THE GLIDDEN COMPANY

CLEVELAND, OHIO

GLIDDEN
Everywhere on Everything

ANNUAL REPORT

Year ended October 31, 1939

THE GLIDDEN COMPANY

CLEVELAND, OHIO

To the Shareholders of
The Glidden Company:

The report of your Company for the year ended October 31, 1939, is submitted herewith. The net profit for the year, after all charges but before special reserves, was $2,103,389.96. After special reserves of $249,840.84, the final net profit was $1,853,549.12. This compares with a final net profit for the previous year of $205,597.25.

It will interest you to know that every division of the Company — Paint, Chemical and Pigment, Metals Refining and Food Products — showed a substantial profit.

After preferred dividends, earnings applicable to the common capital stock of the company, less shares held in the treasury, amounted to $1.70 per share. The sales for the year showed an increase of $3,775,024.94 over the previous year, the most important increases being in the Paint, Chemical and Pigment and Metals Refining Divisions of the Company. The total sales of the Food Products Division showed a decline due to the lower per unit market prices on edible oils which prevailed throughout the year.

At the end of the year the Company finds itself in a favorable position as to inventories. The total inventories show quite a liberal reduction over the previous year, largely due to closer control on purchases of commodities subject to market fluctuations. The Company follows the policy of minimizing the speculative risks by hedging its purchases of important basic commodities wherever possible, and follows a conservative policy in the purchase of other raw materials where hedging is not feasible.

In referring to inventories, it may be of interest to know that in addition to the usual test checks of our inventory records, the Public Accountants had representatives check the methods and carefully observe the procedures followed in the taking of inventories at a number of our most important plants. They reported that in their opinion such methods and procedures are entirely adequate and were carefully carried out.

Following its established policy, the Company continued to spend very considerable amounts on original research and in the development of new products, the cost of which was absorbed in the operations. The results obtained will contribute in a generous measure to the future profits of the company.

During the year the Company's policy of modernization of all its plant and equipment has been followed, and this has resulted in bringing the plants up to date and putting our manufacturing facilities in shape to meet competitive situations. Because of the Company's liberal depreciation policy, this modernization program has not adversely affected the conservative values at which the plants are carried on the books.

During the year the Company was successful in refinancing its long term loans at lower interest rates, resulting in a liberal annual saving.

Aside from its successful and growing Paint and Varnish business in Canada, the Company has no investment in foreign countries. Following conservative accounting practices, a reserve of $49,840.84 has been set up out of the current year's profits to provide for the disparity in exchange between the Canadian and American Dollar on the net current assets. An eventual actual loss due to the difference in exchange is not anticipated.

The returns on investment in affiliated companies, for whose management and operations the Company is responsible, were satisfactory, and prospects are good for increased returns for the ensuing year.

Since the start of the new fiscal year, November 1, 1939, the sales and profits of the Company have shown gratifying improvement over the same period for last year. From orders in hand and from reports of our Sales Departments, it is apparent that we may look forward to a satisfactory business at least during the first six months of our year.

In view of the earnings and the strong financial position of the Company as reflected in our report, the Directors felt warranted in declaring a dividend on the common shares of the Company payable December 23, 1939. While it is difficult to predict the future in these uncertain times, yet it is believed that operating results will justify the Directors in declaring further dividends as our new year goes on.

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

By order of the Board of Directors.

ADRIAN D. JOYCE,
President.

December 30, 1939.

CONSOLIDATED

The Glidden Company and Co

October

ASSETS

CURRENT ASSETS			
Cash		$ 3,721,585.00	
Trade notes and acceptances receivable	$ 102,424.82		
Trade accounts receivable	4,699,065.47		
	$ 4,801,490.29		
Less reserves	120,823.31	4,680,666.98	
Inventories — at lower of cost or market:			
Raw materials, in process, finished goods and supplies		9,779,601.30	
Other current accounts receivable		327,121.15	$18,508,974.43
INVESTMENTS IN SUBSIDIARY AND AFFILIATED COMPANIES			
California mining companies — at less than cost — Note A:			
Capital stock (100% owned)	$ 15,000.00		
Bonds — principal amount $500,000.00	187,500.00		
Advances	896,958.60	$ 1,099,458.60	
Affiliated company — at cost — Note B:			
Capital stock		690,001.00	1,789,459.60
OTHER ASSETS AND INVESTMENTS			
Cash surrender value of life insurance		$ 464,196.50	
Sundry investments		78,629.47	
Miscellaneous notes and accounts, advances to salesmen and claims against closed banks, less reserves		85,327.69	628,153.66
PROPERTY, PLANT AND EQUIPMENT			
Land — at cost or less		$ 2,143,261.84	
Buildings, machinery and equipment — at cost or less		19,674,749.56	
		$21,818,011.40	
Less reserves for depreciation and depletion		7,203,788.31	14,614,223.09
INTANGIBLES			
Patents and rights to manufacture — at cost, less amortization			85,217.33
DEFERRED CHARGES			
Inventories of advertising stock and stationery, prepaid insurance and expenses		$ 433,043.42	
Special new products development		115,916.91	548,960.33
			$36,174,988.44

LANCE SHEET
lidated Canadian Subsidiary
, 1939

LIABILITIES, CAPITAL STOCK AND SURPLUS

CURRENT LIABILITIES			
Notes payable — through broker		$ 500,000.00	
Accounts payable		1,433,178.65	
Accrued taxes, royalties, interest, insurance, etc.		351,908.09	
Federal, state and dominion taxes on income — estimated		450,337.11	$ 2,735,423.85
LONG TERM NOTES PAYABLE			
Bank loans — principal amounts maturing $250,000.00 on July 1, 1941, and $500,000.00 annually on July 1, 1942, July 1, 1943, and July 1, 1944 — interest at 2¼%		$ 1,750,000.00	
Serial note — maturing July 1, 1945 — interest at 3%		2,000,000.00	3,750,000.00
RESERVES			
For adjustments of open contracts to market		$ 200,000.00	
For contingencies		67,885.56	267,885.56
CAPITAL STOCK AND SURPLUS			
Capital stock:			
Convertible preferred, 4½% cumulative, par value $50.00 a share (redeemable at $53.75 per share through July 1, 1940, and $52.50 per share thereafter — each share convertible through March 1, 1941, into eight-tenths share of common stock and thereafter into seven-tenths share of common stock): Authorized 200,000 shares; Converted 60 shares; Issued and outstanding 199,940 shares	$ 9,997,000.00		
Common, without par value: Authorized 1,200,000 shares; Outstanding including treasury shares 835,591 shares; Reserved for conversion 159,952 shares; Stated capital	4,180,655.00	$14,177,655.00	
Surplus — Note C:			
Capital surplus	$ 8,374,036.92		
Earned surplus	7,078,945.34	15,452,982.26	
		$29,630,637.26	
Less capital stock in treasury — at cost: Common — 10,170 shares		208,958.23	29,421,679.03
			$36,174,988.44
CONTINGENT LIABILITIES			
Letters of credit outstanding		$ 580,504.50	
Endorser of uncollected drafts		1,286.64	

See notes on following page.

GLD002893

NOTES TO CONSOLIDATED BALANCE SHEET

Note A — Investments in California mining companies, whose assets consist almost entirely of properties not being operated, are stated herein at less than cost, which carrying amount on the basis of unaudited balance sheets, was $67,557.38 more than the aggregate net assets as shown by the books of those companies. Losses (aggregating $305,179.74 in excess of provisions or other credits of The Glidden Company applicable thereagainst) have been experienced by these companies from date of acquisition to October 31, 1939, however, the losses for the past few years, since operations of properties were suspended, have represented principally expenses in maintaining the properties. The value of investments in these companies is indeterminable at this time.

Note B — Investment in affiliated company represents one hundred per cent interest in 7% preferred stock of the American Zirconium Corporation, having a par value of $600,000.00, the dividends on which have been paid to October 1, 1939, and a forty-five per cent interest in the common stock of the same company; the unaudited statement of the company shows accumulated undistributed earnings of $74,982.54 at October 31, 1939, of which $32,167.15 is applicable to The Glidden Company's investment therein.

Note C — The indenture, dated July 1, 1938, relating to serial notes of the Company contains an agreement that so long as any of the notes shall be outstanding the Company will not declare or pay any dividends, other than stock dividends, on any shares of its common stock (subject to modification that the Company may use not exceeding $200,000.00 in the purchase or retirement of its common stock) or make any distribution in respect thereto, except out of consolidated net earnings, as defined in the indenture, subsequent to October 31, 1937.

Note D — Net assets located in Canada consist of net current assets of $474,674.74 which have been included herein at the prevailing rate of exchange, and property, plant and equipment and sundry deferred items of $134,847.83 which have been included at amounts shown on the books of the Canadian subsidiary. Consolidated earned surplus includes the amount of $1,090,270.57 for the Canadian subsidiary.

CONSOLIDATED SURPLUS ACCOUNTS

The Glidden Company and Consolidated Canadian Subsidiary

Year ended October 31, 1939

CAPITAL SURPLUS	
Balance November 1, 1938	$ 8,374,605.02
Adjustment of expenses in connection with common stock sold in 1938	10,000.00
	$ 8,384,605.02
Excess of cost of 1,844 shares of common treasury stock, exchanged for capital stock of Liberty Vegetable Oil Company, over the book amounts of net assets of that company.	10,568.10
BALANCE OCTOBER 31, 1939	$ 8,374,036.92
EARNED SURPLUS	
Balance November 1, 1938	$ 5,675,282.64
Add net profit for year ended October 31, 1939	1,853,549.12
	$ 7,528,831.76
Less dividends paid:	
Convertible preferred — $2.25 a share	449,886.42
BALANCE OCTOBER 31, 1939	$ 7,078,945.34

Note — In prior years certain items of discount and expense, provision for contingencies and losses on dismantlements have been charged to capital surplus. If such items together with additional depreciation claimed for federal income tax purposes for the years 1932 to 1939 inclusive, had been charged against earned surplus instead of capital surplus the respective amounts of such surplus accounts would be $5,957,373.84 and $9,495,608.42 as at October 31, 1939.

GLD002894

CONSOLIDATED PROFIT AND LOSS STATEMENT

The Glidden Company and Consolidated Canadian Subsidiary

Year ended October 31, 1939

Net sales		$47,824,047.45
Cost of goods sold, selling, administrative and general expense (exclusive of depreciation)		44,522,244.97
PROFIT BEFORE INTEREST, DEPRECIATION AND OTHER INCOME		$ 3,301,802.48
Other income		390,995.76
		$ 3,692,798.24
Other deductions:		
Interest on bank loans and serial notes	$ 147,863.39	
Sundry	203,286.03	351,149.42
PROFIT BEFORE DEPRECIATION, TAXES ON INCOME AND SPECIAL CHARGES		$ 3,341,648.82
Provision for depreciation and depletion		804,516.58
PROFIT BEFORE TAXES ON INCOME AND SPECIAL CHARGES		$ 2,537,132.24
Taxes on income — estimated:		
Provision for federal income tax	$ 400,000.00	
Provision for dominion and state taxes on income	33,742.28	433,742.28
PROFIT BEFORE SPECIAL CHARGES		$ 2,103,389.96
Special charges:		
Provision for adjustments of open contracts to market	$ 200,000.00	
Reduction of net current assets in Canada to rate of exchange in effect at October 31, 1939	49,840.84	249,840.84
NET PROFIT		$ 1,853,549.12

Note A — No provision has been made in the foregoing statement for loss on wholly owned, non-operating California mining companies for the year, amounting to $48,428.91 including provision for depreciation in the amount of $27,896.08.

Note B — Depreciation to be claimed in the Company's federal income tax return for the year 1939 will exceed the provision in this statement by the amount of $97,890.20, due to depreciation claimed on costs written off or credited to revaluation reserve during 1932.

Note C — The net profit shown above includes $79,682.24 for the Canadian Subsidiary, representing that subsidiary's net profit for the year, less charge resulting from reduction of its net current assets to rate of exchange in effect at October 31, 1939.

ERNST & ERNST

ACCOUNTANTS AND AUDITORS
SYSTEM SERVICE

CLEVELAND

UNION COMMERCE BUILDING

The Glidden Company,
Cleveland, Ohio.

We have examined the consolidated balance sheet of THE GLIDDEN COMPANY and its subsidiary, The Glidden Company, Ltd. (California mining companies excluded), as of October 31, 1939, and the consolidated statements of profit and loss and surplus for the fiscal year then ended, have reviewed the system of internal control and the accounting procedures of the companies and, without making a detailed audit of the transactions, have examined or tested accounting records of the companies and other supporting evidence, by methods and to the extent we deemed appropriate.

We made tests of trade receivables by communication with debtors, and we reviewed inventory records of the companies and made tests of the basis of pricing and of the computations. Our examination of inventories also included observation of procedures followed by the companies at certain of the principal locations in ascertaining quantities at October 31, 1939.

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

Officers of the companies have expressed the opinion that pending lawsuits are of minor importance and that no material losses will result therefrom.

In our opinion, the accompanying balance sheet and related statements of profit and loss and surplus, excluding the California mining companies, present fairly the consolidated position of The Glidden Company and The Glidden Company, Ltd., at October 31, 1939, and the results of their operations for the fiscal year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ERNST & ERNST,
Certified Public Accountants.

Cleveland, Ohio,
December 19, 1939.

GLD002895

BOARD OF DIRECTORS

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

OFFICERS

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

Transfer Agent

THE NEW YORK TRUST COMPANY
New York City

Registrar

THE CHASE NATIONAL BANK
New York City