many of whom have offered merchandise at very low prices as a means of effecting market entry.

Several steps were taken during the year to reduce operating expenses; their impact was most pronounced in the final quarter. At the close of the year copier manufacturing was moved from Libertyville, Ill., to South Cortland, N.Y., where it will share manufacturing economies with Smith-Corona typewriters. Also, several costly branch operations have been closed and dealers installed in secondary market areas.

The domestic copier supplies business continued strong during the year. This trend was aided by our growing expertise in paper coating, a complex and intricate process. SCM's success in this area was demonstrated by initial sales during the year of paper coated by SCM for use in copiers manufactured by others. In last year's annual report we noted there had been an erosion in the number of SCM copiers in use. Well-conceived programs, energetically pursued, resulted in a reversal of this trend ing proportion of our machines are being placed on Copy Service, that is, metered rental plans, where a substantial part of revenues and profits are deferred until future periods. Refinement of SCM's Copy Service program has proved successful and has provided a solid and continuing revenue base for the domestic copier business. In international markets, where SCM copiers have traditionally been a strong competitor, previous good performance was continued in 1974.

Marchant Calculators also suffered from depressed levels of office equipment buying coupled with intense competition from low-cost Japanese imports during the year.

Since most foreign manufacturers lack extensive distribution facilities, they have attempted to mass-merchandise their products through department and discount stores and non-exclusive dealers. While it is difficult to gauge their success in this effort, the sheer volume of widely advertised "special deals" has greatly affected Marchant, the leading American producer of electronic calculators.

Opposed to these admittedly grave problems is the fact that Marchant electronics technology is ahead of the field and strong efforts are underway to improve its position. This is encouraging since it can prove to be a great competitive advantage, especially in the area of full-featured, programmable office machines. Technology can also be the key to lowering manufacturing costs, an area in which Far East wage rates have been the major factor to date.

The calculator industry, transformed in the past five years by the application

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of electronics, particularly MOS (metal oxide silicon) circuitry led by Marchant, is now undergoing major changes in distribution methods. As stated, the emerging pattern includes the use of dealers as well as mass-merchandising techniques in some cases for low-end machines. Marchant is well positioned to capitalize on certain of these trends since its customers are given the added advantage of quick access to our large, factory-trained service force anywhere in the country.

The Kleinschmidt Division has been the prime supplier of telecommunications equipment to both the U.S. Army and Air Force and is seeking ways to apply this technology to the civilian market.

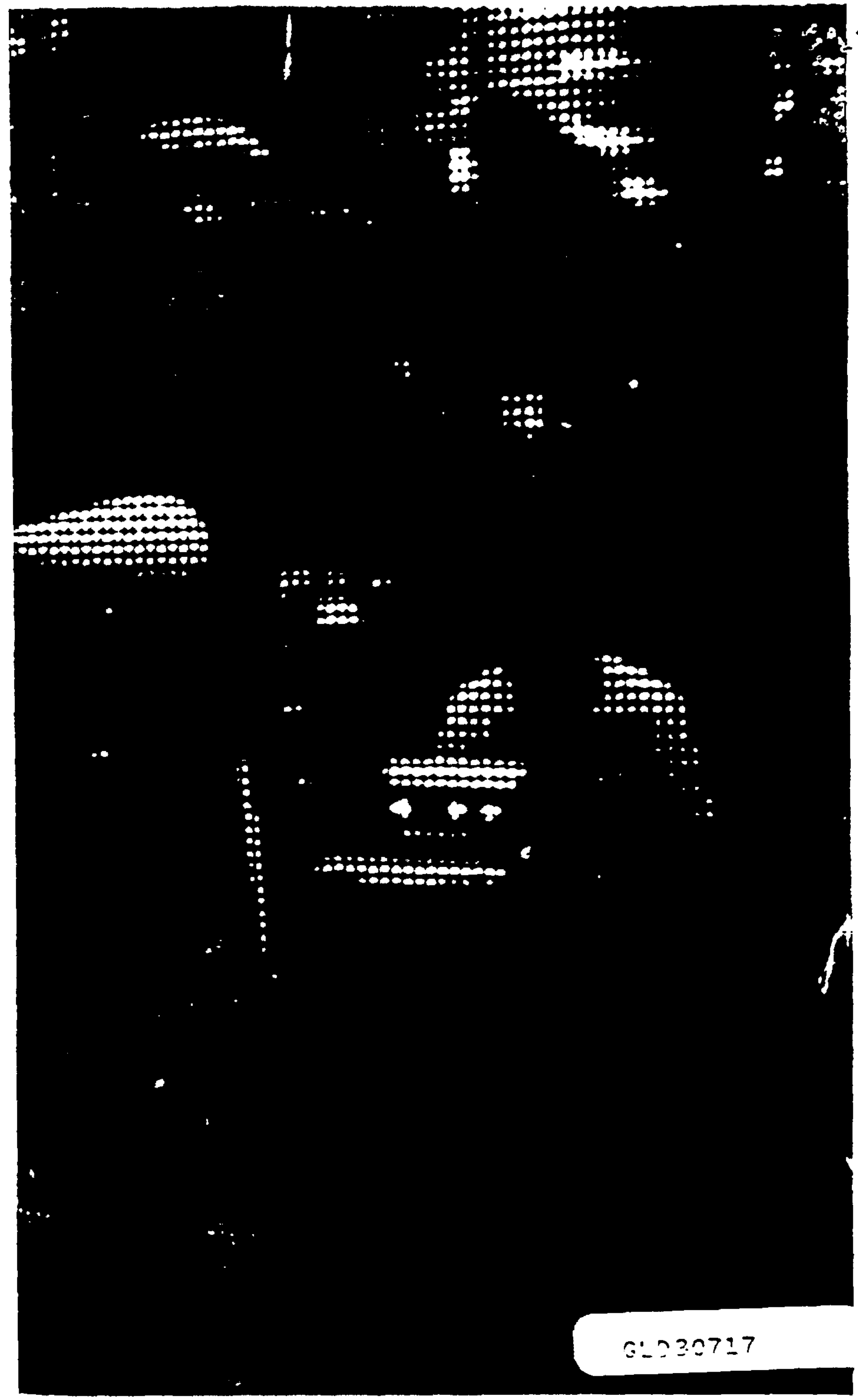
When Kleinschmidt entered the 1971 fiscal year it was faced with many difficulties: it had heavy losses during the preceding year and was restricted to one customer—the U.S. government—which was buying less equipment than before.

New management was given the task of drastically cutting the losses. Employment was reduced substantially and intense emphasis on manufacturing efficiency was inaugurated. The loss was reduced by more than 60 per cent.

Work continued on a government contract to produce and test a new generation, high speed electronic telecommunications system. The division is now negotiating later phases of this multi-phase contract with good prospects of being awarded an ultimate production contract. This confidence is based partly on the knowledge that this tactical equipment is considered a high-priority project by the U.S. Army.

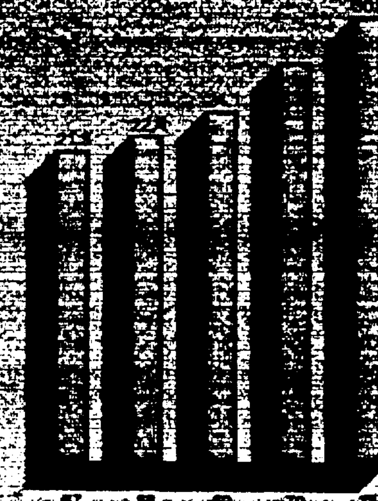
Histacount Corporation, a mail order specialty printing company serving the medical, legal and accounting professions, continued its previous good performance in 1971.

Proctor & Schwartz, an industrial process control subsidiary, performed fairly well in 1971, despite a sluggish capital goods market. Shortly after the close of the year the first of the standardized "TRAPS" (thermal regenerative air purification system) equipment was in place in a food processing plant. The "TRAPS" system eliminates organic odors emanating from industrial facilities, especially food plants. It is expected that this system will assist industry to meet new strict requirements, economically, while making a significant contribution to the national objective of clean and odor-free air.



... tests the teleprinter component of the new military telecommunications system in a specially constructed, copper screened room, which shields the test environment from outside radio interference.

SCM has dramatically improved its financial position in the year just past



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Sales Net sales were $875.1 million, up 2.4% over last year's $854.5 million. Durkee Food sales increased by 11.5% and Glidden Coatings and Chemicals by 3.1% for a net increase by the Glidden-Durkee Division over last year of 6.5%. All other Divisions had lower sales than in the preceding year. This reflects the fact that all divisions were affected, although to varying degrees, by weak economic conditions. In addition, decreases resulted in certain areas as we eliminated products that were not producing adequate margins.

Earnings Net income after taxes but before extraordinary loss was $7.1 million compared to last year's $6.4 million. Net income before taxes and extraordinary items was $13.1 million, an increase of 66% over last year's $7.9 million.

In certain of our businesses costs as a percent of sales were decreased. However, in a number of others gross margin percentages narrowed. In many cases this was because of weak economic conditions coupled with severe competitive price pressures. Overall, therefore, gross margin percentage averaged out to 27.1% of sales in 1971, compared to 27.6% in 1970. During 1971, inventories were reduced by $11.3 million or 5.5%, causing some unfavorable effect on gross profit. Start-up costs of our new chloride process titanium dioxide pigment plant and our new edible oil refinery, both of which are now in operation, also reduced gross profit.

Selling, administrative and research expenses were reduced $5.5 million, from 25.0% of sales in 1970 to 23.8% of sales in 1971. This reduction primarily reflects a continued, concerted effort to improve efficiency of sales and administrative functions.

Kleinschmidt, Business Equipment and Shetland operated at a loss during the year, although considerable progress has been made in reducing each of these losses.

Income Taxes U.S. and foreign taxes on income before extraordinary items was $6.0 million, an effective rate of 46% as compared to last year's 18.3% rate. Last year's effective tax rate was unusually low mostly due to the availability of investment credits of $1.6 million. The rate applied to this year's earnings is about what would be expected in a normal year. During the year refunds of income taxes were received amounting to $10.7 million, which contributed to the improved financial situation of the Company.

Extraordinary Loss During fiscal 1970 we undertook a profit improvement program that included termination of certain operations that no longer fit in with our long range objectives. The actions taken in that year resulted in an extraordinary charge of 50¢ per share.

In fiscal 1971, as announced in December, 1970, we took further steps to realign or eliminate parts of our businesses that could not be expected to meet our profit objectives. These actions resulted in a 1971 extraordinary charge of $1.01 per share. This charge resulted mainly from a major realignment of our paper manufacturing facilities which included closing our specialty paper plant in Chicago and closing one of three paper mills in Kalamazoo, Michigan. In addition, certain paper inventories were adjusted to a last in-first out basis as a result of a recent Internal Revenue Service ruling, and the Melabs operation in Palo Alto, California, was liquidated.

Earnings Per Share Income before extraordinary loss was 77¢ per share compared to last year's 71¢. Extraordinary loss amounted to $1.01 per share and reduced the year's results to a net loss of 24¢ per share.

Our capitalization includes two issues of convertible subordinated debentures. If all of these debentures were converted and all employee stock options exercised, earnings per share would not be diluted.

Working Capital Total working capital was reduced by $3.3 million during the year. The reduction was the result of a decrease of $22.5 million in current assets, including a reduction of $11.3 million in inventories, and a decrease of $19.2 million in current liabilities. This improvement resulted from continued efforts to get maximum utilization from our investment in current assets and directly contributed to the much improved financial position of the company.

Capital Expenditures Capital expenditures were $25.5 million in fiscal 1971 compared to $54.5 million in fiscal 1970. Major expenditures during the year were for completion of our new edible oil refinery in Joliet, Illinois and for copiers to be leased to customers. These expenditures, which were only slightly greater than depreciation during the year, were paid for with working capital provided from operations.

Debt During the year no additional financing was required. Long-term debt was reduced during the year by $14.1 million; in addition the Company was able to reduce short-term loans by $16.7 million to a total of $21.2 million.

At June 30, 1971 total debt was 48.5% of total debt plus equity compared to 51.7% at June 30, 1970.

Dividends No dividends were declared during the year and as of June 30, 1971, no retained earnings were available for cash dividends. As provided in the most restrictive of our various loan agreements, until earnings of the parent company and certain subsidiaries exceed about $2.5 million, no cash dividends may be paid.

Statement of Consolidated Income

	Year Ended June 30, 1971	Year Ended June 30, 1970
Net sales	$875,138,000	$854,511,000
Cost of sales	638,002,000	618,758,000
Gross profit	237,136,000	235,753,000
Selling, administrative and research expenses	208,201,000	213,750,000
Operating profit	28,935,000	22,003,000
Add other income, net	284,000	1,295,000
Interest expense, net	16,146,000	15,414,000
Income before income taxes	13,073,000	7,884,000
United States and foreign income taxes	6,012,000	1,446,000
Income before extraordinary loss	7,061,000	6,438,000
Extraordinary loss	9,252,000	4,542,000
Net income (loss)	$ (2,191,000)	$ 1,896,000
Earnings per share:		
Income before extraordinary loss	$ .77	$ .71
Extraordinary loss	1.01	.50
Net income (loss)	$(.24)	$ .21

See accompanying notes to financial statements.

Statement of Changes in Consolidated Working Capital

	Year Ended June 30, 1971	Year Ended June 30, 1970
SOURCES:		
Net income (loss)	$(2,191,000)	$ 1,896,000
Depreciation and provision for realignment of paper facilities	35,009,000	21,832,000
Provision for deferred income taxes	(4,202,000)	1,402,000
Provision for deferred pension expense	4,556,000	2,322,000
Amortization of deferred charges	294,000	227,000
Working capital provided from operations	33,466,000	27,679,000
Net increase from issuance of long-term debt	—	35,271,000
Reclassification of deferred income taxes	—	2,886,000
Disposals of property, plant and equipment	3,524,000	3,892,000
Sale of common stock	92,000	169,000
Stock issued for net assets of companies acquired	—	4,515,000
Decrease (increase) in working capital	3,264,000	(2,191,000)
Total	$40,346,000	$72,221,000
APPLICATIONS:		
Additions to property, plant and equipment	$25,543,000	$54,527,000
Reduction of long-term debt	14,500,000	13,380,000
Cash dividends	—	5,421,000
Other changes in non-current items	303,000	(1,107,000)
Total	$40,346,000	$72,221,000

See accompanying notes to financial statements.

Consolidated Balance Sheet

	June 30, 1971	June 30, 1970
Assets		
Current assets:		
Cash	$ 17,558,000	$ 16,985,000
Accounts receivable—net	128,256,000	142,646,000
Inventories	192,926,000	204,187,000
Prepaid taxes and expenses	8,975,000	6,352,000
Total current assets	347,715,000	370,170,000
Property, plant and equipment—net	184,122,000	197,112,000
Other assets	11,044,000	10,825,000
Total	$542,881,000	$578,107,000
Liabilities and Shareholders' Equity		
Current liabilities:		
Loans payable	$ 21,222,000	$ 37,960,000
Accounts payable and accrued liabilities	71,530,000	77,390,000
United States and foreign income taxes	4,587,000	2,435,000
Deferred revenue on maintenance agreements	7,668,000	6,893,000
Long-term debt payments due within one year	11,996,000	11,516,000
Total current liabilities	117,003,000	136,194,000
Other liabilities	9,601,000	4,835,000
Long-term debt	178,422,000	192,922,000
Deferred income taxes	13,159,000	17,361,000
Shareholders' equity	224,696,000	226,795,000
Total	$542,881,000	$578,107,000

See accompanying notes to financial statements.

Details of Balance Sheet Items

	June 30, 1971	June 30, 1970
Accounts receivable:		
Due from customers	$132,119,000	$136,452,000
Less allowance for doubtful accounts	3,863,000	3,886,000
Net	128,256,000	132,566,000
Recoverable federal income taxes	—	10,080,000
Net accounts receivable	$128,256,000	$142,646,000
Inventories, at the lower of average cost or market:		
Raw materials and work in process	$ 79,958,000	$ 83,785,000
Finished goods	112,968,000	120,402,000
Total inventories	$192,926,000	$204,187,000
Property, plant and equipment:		
Cost:		
Land	$ 11,660,000	$ 11,158,000
Buildings	88,822,000	87,035,000
Machinery and other equipment	259,252,000	261,163,000
Total cost	359,734,000	359,356,000
Less accumulated depreciation	175,612,000	162,244,000
Net	$184,122,000	$197,112,000
Long-term debt:		
5½% sinking fund debentures due 1972-1983	$ 18,000,000	$ 19,454,000
5¾% sinking fund debentures due 1973-1987	19,000,000	20,000,000
7¼% sinking fund debentures due 1973-1988	20,000,000	20,000,000
9¼% sinking fund debentures due 1975-1990	35,000,000	35,000,000
Bank term loans due 1972-1974 interest at prime rate plus a fraction	15,995,000	25,997,000
Notes payable to insurance companies due 1972-1979—interest at rates from 5% to 6%	6,375,000	7,625,000
Other loans—interest at rates from 5% to 8¼%	7,568,000	8,361,000
5½% convertible subordinated debentures due 1978-1988	41,484,000	41,485,000
5¼% convertible subordinated debentures due 1979-1989	15,000,000	15,000,000
Total long-term debt	$178,422,000	$192,922,000

See accompanying notes to financial statements.

Statement of Consolidated Shareholders' Equity

	Common Stock	Additional Paid-in Capital	Retained Earnings	Total Shareholders' Equity Years Ended June 30 1971	1970
Balance at beginning of year	$45,705,000	$111,251,000	$69,839,000	$226,795,000	$226,628,000
Adjustment—settlement of income taxes	—	—	—	—	(996,000)
Balance at beginning of year as restated	—	—	—	—	225,632,000
Changes relating to poolings of interest	—	—	—	—	4,515,000
Net income (loss)	—	—	(2,191,000)	(2,191,000)	1,895,000
Cash dividends	—	—	—	—	(5,421,000)
Sale of common stock under option plans	37,000	55,000	—	92,000	169,000
Issuance of common stock on conversion of subordinated debentures	—	—	—	—	4,000
Balance at end of year	$45,742,000	$111,306,000	$67,648,000	$224,696,000	$226,795,000

See accompanying notes to financial statements.

Notes to Financial Statements

Extraordinary Loss
The extraordinary loss for the year ended June 30, 1971 resulted mainly from the realignment of certain paper manufacturing facilities. This realignment consisted of the closing of a specialty paper plant in Chicago and providing a reserve for the cost of realigning paper manufacturing facilities in Kalamazoo, Michigan. One of the three mills in Kalamazoo has been closed and liquidated and the resulting loss charged against this reserve. The remainder of the reserve is included in accumulated depreciation in the consolidated balance sheet. The extraordinary loss also resulted from the adjustment of certain paper inventories to a LIFO basis as a result of a recent Internal Revenue Service ruling and liquidation of the Melabs operation.

The tax benefits of $8,649,000 related to the 1971 extraordinary loss have reduced current taxes by $3,134,000, deferred income taxes by $4,579,000 and have increased prepaid taxes by $936,000. The 1970 extraordinary loss was reduced by tax benefits of $4,130,000.

Earnings Per Share
Earnings per share have been computed by dividing income by the average number of common and common equivalent shares outstanding. Fully diluted earnings per share have not been presented as there is no dilutive effect for 1971 or 1970.

Depreciation
The Company provides for depreciation over the estimated useful lives of the assets generally on a straight-line basis. Depreciation expense for 1971 and 1970 was $22,439,000 and $21,832,000, respectively.

Retirement Plans
The Company has several retirement plans providing pensions for substantially all of its employees. Pension expense, which includes interest on unfunded prior service liabilities, was $4,800,000 for the year ended June 30, 1971 and $2,400,000 for the year ended June 30, 1970. The increase in pension expense was caused mainly by a decline in the market value of securities included in the fund as compared with gains in years prior to 1970, increased interest on unfunded prior service liability and increased normal cost. It is the Company's policy to fund pension cost only when actuarial computations prescribe such funding. There were no unfunded vested benefits as of June 30, 1971.

Income Taxes
The provision for United States and foreign income taxes includes deferred benefits of $1,887,000 in 1971 and deferred charges of $1,402,000 in 1970. The 1970 provision has been reduced by investment credits of $1,600,000.

Long-Term Debt
During the next five years approximate long-term debt maturities will be:
1972, $12,000,000; 1973, $15,500,000; 1974, $9,000,000; 1975, $8,700,000; 1976, $6,400,000.

Under the most restrictive provisions of the loan agreements no retained earnings are available for cash dividends until future earnings of the parent company and certain subsidiaries exceed approximately $2,500,000.

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, 1971, 9,148,430 shares of common stock were outstanding, 499,438 shares were reserved for issuance under the Company's stock option plans, 891,946 shares were reserved for issuance upon conversion of the 5½% subordinated debentures due 1978-1988, and 322,234 shares were reserved for issuance upon conversion of the 5¼% subordinated debentures due 1979-1989. During 1971 options to purchase 61,750 shares were granted, options for 7,329 shares were exercised, and options for 92,540 shares expired. At June 30, 1971, options for 301,471 shares were outstanding. Options are granted at fair market value.

Working Capital
The decrease in working capital during 1971 resulted from the following:

Decrease in accounts receivable—net	$14,390,000
Decrease in inventories	11,261,000
Decrease in loans payable	(16,738,000)
Decrease in accounts payable and accrued liabilities	(5,860,000)
Other changes—net	211,000
Decrease in working capital	$ 3,264,000

Commitments
At June 30, 1971, the Company's annual rental for real property under long-term leases was approximately $9,800,000. These leases have varying expiration dates through 2017. These obligations will decrease by about $3,700,000 by 1980 and by an additional $2,600,000 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 subsidiary companies for the year ended June 30, 1971. 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, consolidated shareholders' equity and changes in consolidated working capital, present fairly the financial position of the companies at June 30, 1971, the results of their operations and changes in their working capital for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Haskins & Sells

August 6, 1971

GL030723

Ten Year Statistical Summary

All dollar amounts presented in thousands, except figures given on a per share basis.

	1971	1970	1969	1968	1967	1966	1965	1964	1963	1962
Income										
Net sales	$875,138	$854,511	$807,648	$744,758	$705,150	$644,787	$558,393	$470,633	$453,126	$429,315
Income before income taxes	13,073	7,884	39,391	30,820	43,626	40,408	29,431	22,921	20,066	20,416
U.S. and foreign income taxes	6,012	1,446	18,752	13,061	18,550	18,956	14,070	11,140	9,188	9,524
Income before extraordinary items	7,061	6,438	20,639	17,759	25,076	21,452	15,361	11,781	10,878	10,892
Extraordinary items, net of tax	(9,252)	(4,542)	—	(4,700)	—	1,207	403	—	—	912
Net income (loss)	(2,191)	1,896	20,639	13,059	25,076	22,659	15,764	11,781	10,878	11,804
Dividends	—	5,421	5,136	4,763	8,479	7,666	5,547	4,920	4,663	7,592
Income reinvested	(2,191)	(3,525)	15,503	8,296	16,294	14,474	8,934	5,624	5,335	3,794
Depreciation	22,439	21,832	19,372	17,807	15,384	12,835	11,821	11,484	12,042	10,795
Per Common Share										
Income before extraordinary items	$ .77	$ .71	$ 2.37	$ 2.13	$ 2.90	$ 2.56	$ 1.96	$ 1.47	$ 1.39	$ 1.47
Net income (loss)	(.24)	.21	2.37	1.58	2.90	2.72	2.02	1.47	1.39	1.61
Cash dividends	—	.60	.60	.60	.40	.30	—	—	—	—
Stock dividends	—	2%	2%	3%	3%	2½%	5%	3%	3%	2%
Book value	24.56	24.81	25.54	24.24	22.24	25.57	24.83	24.85	23.95	23.33
Financial Position										
Working capital	$230,712	$233,976	$231,785	$221,718	$207,068	$165,245	$143,484	$138,389	$134,885	$115,434
Property, plant and equipment—net	184,122	197,112	168,310	148,152	138,141	108,680	107,727	104,028	103,909	107,652
Total assets	542,881	578,107	524,232	470,009	451,402	382,329	331,223	319,261	301,084	293,800
Other Statistics										
Additions to property, plant and equipment	$ 25,543	$ 54,527	$ 40,764	$ 32,188	$ 36,116	$ 22,435	$ 14,701	$ 11,631	$ 6,875	$ 16,235
Return from operations on average equity	3.1%	2.8%	9.5%	9.2%	12.8%	10.6%	8.5%	7.0%	6.8%	6.9%
Return from operations on net sales	.8%	.8%	2.6%	2.4%	3.6%	3.3%	2.8%	2.5%	2.4%	2.5%
Current ratio	2.97	2.72	3.08	3.50	3.10	2.84	3.03	3.08	3.51	2.83
Number of employees	28,600	31,100	33,500	33,200	33,100	31,300	29,900	25,900	24,900	24,200
Number of shareholders	53,400	53,500	50,000	47,500	45,600	47,000	42,500	37,500	37,200	41,400
Average common shares outstanding	9,145,000	9,014,000	8,716,000	8,616,000	8,158,000	7,756,000	6,649,000	6,458,000	6,443,000	6,423,000

SCM 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*
George D. Kennedy
Wallace W. Knox*
Paul W. Neidhardt
Crocker Nevin
William W. Quinn
James M. Symes*
George S. Warner
William I. Myers, Emeritus*

*Member of Executive Committee

Transfer Agents

Marine Midland Bank—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
4 New York Plaza
New York, New York 10004

United California Bank
95 Hawthorne Street
San Francisco, California 94104

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 28, 1971
at Georgia Power Company
270 Peachtree Street
Atlanta, Georgia

Corporate Officers

Emerson E. Mead
President

Paul H. Elicker
Executive Vice President

George E. Hall
Senior Vice President and
General Counsel; Secretary

Jack B. Bredt
Vice President—
Employee Relations

George F. Burns
Vice President;
President, Consumer
Products Division

William V. Cawley
Vice President—
Treasurer

Herbert H. Egli
Vice President—
Controller

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

George S. Warner
Vice President; President
Business Equipment
Division

SCM CORPORATION
299 Park Avenue
New York, N.Y. 10017