Financial Highlights

(in thousands, except per-share figures) Years ended June 30	1972	1971
Net sales	$917,817	$875,138
Income before income taxes	17,591	13,073
United States and foreign income taxes	7,264	6,012
Income before extraordinary loss	10,327	7,061
Extraordinary loss	10,176	9,252
Net income (loss)	151	(2,191)
Earnings per common and common equivalent share:		
Income before extraordinary loss	1.13	.77
Extraordinary loss	1.11	1.01
Net income (loss)	.02	(.24)
Additions to property, plant and equipment	25,228	25,543
Depreciation	23,769	22,439
At year end		
Working capital	$224,297	$230,712
Property, plant and equipment—net	176,838	184,122
Long-term debt	162,024	178,422
Shareholders' equity	224,873	224,696
Number of shareholders	49,600	53,400
Number of employees	28,300	28,600

SCM Corporation is a diversified manufacturing company combining technical leadership in many of its businesses with proven mass marketing ability in many others. Our 1972 sales of $918 million were divided among three broad segments of the economy: industrial, consumer, and office products. Industrial products (coatings, industrial and institutional foods, pigments and colors, metal powders, chemicals, pulp and paper and industrial processing equipment) accounted for approximately 42 per cent of the total, or $388 million. Consumer products (paints, typewriters and appliances and foods) accounted for an additional 40 per cent of the total, or $368 million. Office products (copiers, calculators, business forms and telecommunications equipment) provided the balance of 18 per cent, or $162 million.

Twenty-one SCM business units serve customers in these three broad market areas. They range in size from Coatings and Resins, the largest, to Walton Printing, the smallest self-contained business unit in terms of sales.

For purposes of this report, we have grouped our 21 self-contained operating units into seven lines of business. The sales, operating income and average assets for these seven groups over the past five years are reported on page 5, and the year's results are reviewed in detail in the following pages.

This annual report to the almost 50,000 SCM shareholders attempts to place the 1972 fiscal year in perspective of the recent past and to indicate the future direction of the company as fully as possible.

Net income, before extraordinary charges, was much improved in fiscal 1972; in fact it was the best it has been in three years. In addition, we have resolved two of SCM's major problems by drastically realigning Marchant calculators and by deciding to dispose of our Shetland floorcare business. These actions resulted in an extraordinary charge.

Income: Income after taxes, but before the extraordinary charge, increased 46 per cent to $10.3 million, or $1.13 a share, from $7.1 million, or 77 cents a share in 1971. Extraordinary charges of $10.2 million, or $1.11 a share, resulted in net income of $151,000, or two cents a share. This compares with an extraordinary charge of $9.25 million, or $1.01 a share, in 1971, which resulted in a net loss in that year of $2.2 million, or 24 cents per share.

Net income benefited from the fact that certain investment tax credits were available to us in 1972 and not in 1971. Our tax provision was at the rate of 41 per cent last year compared to 46 per cent in 1971.

Sales increased 4.9 per cent to $917.8 million from $875.1 million in 1971.

Income from operations is discussed in the review of operations that follows this letter and the extraordinary charges are detailed in the financial review and financial statements.

Operating Highlights: Coatings and Resins, consisting principally of Glidden paints for consumers and industrial customers, and Smith-Corona typewriters were our two leading moneymaking operations in 1972. They also provided the bulk of the total increase in earnings over the preceding year.

Our Industrial Foods group, which refines and sells vegetable oils, lost money and was our major disappointment. Calculators and Shetland floorcare, the two businesses which accounted for all but a fraction of the extraordinary charge, also lost money in operations. To that extent, our overall operating earnings were held down. Most of our businesses did well and improved on their performances of 1971.

SCM's cash position showed substantial improvement. At year-end we had certain small foreign borrowings but short-term borrowings, which totaled $38 million as recently as 1970, have been practically eliminated. Total debt, including short-term borrowings, was $177 million at the end of fiscal 1972, down from $212 million in fiscal 1971, and $242 million in fiscal 1970. For the first time in many years, we were in a cash surplus position at June 30. We had $6.7 million in short-term investments at year-end.

Results for 1972 were achieved in a mixed economy. Most of our consumer products did well, reflecting the general pickup in consumer spending. Some industrial areas remained depressed, however, with improvements slow in coming.

Under Phase II of the government's Economic Stabilization Program, we operate under price and wage restrictions. These restrictions have not yet had an adverse effect on profits, and are not likely to have such an effect in the immediate future. Whether this lack of adverse effect will continue, of course, depends on future governmental policies.

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Long-Range Plan: This annual report, the first since I was appointed president and chief executive officer on January 1, offers the opportunity to give you more than just a detailed account of SCM's performance for 1972. It also allows me to relate that performance to our plans for the future.

Over the past year or two, our principal concentration has been on improving profits by eliminating major weaknesses. Now we can turn our attention to building on our strengths. Our strengths, as I see them, are in specialized areas of chemical technology and in our ability to merchandise large quantities of consumer products effectively. These strengths provide a common thread which, as this report hopes to make clear, weaves through all of SCM's operations.

Decisions: Certain actions we have taken over the past several years to eliminate major weaknesses have resulted in extraordinary charges against earnings, and I would like to review them.

In 1970, we discontinued production of rotary calculators, full-sized office typewriters, and commodity iron powders.

In 1971, we disposed of certain paper operations, reorganized others, and sold a small electronics firm.

Also in 1971, we relocated copier manufacture to a consolidated typewriter-copier manufacturing plant, and leased the former copier plant to another company.

This year we reorganized our Marchant calculator operation and decided to phase out our U.S. floorcare business.

The cash dividend was suspended early in fiscal 1971, reflecting unsatisfactory earnings.

Finally, in the past several years we have made major investments of time and money aimed at strengthening the operations and the management of those businesses where we have a strong position.

Results: As a direct result of these decisions:
Glidden paints had record sales and earnings last year.
Smith-Corona typewriters had record earnings last year.
Major losses in calculators and floorcare have been eliminated.

Metal powders have moved to a profit from a loss.
The two remaining paper mills in Kalamazoo, Michigan, are again profitable.

Our copier business is substantially improved. Employment has been reduced to 28,300 from the all time high figure of 33,500 reached in 1969.

SCM in Transition: What all this reflects, I believe, is that SCM is in transition. As we begin to see the results of decisions of the recent past, it becomes clear that SCM has changed markedly. Our future looks promising because operations are better and we have been solving major problems that have been holding us back.

But SCM has not yet emerged as the company that our plans envision. So our building program will continue until we have returned SCM to the growth and profitability levels we feel it can achieve.

An important part of this building plan has been the extraordinary charges. As most of you are aware, last year's charge was the third in as many years. No doubt because of this, many times during the past year I have been asked the same question by shareholders and others interested in SCM: Will there be additional extraordinary charges?

No one can read the future and categorically say that any company will never again have to take an extraordinary charge. We think we have now dealt with the problems that could give rise to such charges: Our plan to improve profitability is well started, and if it continues, such charges will, of course, be unnecessary.

I hope that this letter enables you to gain a better understanding of what we are attempting to do: improve profits by eliminating major weaknesses and building on strengths, and how we are going about it.

The ultimate test will, of course, be how well SCM performs in the coming years. I am optimistic that the progress made in 1972 will continue next year.

Paul H. Elicker
President

The table on the opposite page shows the sales, operating income and average assets of each of our seven lines of business. The purpose of this display is to show the evolving shape of SCM as a business.

Several trends are apparent. Average assets invested in business equipment, for example, have shown a decline, both actual and relative to total assets. While the sharp drop in 1972 reflects the calculator write-off, it also reflects the increased depreciation for copiers placed under Copy Service programs.

In chemicals, assets have increased substantially although profits have declined. The chart shows a heavy investment that has yet to provide the return that we anticipate. A similar trend is apparent in foods.

Finally, operating income from coatings and resins and typewriters and appliances reflect the fact that these are our strongest businesses.

In the following pages each of the seven product groupings is reported on separately. The tables at the beginning of each section also include figures to show the return on sales and the return on average assets.

Net Sales, Operating Income and Average Assets by Product Group

(In millions) Years ended June 30	1972	1971	1970	1969	1968
Net Sales					
Coatings and Resins	229.2	207.8	198.5	175.8	148.8
Typewriters and Appliances	174.4	161.1	163.5	158.0	146.0
Foods	211.4	205.0	183.8	169.6	163.6
Business Equipment	117.8	120.1	122.1	126.9	123.1
Chemicals	74.0	67.5	68.6	67.5	58.7
Paper Products	86.1	86.1	88.5	77.5	68.7
Other Products	24.9	27.5	29.5	32.3	35.9
Total	917.8	875.1	854.5	807.6	744.8
Operating Income					
Coatings and Resins	17.2	13.8	9.1	13.7	10.2
Typewriters and Appliances	11.8	7.9	7.5	14.2	11.7
Foods	(2.9)	5.8	8.6	8.3	9.3
Business Equipment	(3.0)	(3.6)	(3.7)	4.1	.1
Chemicals	3.1	3.6	6.4	9.4	5.9
Paper Products	4.2	3.6	3.2	1.9	2.2
Other Products	.4	(2.2)	(9.1)	(1.3)	2.3
Total	30.8	28.9	22.0	50.3	41.7
Average Assets					
Coatings and Resins	121.6	116.0	109.7	95.2	83.9
Typewriters and Appliances	100.8	114.9	118.8	106.3	100.7
Foods	100.3	92.4	76.0	67.5	62.7
Business Equipment	78.8	95.6	98.9	98.1	95.7
Chemicals	73.0	73.0	68.6	57.1	51.1
Paper Products	36.2	49.6	53.8	47.7	43.3
Other Products	18.3	19.0	25.4	25.2	23.3
Total	529.0	560.5	551.2	497.1	460.7

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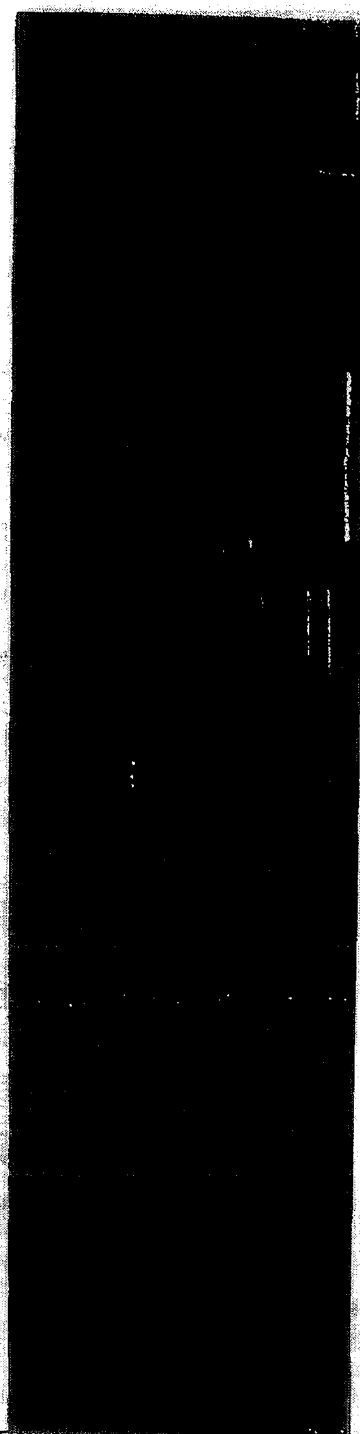

Glidden's Coatings and Resins group had increased sales and profits last year, reflecting the continued high level of housing starts, higher rates of consumer spending, and to some extent, a recovery in the industrial sector.

The $2.8 billion U. S. coatings market is divided into $1.5 billion of consumer sales of a relatively few products and $1.3 billion of industrial sales of a great number of products. Glidden is the fourth largest of the relatively few companies who share about 40 per cent of the market; over 1,000 others divide the remainder. We are strong in both segments but somewhat stronger in consumer, or "trade" sales, than in industrial sales.

Consumer Coatings: Our position in consumer paint sales reflects the wide and growing recognition of Glidden "Spred" products, our principal line. Sales are supported by a comprehensive distribution network that includes more than 1,000 dealers' and 203 company-operated retail stores. These dealers and stores are supplied by 98 regional warehouses which, along with many store locations, also serve as regional distribution centers for painting contractors. Glidden also operates 131 leased departments in stores located primarily in suburban shopping centers. Leased departments, even more than our retail stores, stock a large number of items for resale, such as home decorating needs and hardware, to provide one-stop shopping for the do-it-yourself home decorator.

Last year in our centralized research center near Cleveland, we developed an alkyd resin paint called "Spred Gel-Flo" which has the consistency of gelatin in the can, yet brushes on smoothly and evenly to any desired thickness without dripping or running. Sales of "Spred Gel-Flo" are encouraging for a new product.

Paint is expensive to ship long distances, and because of this, Glidden's 16 paint plants in the U.S. and Canada are located near the markets they serve. For several years we have been adding capacity to our paint plants and modernizing our equipment. Construction is underway on a $7.5 million plant at Huron, Ohio, to produce paints for the midwest consumer market.

Industrial Coatings: Industrial coatings have generally more complex formulations than

(In millions)	1972	1971	1970	1969	1968
Net sales	$229.2	$207.8	$198.5	$175.8	$148.8
Operating income	$ 17.2	$ 13.8	$ 9.1	$ 13.7	$ 10.2
Return on net sales	7.5%	6.6%	4.6%	7.8%	6.9%
Average assets	$121.6	$116.0	$109.7	$ 95.2	$ 83.9
Return on average assets	14.1%	11.9%	8.3%	14.4%	12.2%

Coatings and resins is a solid, consistent and growing business for us. At our Reading, Pennsylvania plant, one of Glidden's 16 plants in the U.S. and Canada, the mixing operation begins. This modern, high speed machine is being loaded prior to mixing a 3,000 gallon batch of paint.

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consumer paints. This is because they are tailored for specific applications including the system by which they are to be applied, the environment in which the coated product is to be used, and growing legal restrictions on materials used for some products. This being the case, technical service is the key to success with industrial customers just as advertising and distribution are the keys to success in trade sales. Our technical service representatives, working with the customer, use our technology and experience to meet his needs.

Because of the variety of industries served and the specialization demanded, industrial markets tend to be segmented. In the U.S., in approximate order of size, industrial coatings are sold to the automotive, appliances, wood finishing, and metal container industries. We have special strength in can coatings (the clear coating applied to the inside of cans to prevent food products from coming in contact with the metal container), coil coatings (materials for coating rolls of metal from which pre-painted parts can be stamped or formed without chipping or marring the finish), and electrocoating (a process of applying a positively charged coating material to a negatively charged object). Glidden was a pioneer in electrocoating.

Glidden's coatings and resins business is heavily dependent on innovative research. We are, for example, developing industrial coatings that can be applied electrically as dry powders. These coatings will eliminate pollution caused by the evaporation of solvents when parts are spray painted. We have also expanded our efforts in the development of liquid coatings that use water as the solvent, which will help reduce the pollution problem faced by users of industrial paints.

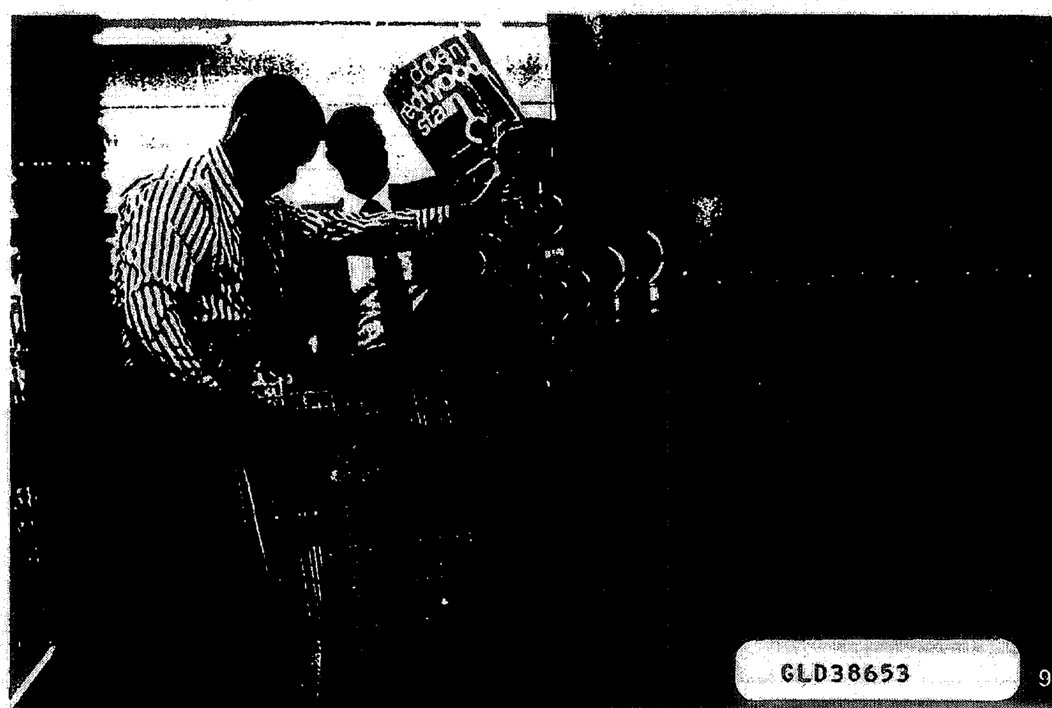
International: Glidden's Coatings and Resins group also manufactures and sells industrial and consumer paints in Canada and several Latin American countries. We are a major producer for the Canadian market and we are the leading paint maker for the more modest markets in several Latin American countries. Overall sales and earnings of our Latin American affiliates are much smaller than our U.S. and Canadian businesses.

In Europe, we make only industrial finishes and generally in particular segments of the industrial market. We have a medium-sized operation in Italy and a somewhat larger one in Germany. Our plans are to expand into additional countries in Europe, building and expanding on our industrial coatings base.

In the remainder of the world market, we participate primarily through technical licensing agreements; that is, selling our research and manufacturing knowledge.

In summary, coatings and resins is a solid, consistent, and growing business for us. While the overall industry growth rate is moderate, in recent years we have consistently increased our share of market. We have depth of management and a broad-based position in the industry. We anticipate continued good performance by this important part of SCM's business.

Four one-gallon cans are simultaneously filled at our Reading, Pennsylvania paint plant. Sales of Glidden consumer paints are supported by a distribution network that includes dealers' stores, company-operated retail stores and leased departments like this one in a Big N store, in Rochester, New York. Jim Berry (left) our manager of the paint, hardware and auto department at Big N, restocks and reorders Glidden paints with Robert P. Winchell, zone supervisor for Glidden.



Typewriters and Appliances

(In millions)	1972	1971	1970	1969	1968
Net sales	$174.4	$161.1	$163.5	$158.0	$146.0
Operating income	$ 11.8	$ 7.9	$ 7.5	$ 14.2	$ 11.7
Return on net sales	6.8%	4.9%	4.6%	9.0%	8.0%
Average assets	$100.8	$114.9	$118.8	$106.3	$100.7
Return on average assets	11.7%	6.9%	6.4%	13.3%	11.6%

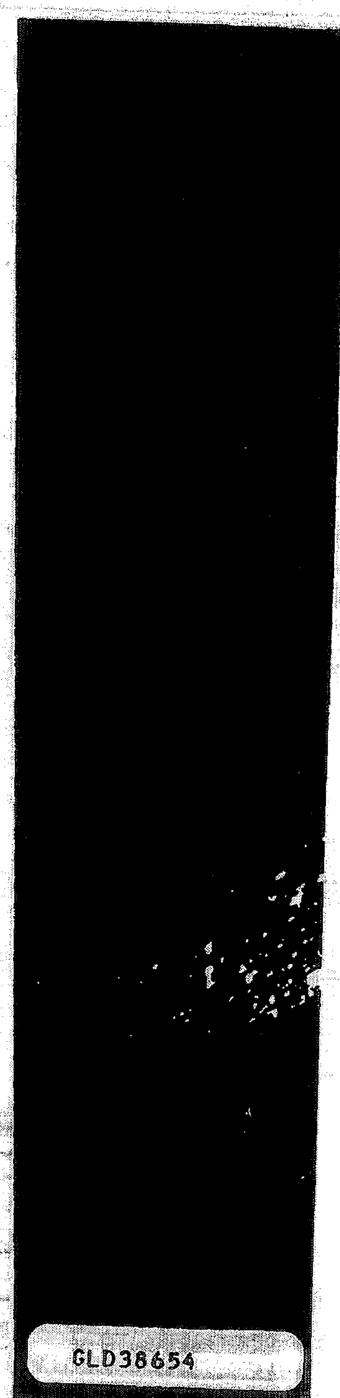
A continuing program aimed at manufacturing efficiency and automation at our Cortland, New York typewriter facilities has enabled Smith-Corona to stay competitive in the domestic market even without tariff protection. This automated sub-assembly machine does six separate tasks, and turns out a finished assembly at almost one per second.

SCM's Consumer Products Division, consisting of the Smith-Corona and Proctor-Silex groups, benefited from increased consumer spending, particularly in the second half of the fiscal year. What would have otherwise been a record year for the group as a whole was marred by disappointing results in floorcare.

Typewriters: The largest part of sales and an even greater portion of the profits in this group came from typewriters. Last year, Smith-Corona typewriters had record profits on slightly lower sales.

The youth market in the United States has long been the principal outlet for portable typewriters. However, sales to graduating high school students are not expected to grow as fast as they have been because for the next few years there will be only nominal increases in the number of seniors. Sales of electric portables, particularly full-featured models at the high end of the product line, are still expanding at very satisfactory levels. Smith-Corona accounted for the largest share, about 730,000 units, of the total U. S. market of nearly 2,000,000 units last year, even though most imported competitive typewriters sell at lower prices. The reason is Smith-Corona's reputation for reliability and durability, which is well-known to consumers.

At our Smith-Corona manufacturing facilities in the Cortland, New York area, a continuing program of product improvement and automation has enabled us to stay competitive in the domestic market even without tariff protection. One way we have maintained our competitive edge is by being



a leader in introducing new typewriter features, a record we intend to maintain in the future.

Our distribution system, which we believe is the broadest and most efficient in the industry, reaches mass merchandisers, direct mail and mail order outlets, and 12,000 dealers.

Currently, we have a lesser position overseas where foreign tariff barriers tend to discriminate against U.S. typewriters. We supply this market with the least expensive models in our line from two manufacturing plants in England.

Outside the U. S., the portable typewriter market tends to be dominated by low-end, non-electric portables, and low-cost manufacturing is essential to compete in these markets.

Appliances: Sales of appliances continued to be adversely affected by the recession during the first part of fiscal 1972. However, consumer demand for household appliances improved steadily, and for the year Proctor-Silex had a substantial increase in profits on a slight increase in sales. Proctor-Silex continues to be challenged by heavy competition from domestic and foreign manufacturers which makes it difficult to recover higher production costs fully.

Toasters and irons are our two principal electric houseware products, and we are especially strong in these markets. Sales of our toasters, sold under the Citation, Mary Proctor, Starflite, Proctor-Silex and "Lifelong" brands, continued strong, while sales of irons, marketed under the same brand names, declined slightly. A new "Lifelong" toaster-oven was added to the line last year, and glass coffee percolators had improved sales. A significant portion of the products manufactured by Proctor-Silex are marketed under brand names of other companies.

Continued success at Proctor-Silex depends in large measure on a steady stream of successful new products being brought to market. We have been strengthening our research and development staff since last year and will be in a better position to attain this goal.

Smith-Corona portable electric typewriters are the number one seller in the U.S. Our distribution system reaches mass merchandisers, direct mail and mail order outlets and 12,000 dealers. One of these dealers is Alan's Office Equipment Inc., Clearwater, Florida, where W. Robert Powell (left) Smith-Corona area manager, meets Alan R. Carlson, president of Alan's. As a result of care in manufacturing, Smith-Corona typewriters' reputation for reliability and durability is well known to consumers.

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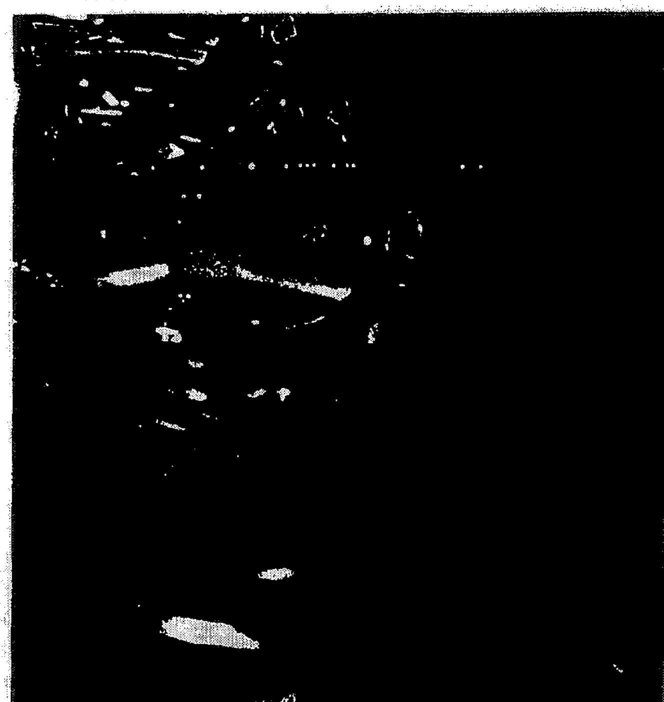
[illegible] that our appliance [illegible] both in the U.S. and [illegible] strong [illegible] consumer demand [illegible]

Follow a Proctor-Silex iron from our Southern Pines, North Carolina plant to a retail store. Freshly chrome-plated iron bodies (left) are removed from the plating tanks; receive final temperature check before being packed. One of Proctor-Silex's great strengths is its distribution network. Our appliances are sold in nearly 40,000 outlets--stores like Brooklyn's Abraham & Straus, where Ray Lyons (right) district area manager for Proctor-Silex and William J. Noering, A&S houseware buyer, examine a Proctor-Silex iron.



Foods

(In millions)	1972	1971	1970	1969	1968
Net sales	$211.5	$205.0	$183.8	$169.6	$163.6
Operating income	$ (2.9)	$ 5.8	$ 8.6	$ 8.3	$ 9.3
Return on net sales	—	2.8%	4.7%	4.9%	5.7%
Average assets	$100.3	$ 92.4	$ 76.0	$ 67.5	$ 62.7
Return on average assets	—	6.3%	11.3%	12.4%	14.8%

Durkee's foods business lost money last year because of several problems at our Industrial Foods and Food Service operations. This was the first time in nearly 20 years that these groups were not profitable. However, Durkee Consumer Foods, which represents over a quarter of our food volume, had record sales and profits in fiscal 1972.

Consumer Foods: Durkee is one of three major processors and distributors of spices in the U.S., competing across-the-board with two other nationally advertised labels. Spices, especially pepper, together with sauce and gravy mixes and coconut, account for well over half the sales and a higher portion of the profits of this segment of Durkee Foods.

Other consumer foods, sold under the Durkee, O & C, Dailey, B. M. Reeves and Gretchen Grant labels, include a wide range of specialty foods, such as pickles, olives and frozen hors d'oeuvres. The specialty food market is growing faster and tends to have higher margins than the general food market, and Durkee has been able to improve its market share in many product lines.

Industrial Foods: Durkee Industrial Foods supplies a wide range of edible oils to the food industry generally, and specialized edible oil products to confectioners, bakers, and cake manufacturers. Our industrial foods group purchases in the commodities market crude soybean, cottonseed and corn oil, and other lesser known oils, many of which are imported, and refines these oils for use in food manufacturing.

In addition to the basic refining technique, Durkee uses solvent fractionation and other advanced processes to provide ingredients chemically tailored to specific customer applications.

Industrial Foods labored through a series of problems that resulted in its losing money last year. The refinery at Joliet, Illinois, opened in 1971, reached reasonable levels of production only during the fourth quarter of fiscal 1972. Unfortunately, this new capacity coincided with general excess capacity in the industry, a period of flat growth in demand and severe fluctuations in the world oil market. Sharp declines in oil prices during fiscal 1972 made satisfactory inventorying and pricing extremely difficult and had an adverse effect on the Industrial Foods group.

Durkee Consumer Foods is one of the three major processors and distributors of spices in the U.S. Spices, especially pepper, sauces and gravy mixes and coconut account for over half the sales. Other Durkee foods include olives, frozen hors d'oeuvres and several kinds of pickles, which are being restocked by Robert Throckmorton, Durkee sales representative. Colored and flavored coconut (right) a potential future product, is one of many products that emerged from research efforts at our Strongsville laboratory.

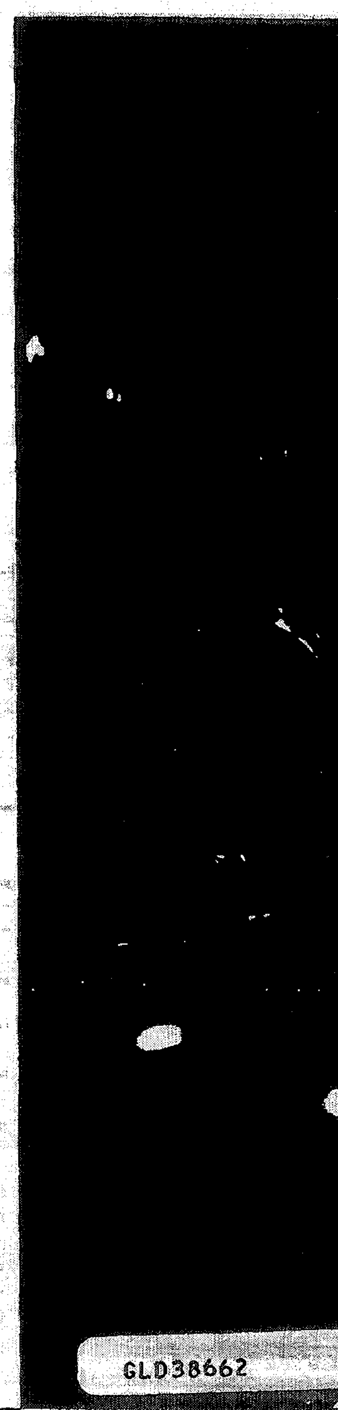
During the year, and at year-end, substantial provisions were made to restate inventory values to reflect the market price.

After the close of the fiscal year there were signs that the world supply of edible oils had become more in balance with indicated demand. While commodity prices are hard to predict, this should result in more stable market conditions in 1973.

Food Service: Durkee's Food Service business is in part an extension of our Industrial Foods operation. Refined oils, the main product of Industrial Foods, is also the principal product of Food Service. There are, however, important differences in the markets served by the two groups. Industrial Foods' principal customers are food manufacturers, while Food Service mainly supplies cooking oils to away-from-home eating places. Food Service is also a supplier of frozen doughs to bakeries, preportioned seafood entrees, and frozen hors d'oeuvres to hotels and similar large institutional customers.

Durkee's line of preportioned meat and chicken entrees encountered severe competition as large meat packing companies entered the field. In 1972 we sold three small processing plants in Pennsylvania which had been losing money. The operating losses of these three plants, together with the high cost of oil, were the main reasons that the Food Service group lost money in 1972.

Our Industrial Foods group supplies specialized edible oil products to confectioners, cake manufacturers and bakers like the Keebler Company. Keebler's vice president of manufacturing, E.O. Tungate, Jr., watches M.E. Hanson, Durkee national account executive check the quality of a Durkee ingredient by seeing how a Keebler cookie snaps. Much of our involvement in the food industry begins at our Strongsville, Ohio research laboratory (right) where, among other projects, we are exploring various aseptic (germ free) processing techniques. Aseptic processing, an advanced manufacturing technique for preparing food products under sterile conditions, allows a product to retain more of its texture, flavor and color than current packaging methods.



Business Equipment

(In millions)	1972	1971	1970	1969	1968
Net sales	$117.8	$120.1	$122.1	$126.9	$123.1
Operating income	$ (3.0)	$ (3.6)	$ (3.7)	$ 4.1	$ .1
Return on net sales	—	—	—	3.2%	.1%
Average assets	$ 78.8	$ 95.6	$ 98.9	$ 98.1	$ 95.7
Return on average assets	—	—	—	4.2%	.1%

Our copier paper coating operation, in a modern plant at Phoenixville, Pennsylvania, is a complex process requiring a combination of expertise in chemical and coating technologies so that just the right amount of zinc oxide is applied to the paper. We produce coated paper for our own copiers and for those of our competitors.

As shown in the accompanying table, this division again operated at a substantial loss. Some decrease in this loss occurred because gains in our office copier business, which is profitable, more than offset poorer results from calculators.

Of all the actions taken last year, none had a greater impact on SCM's overall performance, nor held out the promise of greater improvement in the future, than those that occurred in our Business Equipment division. The major action was the realignment of Marchant calculators which resulted in the bulk of the extraordinary charge of $1.11 a share.

Calculators: Marchant had been incurring losses at an accelerating rate mainly because of the radical changes that had been taking place in the calculator market. These losses continued and worsened through fiscal 1972. Our objective was to stop the major drain from calculators by June 30, and we believe we have succeeded.

In recent years low-cost imported calculators have come to be sold through dealer outlets. Our calculator marketing effort has been reoriented toward sales through office equipment dealers instead of through company-owned branches, and we closed fully 160 Marchant branch offices.

The extraordinary charges includes provision for disposing of high cost and superseded inventory, costs of closing the Oakland plant and adjusting the value of the plant and equipment, and the costs of phasing out the retail distribution network.

We are still in the calculator business.

Calculators of our design are being manufactured for us by other companies for sale under the Marchant name. Over 210 dealers, 85 of whom were former Marchant branch managers, had been named by June 30.

These dealers are supplied with a competitive line of American-made calculators.

Our profitable service organization continues without major change caused by the realignment. Skilled personnel from more than 300 Marchant service locations across the U.S. continue to provide prompt service for customers with our machines and are increasingly called upon to service office machines sold by others.

The demand for calculators is still growing at a rapid rate in both the U.S. and overseas, and as a result of our actions in 1972, we are in a position to participate more effectively in this still attractive market.

Copier Products: Strong demand for copiers makes this a fast growing market both domestically and overseas. In earlier years we marketed our copiers, which use a specially coated zinc oxide paper of our own manufacture, by individual sale of machines and paper. However customers have become accustomed to renting a copy-producing service rather than owning their own machine. Accordingly, we now have available programs where service is provided on a per-copy charge. We call this "Copy Service."

We started concentrating on Copy Service overseas some years ago, and more recently in the U. S.

Emphasis on Copy Service,

the past copier marketing ıeant individual sales of machines and paper (being made at left). Now we concentrate on programs where we provide a copy-producing service on a per-copy charge. Customer representatives like an Molchan (right) constantly sit our copier customers to nsure proper service. Here he customer is Charles H. Carman (left) president, and Paul Walters, office manager, Charles H. Carman Inc.

under which most costs are charged off as incurred and revenues are stretched out, largely explains why our foreign operations have been more profitable, and why profits from domestic operations improved substantially on a relatively modest increase in revenues for fiscal 1972.

Our copier paper coating operation continued to do well last year, producing paper for our machines and for those of competitors. We broadened our line of copier supplies shortly after the close of the fiscal year with the purchase of a plant and operation that makes the dry and liquid toners used in various copiers. SCM's Copier Products group now manufactures and sells a full line of supplies for our competitors' as well as for our own machines. We sell paper and toners through both retail and wholesale channels.

Copiers using zinc oxide coated paper still have a role in the market, and their placement can continue to be a profitable operation. However, because we feel that this process may have a limited life, during the year we stepped up, as a normal charge against operations, the already accelerated depreciation schedules on this equipment. At the same time, there is a growing demand for plain paper copiers that operate at adequate speed, at reasonable cost and also combine relative simplicity and high durability.

Recognizing this trend, our copier development efforts are directed toward such a machine. In May we announced an agreement with Matsushita Electric Industrial Co., Ltd., whereby SCM was licensed to use Matsushita's new photoconductor material throughout the world with the exception of Japan.

At present, we do not have for sale a machine that uses the Matsushita material, although prototypes are being developed in our research laboratories. A machine should be on the market in two to three years, depending on whether we design and manufacture it ourselves or in cooperation with another manufacturer.

GLD38667

Chemicals

Glidden Chemicals operates in four different areas, each of which requires a sophisticated chemical technology. They are: Pigments and Color, Organic Chemicals, Ceramics and Metal Powders.

Overall, this business had a disappointing year. By the end of fiscal 1972, Pigments and Color, the largest of the four operations, was at break even, but it lost money for the year. Organic Chemicals, seriously impaired by a strike at another company's facility which supplies steam and feed stock for one of our plants, had lower profits. Ceramics and Metals, two smaller groups, both had record profits.

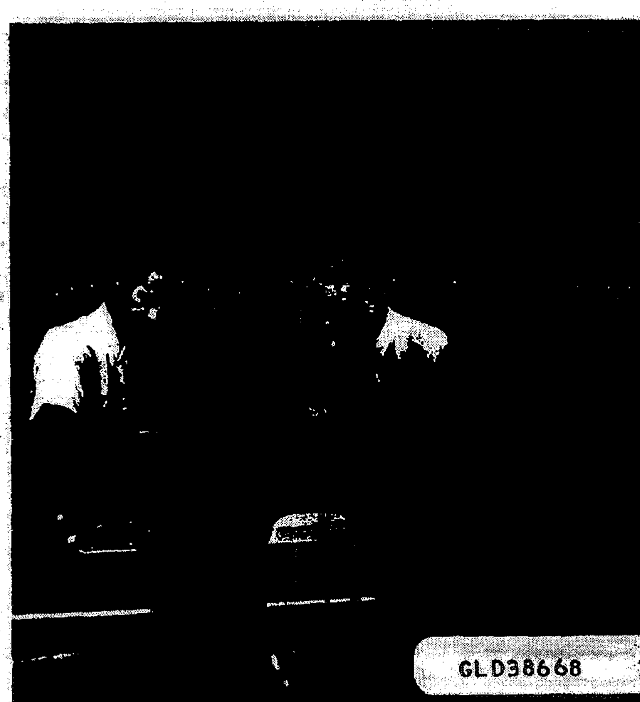
Pigments and Color: Pigments and Color's principal product is titanium dioxide, a white crystalline substance sold to the paint, paper, plastic and rubber industries as a whitener and opacifier. We are one of the medium-size producers of this material in the U.S.

Last year's annual report noted that heavy start-up costs at our new chloride plant at Baltimore, together with poor price conditions for all grades of titanium dioxide, resulted in an unsatisfactory year. We also pointed out that we were not optimistic about improvement in the near future.

This estimate proved generally correct during fiscal 1972. Pigments and Color had a substantial loss caused by poor pricing conditions. Prices showed some improvement at the end of the fiscal year.

Despite these problems, we now believe there are reasons for optimism. The chloride plant, an alternate process new to us last year, is now operat-

(In millions)	1972	1971	1970	1969	1968
Net sales	$74.0	$67.5	$68.6	$67.5	$58.7
Operating income	$ 3.1	$ 3.6	$ 6.4	$ 9.4	$ 5.9
Return on net sales	4.2%	5.3%	9.3%	14.0%	10.0%
Average assets	$73.0	$73.0	$68.6	$57.1	$51.1
Return on average assets	4.3%	4.9%	9.3%	16.6%	11.5%



Paul Albert (left) of Glidden's Ceramics group, spends a good part of his time with customers. In this case, the customer is Al Hess, unit manager at General Electric's porcelain unit. We supply GE with porcelain coatings for major home appliances. Our Ceramics group also produces thermoplastic pellets (right) used in printing materials that fuse to glass bottles.

ing efficiently, and market conditions have improved. About 140,000 tons of a total U.S. annual capacity of approximately 900,000 tons has been lost as several companies closed operations due to economic problems brought on by the recession and/or pollution problems.

Organic Chemicals: Glidden's Organic Chemicals group processes crude sulphate turpentine into intermediates sold to manufacturers of vitamins, perfumes, fine chemicals, flavors, and fragrances. This group is the world's largest in its area and is a major supplier of refined pine oil used for disinfectants. We are also a major processor of crude tall oil, which we turn into rosins, fatty acids, and distilled tall oil used in the paint and plastics business.

...ic Chemicals performance last year was adversely affected by price erosion in several areas, particularly in basic terpenes such as pine oil. One of this group's two plants was forced to close for three months and was affected throughout the year because of a strike at a paper mill that supplied us with boiler steam and crude tall oil. We no longer rely on that plant for boiler steam and we have entered into a joint venture that will help assure us of adequate supplies of raw material.

Ceramics: Glidden's Ceramic group is a leading maker of ceramic glazes used in bathroom tiles and fixtures, industrial tiles, and porcelain coatings for major home appliances. Aided by continued high rates of home construction and appliance sales, this operation had record profits and sales for the year, in an industry marked by relatively slow growth.

Metals: The Metals group continued the improvement begun in fiscal 1971, and had its most profitable year in a decade. This group is a leading producer of copper powders that are made into oil-less bearings used in home appliances and automobiles. It is also a leader in stainless steel and other alloy powders used in automobiles and industrial equipment. Industry sales of specialty powdered metals are growing at high rates, and we have the technology required to maintain our position as a leader in the field.

Glidden's Organic Chemicals group is a major processor of refined pine oil used for disinfectants such as Pine-Sol® a household cleaner made by American Cyanamid Company. Dave Duncan (right) Glidden sales manager, and Thomas Yannitte, purchasing agent for American Cyanamid, form the vital link between manufacturer and customer. Our Organic Chemicals group is also a world leader in synthesizing flavors and fragrances from crude sulphate turpentine. A crucial part of this process involves the mass spectrometer gas chromatograph used for atomic analysis of chemical compounds. This complex equipment breaks down a compound and gives us information needed to synthesize it.

Paper Products

Despite unfavorable industry conditions, Allied showed moderate overall profit improvement in fiscal 1972. Our older Kalamazoo, Michigan paper mills and our business forms operations had substantially improved results compared to fiscal 1971. These more than offset declines at our Southern pulp and paper and converting operations.

Kalamazoo Paper Group: The improved picture at Allied stems partly from major changes that took place in fiscal 1971. At that time, using the criterion of strengthening profitability by eliminating weaknesses, we closed one paper mill in Kalamazoo and a greeting card operation in Chicago, and reorganized the other Kalamazoo paper mills.

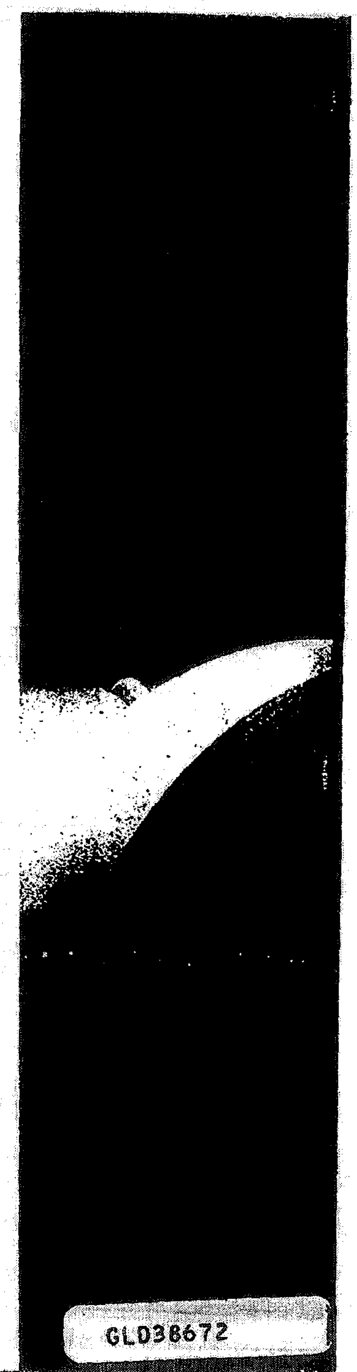
However, 1972's profit improvement resulted from far more than the closing of unprofitable operations. The two remaining mills at Kalamazoo, which were losing money, are now profitable in part because they have been able to develop and sell new products.

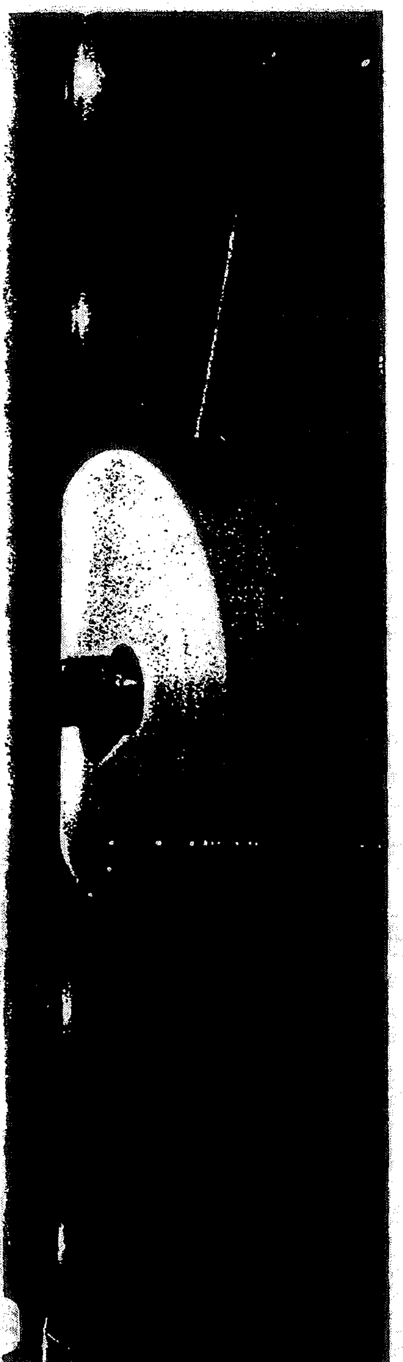
Allied has been and continues to be strong in paper technology and this has enabled us to bring out products such as high wet strength papers, electrostatic offset masters and cigarette tipping papers.

Southern Pulp and Paper: Two important projects were begun in fiscal 1972 at Allied's Southern mill at Jackson, Alabama: modernization of the wood yard and design and construction of a new recovery boiler. A recovery boiler produces steam and recovers the chemicals used in cooking

Business forms are made by the Allied/Egry group of Allied Paper at our plant in Denison, Texas. Heart of this operation is the paper converting machine press which can make continuous business forms containing from one to six copies. In addition, the machine, which can make two different forms simultaneously, prints, perforates, folds and collates the forms and as many pieces of carbon paper as required.

(In millions)	1972	1971	1970	1969	1968
Net sales	$86.1	$86.1	$88.5	$77.5	$68.7
Operating income	$ 4.2	$ 3.6	$ 3.2	$ 1.9	$ 2.2
Return on net sales	4.9%	4.2%	3.6%	2.4%	3.2%
Average assets	$36.2	$49.6	$53.8	$47.7	$43.3
Return on average assets	11.7%	7.3%	5.9%	3.9%	5.1%





process. The wood yard project, costing $1.5 million, should be finished during fiscal 1973, and the recovery boiler, expected to cost about $10 million, should be completed by the end of 1974. We expect that the recovery boiler will be financed through the sale of industrial revenue bonds. Both programs will improve efficiency, and the recovery boiler will enable us to meet existing and contemplated state and federal pollution control laws.

Through fiscal 1972 market prices for pulp continued at the recession levels of 1971. This caused Allied's market pulp sales to be substantially

previous year. By the end of the fiscal year, however, pulp prices had begun to firm, and as an indirect result we are beginning to see better prices for fine papers. Allied, a maker of fine papers, is in a good position to benefit from this. However, we will gain little directly from increased pulp prices because, while the new recovery boiler is being installed, our Jackson facility will operate at restricted levels.

Business Forms: Business forms made by our Allied/Egry and Walton Printing operations are a part of Allied Paper. Histacount, which sells a

mail order to doctors, lawyers and other professionals, is part of the Business Equipment Division. At about midyear, Allied/Egry's sales and profits began to increase with the easing of the recession in the business forms industry. Also, a continuing program of equipment modernization and upgrading has increased operating efficiency.

In the business forms industry we are relatively small and geographically specialized. Our product line is also specialized in that most of our products are computer-output oriented. Business forms have been a growth market, and continuous computer forms is its fastest growing sector.

Business forms have been a growth market, and continuous computer forms is its fastest growing segment. A substantial part of our business forms operation is through dealers and directly to the government, but the major part of the business is through a sizeable retail selling network staffed by people like E.C. Finster (left) an Allied/Egry salesman. He is with Mike Carroll, manager of our Cleveland data center.

Other Products

(In millions)	1972	1971	1970	1969	1968
Net sales	$24.9	$27.5	$29.5	$32.3	$35.9
Operating income	$ .4	$(2.2)	$(9.1)	$(1.3)	$ 2.3
Return on net sales	1.5%	—	—	—	6.4%
Average assets	$18.3	$19.0	$25.4	$25.2	$23.3
Return on average assets	2.0%	—	—	—	9.9%

This group consists of telecommunications and industrial processing equipment. The group as a whole became profitable in 1972 after three years of loss operations.

Kleinschmidt: SCM's Kleinschmidt division, a supplier of telecommunications equipment for the military, continued the improvement begun in fiscal 1971 when new management was placed in charge of the operation.

We experienced substantial losses in fiscal 1970. These were reduced to a loss of $2.9 million in fiscal 1971 and were further cut to a loss of $791,000 in fiscal 1972. All of these losses were related to a series of contracts to design and produce in the future a new generation high speed telecommunications system, and the accompanying reduction in sales of the older models.

Kleinschmidt received an $833,000 award from the government in June which represents the first part of a $9 million contract, expected to run over two years, to continue work on the new system. The contract is for advanced production engineering. This is the stage where we establish the production process that will be used to manufacture the teleprinters if we receive the final contract.

The contract we received in June had no impact on results for fiscal 1972. As noted, Kleinschmidt continued to operate at a modest loss during last year. We expect that as we get further into the new program Kleinschmidt's performance will improve. In addition, during the next two years, we will move forward in a program initiated last year to bolster our engineering, contracts, and marketing departments and to develop other products that have primarily commercial application.

Proctor & Schwartz: Proctor & Schwartz is a leader in the manufacture of industrial dryers used by the makers of cereal, tobacco, pet food and textiles. It also produces textile machinery, used to process fibers prior to weaving, and pollution control devices. Most of the company's products are adapted to fit a specific need of the customer.

This business had a strong year in fiscal 1972 despite the continued sluggishness in the capital goods market in the U.S. Sales declined slightly but profits increased. Weakness in the U.S. market was offset by another fine year at our operation in Scotland, where a substantial portion of sales were in high margin products.

In last year's annual report we touched on the progress of our "TRAPS" (thermal regenerative air purification system) equipment. This device eliminates organic odors from industrial plants, particularly food processing facilities.

Several "TRAPS" units have been installed in coffee, starch and textile processing plants and are functioning well in helping industry to efficiently and economically meet strict pollution control laws. It is difficult to tell, however, when we might expect an increase in orders for "TRAPS," because of buyers' reluctance to make large scale capital investments against a background of constantly shifting and sporadically enforced pollution control regulations.

Management Changes

The board of directors elected Paul H. Elicker president and chief executive officer effective January 1. Mr. Elicker, 49, who had been SCM's executive vice president and chief operating officer since March 1970, succeeded Emerson E. Mead who resigned as chairman and president, effective January 1. Mr. Mead served as president for 12 years and chairman for four years. He had been with SCM since 1956.

Shortly after being named president, Mr. Elicker announced a realignment of senior management duties.

George E. Hall, 46, was named senior vice president—administration with responsibilities for all corporate staff services with the exception of finance. Mr. Hall had been senior vice president and general counsel.

Paul W. Neidhardt, 55, president of the Glidden-Durkee division, was named a senior vice president of SCM. He continues as president of the Glidden-Durkee division.

Herbert H. Egli, 42, was named vice president—finance and controller. He had been vice president and controller.

James Balph, 42, was named vice president in charge of employee relations. He had been director of employee relations for Glidden-Durkee.

Richard Sexton, 42, was named vice president—general counsel of SCM. Mr. Sexton had been vice president—general counsel of SCM's Business Equipment division.

Reporting to the president as division general managers are Mr. Neidhardt, as well as George F. Burns, president of the Consumer Products division; George S. Warner, president of the Business Equipment division; Ernest J. Klimczak, president of SCM's Allied Paper division; and Harry S. Gaples, president of the Kleinschmidt division.

SCM's principal businesses, together with the names and addresses of the executives in charge of them, appear on page 34.

Consumer Products Division
299 Park Avenue
New York, N.Y. 10017
George F. Burns, President

–Smith-Corona Group
Paul J. Uebbing
Vice President-General Manager

–Appliance and Floor Care Group
(Philadelphia, Pennsylvania)
E. Peter Larmer
Vice President-General Manager

Business Equipment Division
299 Park Avenue
New York, N.Y. 10017
George S. Warner, President

–Copier Products Group
John J. Reilly
Vice President-General Manager

–Marchant Group
Matthew E. Meek
Vice President-General Manager

–International Group
Francis D. De Maio
Vice President-General Manager

–Histacount, Inc.
(Melville, N.Y.)
Joseph Gebbia, President

Kleinschmidt Division
Lake Cook Road
Deerfield, Illinois 60015
Harry S. Gaples, President

Glidden-Durkee Division
900 Union Commerce Building
Cleveland, Ohio 44115
Paul W. Neidhardt, President

–Coatings and Resins Group
William D. Kinsell, Jr.
Vice President

Robert E. Dorfmeyer
Vice President and Assistant
to the President

–Industrial Foods Group
Adrian J. Lathe, Vice President

–Food Service Group
W. A. Hagen, Vice President

–Metals Group
W. E. Jones, Vice President

–Organic Chemicals Group
(Jacksonville, Florida)
R. P. T. Young, Vice President

John H. Lathe, Jr.
Vice President and Assistant
to the President

–Consumer Foods Group
William A. Miller, Vice President

William L. Rodich
(Baltimore, Maryland)
Vice President

–Pigments and Color Group
(Baltimore, Maryland)
L. C. Byrne, General Manager

–Ceramics Group
(Baltimore, Maryland)
William A. Hubbard
General Manager

–Proctor & Schwartz
(Philadelphia, Pennsylvania)
P. K. Schwartz, President

Allied Paper Division
1608 Lake Street
Kalamazoo, Michigan 49003
Ernest J. Klimczak, President

–Kalamazoo Paper Mill Group
E. J. Gilman, Vice President-Manufacturing

–John Nisbet
Vice President-Sales

–Southern Mill Group
(Jackson, Alabama)
Ralph V. Zepp
Vice President-Resident Manager

–Allied/Egry Group
(Dayton, Ohio)
G. W. Underwood, President

–Walton Printing Group
(Los Angeles, California)
R. L. Walton, President

–Office and School Supplies Group
(Marion, Indiana)
W. R. Gates, President

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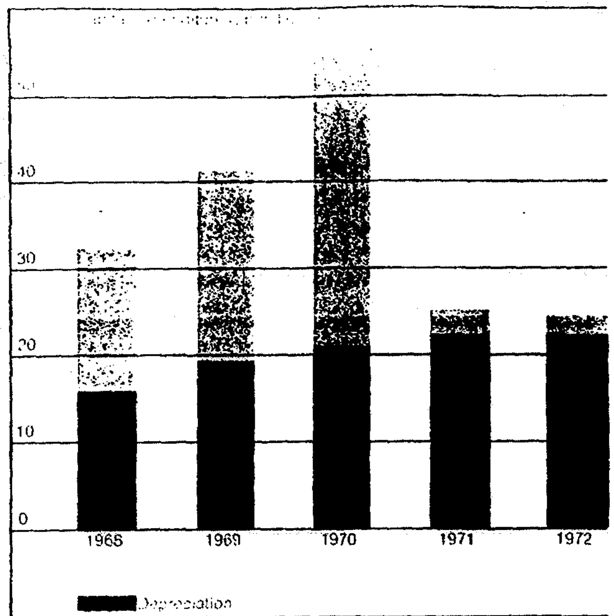
Sales and Earnings: Net sales for 1972 were $917.8 million, up 4.9 per cent over last year's $875.1 million. Operating income was $30.8 million, up 6.4 per cent, or $1.9 million, over last year's $28.9 million. Details of these changes by product group are explained in the review of operations. In total, operating income was 3.4 per cent of net sales in 1972 compared to 3.3 per cent in 1971. Interest expense was reduced $2.7 million or 16.5 per cent from 1971. Pretax income of $17.6 million before the extraordinary loss was up 34.6 per cent over last year, and income before the extraordinary loss increased 46.3 per cent to $1.13 per share.

Quarterly sales, income and earnings per share before extraordinary charges, for the last two fiscal years are summarized in the following table:

(In millions)	Sales		Income		Per Share	
Quarter	1972	1971	1972	1971	1972	1971
First	$223.0	$209.5	$ 2.0	$1.3	$ .22	$.14
Second	228.4	222.4	3.3	2.5	.36	.27
Third	226.6	209.6	1.4	.7	.15	.07
Fourth	239.8	233.6	3.6	2.6	.40	.29
	$917.8	$875.1	$10.3	$7.1	$1.13	$.77

Income Taxes: United States and foreign income taxes on income before extraordinary loss was $7.3 million, an effective rate of 41 per cent compared to last year's 46 per cent rate. Without the investment credit of $700,000 in 1972 the effective tax rate would have been 45 per cent.

In 1972 and in 1971 several items were charged against net income that are not yet deductible on our tax returns. These items represent future tax benefits and will enhance cash flow in 1973 and 1974, and to a lesser extent later years. At June 30, 1972 current assets included deferred tax benefits of about $13.3 million, including about $7.0 million which will, in effect, be realized in cash principally during fiscal 1974.



Extraordinary Charge: Last January we announced that further steps were being taken to realign our operations which would result in an extraordinary charge. The decision announced at that time to discontinue development and production of electronic calculators and to discontinue direct sales of calculators, together with our more recent decision to phase out of floorcare products resulted in an extraordinary charge of $10.2 million after income tax benefits of $12.3 million, or $1.11 per share. This charge takes into account all the major business changes now contemplated that would involve an extraordinary charge.

Working Capital: During 1972 working capital decreased $6.4 million, and followed a 1971 decrease of $3.3 million. As a result of generally improved inventory turnover and the elimination of slow moving products, inventories decreased $32.3 million. This followed the $11.3 reduction in 1971. The cash realized from these inventory reductions was used to pay down loans and to finance growth of operations. Accounts receivable increased only in proportion to sales increases. The ratio of current assets to current liabilities improved from 2.97 in 1971 to 3.16 in 1972.

Debt: As in 1971, no additional financing was required in 1972. Long-term debt declined $16.4 million to $162 million. Short-term borrowings declined $18.0 million during the year resulting in a reduction in total borrowings of $34.4 million. In addition, at fiscal year end surplus short-term cash investments were $6.7 million.

At June 30, 1972 total debt, short-term and long-term, was 44.1 per cent of total debt plus equity compared to 48.5 per cent at June 30, 1971 and 51.7 per cent at June 30, 1970.

Capital Expenditures: Capital expenditures were $25.2 million in 1972 compared to $25.5 million in 1971. In addition, several projects were started in 1972 that will be completed in 1973 and 1974. As a result, 1973 capital spending will be higher. Depreciation was $23.8 million in 1972 compared to $22.4 million in 1971.

Dividends: No dividends were declared during the year and as of June 30, 1972, no retained earnings were available for cash dividends. As provided in the most restrictive of our loan agreements, until earnings of the parent company and certain subsidiaries exceed about $6.6 million, no cash dividends may be paid.

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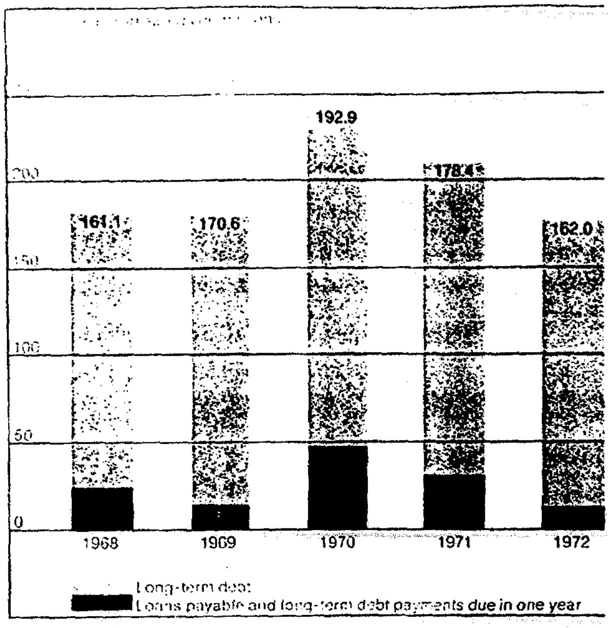
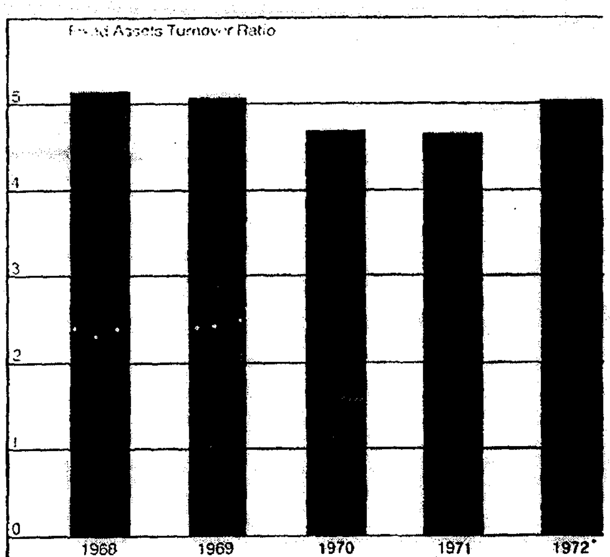
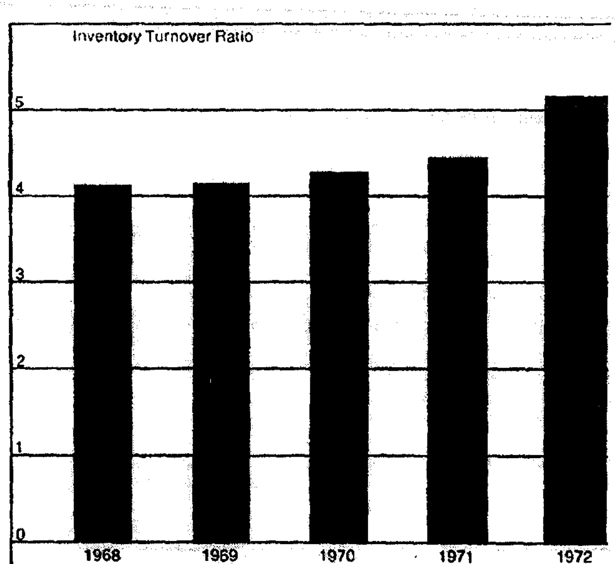




Equals net sales/average net property, plant and equipment



Equals net sales/average inventory

GLD38681

Statement of Consolidated Income

(In thousands) Years ended June 30	1972	1971
Net sales	$917,817	$875,138
Cost of sales	671,894	638,002
Gross profit	245,923	237,136
Selling, administrative and research expenses	215,141	208,201
Operating income	30,782	28,935
Other income, net	284	284
Interest expense, net	13,475	16,146
Income before income taxes and extraordinary loss	17,591	13,073
United States and foreign income taxes	7,264	6,012
Income before extraordinary loss	10,327	7,061
Extraordinary loss	10,176	9,252
Net income (loss)	$ 151	$ (2,191)
Earnings per share:		
Income before extraordinary loss	$ 1.13	$ .77
Extraordinary loss	1.11	1.01
Net income (loss)	$ .02	$ (.24)

Statement of Consolidated Retained Earnings

(In thousands) Years ended June 30	1972	1971
Balance, beginning of year	$ 67,648	$ 69,839
Net income (loss) for year	151	(2,191)
Balance, end of year	$ 67,799	$ 67,648

see accompanying notes to financial statements

GLD38682

Statement of Changes in Consolidated Financial Position

(In thousands)	Years ended June 30	1972	19
Sources:	Operations:		
	Income before extraordinary loss	$10,327	$ 7,0
	Add expenses not requiring working capital:		
	Depreciation	23,769	22,4
	Deferred pension expense	1,475	4,5
	Amortization of deferred charges	279	2
	Deferred income taxes—non current	4,170	3
	Total	40,020	34,7
	Extraordinary loss adjusted for deferred taxes and other charges not affecting working capital	(6,632)	(1,2
	Working capital provided by operations	33,388	33,4
	Disposal of property, plant and equipment	3,022	3,5
	Sale of common stock	26	
	Change in working capital	6,415	3,2
	Total	$42,851	$40,3
Applications:	Additions to property, plant and equipment	$25,228	$25,5
	Reduction of long-term debt	16,398	14,5
	Other changes in non-current items	1,225	3
	Total	$42,851	$40,3
Changes in Working Capital:	Current assets:		
	Cash and marketable securities	$ (394)	$ 5
	Accounts receivable—net	6,059	(14,3
	Inventories	(32,340)	(11,2
	Deferred income taxes and prepaid expenses	7,290	2,6
	Total	(19,385)	(22,4
	Current liabilities:		
	Loans and long-term debt payable within one year	17,973	16,2
	Accounts payable and accrued liabilities	(8,348)	5,8
	United States and foreign income taxes	2,725	(2,1
	Deferred revenue on maintenance agreements	620	(7
	Total	12,970	19,1
	Increase (Decrease) in working capital	$(6,415)	$(3,2

see accompanying notes to financial statements

GL038683

Consolidated Balance Sheet

(In thousands) June 30	1972	1971
Current assets:		
Cash	$ 10,499	$ 17,199
Marketable securities (at cost which approximates market value)	6,665	359
Accounts receivable	138,469	132,119
Less allowance for doubtful accounts	4,154	3,863
	134,315	128,256
Inventories:		
Raw materials and work in process	66,063	79,958
Finished goods	94,523	112,968
	160,586	192,926
Deferred income taxes and prepaid expenses	16,265	8,975
Total current assets	328,330	347,715
Property, plant and equipment:		
Cost:		
Land and buildings	100,808	100,482
Machinery and other equipment	268,292	259,252
	369,100	359,734
Less accumulated depreciation	192,262	175,612
	176,838	184,122
Other assets	9,981	11,044
Total	$515,149	$542,881

GLD38684

see accompanying notes to financial statements

Liabilities and Shareholders' Equity (In thousands) June 30	1972	1971
Current liabilities:		
Loans payable	$ 3,401	$ 21,222
Accounts payable and accrued liabilities	79,878	71,530
United States and foreign income taxes	1,862	4,587
Deferred revenue on maintenance agreements	7,048	7,668
Long-term debt payments due within one year	11,844	11,996
Total current liabilities	104,033	117,003
Pension and other liabilities	10,762	9,601
Long-term debt	162,024	178,422
Deferred income taxes	13,457	13,159
Shareholders' equity:		
Common stock	45,753	45,742
Additional paid-in capital	111,321	111,306
Retained earnings	67,799	67,648
	224,873	224,696
Total	$515,149	$542,881

see accompanying notes to financial statements

GLD38685

Accounting Policies: The following is a summary of accounting policies followed by SCM. These policies conform to generally accepted accounting principles and have been consistently applied.

Principles of Consolidation: The consolidated financial statements include the accounts of all wholly owned and majority owned subsidiaries. SCM adjusts its investments in minority owned companies of 20 per cent or more to recognize its appropriate share of the income of such companies. Excess of cost over net assets of businesses acquired is being amortized over a maximum of 40 years.

Translation of Foreign Currencies: Assets and liabilities (except net property, plant and equipment) are stated at rates of exchange prevailing at the end of the period. Net property, plant and equipment is translated at the rates in effect on the dates of acquisition of the related assets.

Inventories: Inventories are stated at the lower of average cost or market.

Property, Plant and Equipment: The Company provides depreciation generally on a straight-line basis at rates based on estimated useful lives.

Product Development Costs: Costs associated with the development of new products and changes to existing products are charged to expense as incurred.

Income Taxes: Income taxes are provided in the year transactions enter into the determination of net income regardless of when such transactions are recognized for tax purposes. Investment tax credits are included as reductions of income tax expense in the year the credits become deductible.

Retirement Plans: The Company has several retirement plans which provide pensions for substantially all of its employees; contributions to pension funds are made when actuarial computations prescribe such funding.

Maintenance and Repairs: Routine maintenance, repairs and renewals are charged against income as incurred. Expenditures which materially increase capacities, or extend useful lives are capitalized.

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 1972 and 1971.

Retirement Plans: Pension expense for the United States and Canada, including interest on unfunded prior service liabilities, was approximately $6,200,000 for the year ended June 30, 1972 and $4,800,000 for the year ended June 30, 1971. The pension fund assets, together with the liability accrued in the Consolidated Balance Sheet were in excess of the actuarially computed value of all pension benefits vested under the plans. See Accounting Policies for further information regarding pensions.

Income Taxes: The 1972 provision for United States and foreign income taxes has been reduced by investment credits of $700,000.

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, 1972, 9,150,640 shares of common stock were outstanding; 469,641 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 1972 options to purchase 64,230 shares were granted; options for 73,405 shares expired. Options for 2,210 shares were exercised contributing $11,000 and $15,000 to Common Stock and Additional Paid-In Capital, respectively. Options exercised during 1971 contributed $37,000 and $55,000 to Common Stock and Additional Paid-In Capital, respectively. At June 30, 1972, options for 290,086 shares were outstanding. Options are granted at fair market value.

Commitments: At June 30, 1972, the Company's annual rental for real property under long-term leases was approximately $10,000,000. These leases have varying expiration dates through 2006.

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Extraordinary Loss:

(in thousands) years ended June 30	1972	1971
Realignment of Paper Facilities	$ —	$16,876
Realignment of Calculator Operations	13,035	—
Provision for Loss on Disposal of Floorcare Operations	9,656	—
Other	(251)	1,025
Total	22,440	17,901
United States and Foreign Income Taxes:		
Current	3,052	3,134
Deferred	9,212	5,515
Total	12,264	8,649
Extraordinary Loss	$10,176	$ 9,252

Of the total deferred tax benefit in 1972, $5,340,000 was charged to current deferred income taxes and $3,872,000 to deferred income taxes; in 1971, $936,000 was charged to current deferred income taxes and $4,579,000 to deferred income taxes.

Long-Term Debt: (in thousands)

5½% sinking fund debentures due 1973-1983	$ 16,179
5¾% sinking fund debentures due 1973-1987	17,540
7¼% sinking fund debentures due 1973-1988	19,000
9¼% sinking fund debentures due 1975-1990	35,000
Bank term loans due 1973-1974 interest at prime rate plus a fraction	6,000
Other loans—interest at rates from 5% to 8¾%	11,821
5½% convertible subordinated debentures due 1978-1988	41,484
5¼% convertible subordinated debentures due 1979-1989	15,000
Total long-term debt	$162,024

During the next five years approximate long-term debt maturities will be: 1973, $11,800,000; 1974, $8,100,000; 1975, $8,600,000; 1976, $6,300,000; 1977, $6,300,000.

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 $6,600,000.

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

To the Shareholders
SCM Corporation:

We have examined the consolidated balance sheet of SCM Corporation and subsidiary companies at June 30, 1972 and the related statements of consolidated income and retained earnings, and changes in consolidated financial position for the year then ended. 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, such financial statements present fairly the financial position of the companies at June 30, 1972 and the results of their operations and the changes in their financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

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Haskins & Sells
August 9, 1972

Ten-Year Statistical Summary

		1972	1971	1970
Income				
	Net sales	$917,817	$875,138	$854,511
	Income before income taxes	17,591	13,073	7,884
	U.S. and foreign income taxes	7,264	6,012	1,446
	Income before extraordinary items	10,327	7,061	6,438
	Extraordinary items, net of tax	(10,176)	(9,252)	(4,542
	Net income (loss)	151	(2,191)	1,896
	Dividends	—	—	5,421
	Income reinvested	151	(2,191)	(3,525
	Depreciation	23,769	22,439	21,832
Per Common Share				
	Income before extraordinary items	$ 1.13	$ .77	$ .71
	Net income (loss)	.02	(.24)	.21
	Cash dividends	—	—	.60
	Stock dividends	—	—	2%
	Book value	24.57	24.56	24.81
Financial Position				
	Working capital	$224,297	$230,712	$233,976
	Property, plant and equipment—net	176,838	184,122	197,112
	Total assets	515,149	542,881	578,107
Other Statistics				
	Additions to property, plant and equipment	$ 25,228	$ 25,543	$ 54,527
	Income before extraordinary items:			
	Return on average equity	4.6%	3.1%	2.8%
	Return on net sales	1.1%	.8%	.8%
	Current ratio	3.16	2.97	2.72
	Number of employees	28,300	28,600	31,100
	Number of shareholders	49,600	53,400	53,500
	Average common shares outstanding	9,149,000	9,146,000	9,014,000

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in thousands, except figures given on a per share basis

1969	1968	1967	1966	1965	1964	1963
$807,648	$744,758	$705,160	$644,787	$558,393	$470,633	$453,126
39,391	30,820	43,626	40,408	29,431	22,921	20,066
18,752	13,061	18,550	18,956	14,070	11,140	9,188
20,639	17,759	25,076	21,452	15,361	11,781	10,878
—	(4,700)	—	1,207	403	—	—
20,639	13,059	25,076	22,659	15,764	11,781	10,878
5,136	4,763	8,479	7,666	5,547	4,920	4,663
15,503	8,296	16,294	14,474	8,934	5,624	5,335
19,372	17,807	15,384	12,835	11,821	11,484	12,042
$ 2.37	$ 2.13	$ 2.90	$ 2.56	$ 1.96	$ 1.47	$ 1.39
2.37	1.58	2.90	2.72	2.02	1.47	1.39
.60	.60	.40	.30	—	—	—
2%	3%	3%	2.5%	5%	3%	3%
25.54	24.24	22.24	25.57	24.83	24.85	23.95
$231,785	$221,718	$207,068	$165,245	$143,484	$138,389	$134,885
168,310	148,152	138,141	108,680	107,727	104,028	103,909
524,232	470,009	451,402	382,329	331,223	319,261	301,084
$ 40,764	$ 32,188	$ 36,116	$ 22,435	$ 14,701	$ 11,631	$ 6,876
9.5%	9.2%	12.8%	10.6%	8.5%	7.0%	6.8%
2.6%	2.4%	3.6%	3.3%	2.8%	2.5%	2.4%
3.08	3.50	3.10	2.84	3.03	3.08	3.51
33,500	33,200	33,100	31,300	29,900	25,900	24,900
50,000	47,500	45,600	47,000	42,500	37,500	37,200
8,716,000	8,616,000	8,158,000	7,756,000	6,649,000	6,458,000	6,443,000

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Directors and Principal Occupation

Richard C. Bond*, President, Board of Trustees, John Wanamaker Philadelphia

John T. Booth, Executive Vice President, Blyth Eastman Dillon & Co. Incorporated

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

Lewis H. Durland, Treasurer, Cornell University

Paul H. Elicker*, President and Chief Executive of SCM

George E. Hall*, Senior Vice President Administration of SCM

George D. Kennedy, Executive Vice President, International Minerals & Chemical Corporation

Wallace W. Knox*, Senior Partner, Knox, Ricksen & Robbins

Paul W. Neidhardt*, Senior Vice President of SCM; President, Glidden-Durkee Division

Crocker Nevin*, Chairman of the Board, Marine Midland Bank-New York

William W. Quinn, Vice President, Aerospace Group, Martin Marietta Corporation

George S. Warner, Vice President of SCM; President, Business Equipment Division

*Member of Executive Committee

Directors Emeritus

James M. Symes, Chairman of the Board—retired, Pennsylvania Railroad Company

William I. Myers, Dean of the College of Agriculture—retired, Cornell University

Corporate Officers

Paul H. Elicker, President and Chief Executive

George E. Hall, Senior Vice President-Administration

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

James Balph, Vice President-Employee Relations

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

William V. Cawley, Vice President-Treasurer

Herbert H. Egli, Vice President-Finance and Controller

Richard Sexton, Vice President-General Counsel

George S. Warner, Vice President; President, Business Equipment Division

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 26, 1972 at the Ontario Science Centre, 770 Don Mills Road, Don Mills (Toronto), Ontario, Canada

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

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