SCM

SCM Corporation

Eleven years ago Smith-Corona, with annual sales of about $36 million, was prominent in the somewhat narrowly-channelled field of typewriters. Today, as SCM Corporation, it is a broadly diversified manufacturing company with sales of over $640 million in a variety of markets.

SCM Corporation is among the leading companies serving markets for such products as copiers, portable typewriters, telecommunications equipment, electronic calculators, small kitchen appliances and rug and floor care products. Through its new Glidden-Durkee Division, SCM has equally significant positions in important segments of the chemicals industry, consumer and industrial coatings and specialty and convenience foods.

Carrying out the task of manufacturing and selling these products are approximately 30,000 SCM people, working in more than 70 factories and a vastly larger number of sales outlets around the world.

The Company is owned by over 40,000 shareholders, for whom this report was compiled.

Emerson E. Mead

TO OUR SHAREHOLDERS:

The year that ended on June 30, 1967 was most interesting and rewarding for your Company. We have undergone a transformation, the scope of which is apparent from the comparative financial highlights set forth below.

Total combined sales of SCM and The Glidden Company, now the Glidden-Durkee Division of SCM, were slightly over $640 million in fiscal 1967, up 10 per cent from last year's $582.8 million. On the same basis, net income rose 5 per cent over last year's $22.4 million to $23.6 million in fiscal 1967. Income per share reached $3.13 compared to an adjusted figure of $3.11 for 1966, based on the average number of shares outstanding for both companies over the periods.

Nineteen sixty-seven, because it was the year we joined forces with Glidden, may well become the benchmark year from which many aspects of our business will be dated in the future. But despite its unparalleled significance, our merger with The Glidden Company was by no means the only development of interest in 1967. Here are some others:

• SCM sales and earnings (excluding the contribution of Glidden) also climbed to new records. Sales rose 15 per cent to $275.9 million from last year's $240.6 million. Net income increased 10 per cent, reaching $11.8 million compared to $10.7 million last year. Earnings per share were $2.70 for SCM in 1967 on 4.4 million average shares as opposed to $2.60 per share in 1966 on 4.1 million average shares.

• A new plant at Libertyville, Illinois, provided expanded production capabilities for Coronastat Model 55 copiers. Reception of this new copier has been very gratifying, with most customers using the machines on a Copy Service basis rather than purchasing them. As a result, the impact of Coronastat placements is spread over future years' earnings.

We completed a major expansion of the typewriter plant in South Cortland, New York, which will assist

FINANCIAL HIGHLIGHTS

	Years Ended June 30, 1967	Years Ended June 30, 1966	% Change
For the Year			
Net sales	$640,064,018	$582,760,209	+ 9.8
Income before income taxes	40,921,567	40,015,593	+ 2.3
United States and foreign income taxes	17,298,481	17,609,885	− 1.8
Net income	23,623,086	22,405,708	+ 5.4
Per share	3.13	3.11	+ .6
Net capital expenditures	32,035,886	19,378,683	+ 65.3
Depreciation and depletion	13,685,697	11,229,185	+ 21.9
Cash flow from operations	39,193,713	35,235,204	+ 11.2
Per share	5.27	4.99	+ 5.6
SCM cash dividends per share	.40	.30	+ 33.3
At Year End			
Working capital	197,227,583	157,430,102	+ 25.3
Net investment in plant and equipment	117,719,534	99,369,345	+ 18.5
Long-term debt	90,114,132	57,567,075	+ 56.5
Stockholders' equity	157,402,518	199,620,419	− 21.2
Number of stockholders	41,800	43,300	− 3.5
Number of employees	30,300	28,400	+ 6.7

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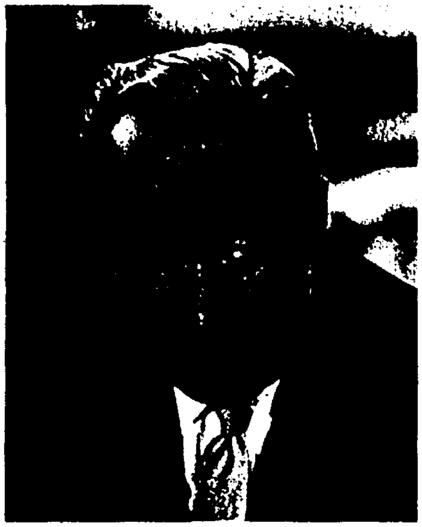

Edward H. Litchfield

further automation in typewriter assembly processes.

• The Proctor-Silex line of appliances, acquired by SCM in 1966, recorded substantially increased sales despite a general softness in consumer spending for appliances. Proctor-Silex added more than its share to total corporate income, based on the number of shares issued for it. Proctor-Silex earnings were not fully taxed in 1966, but were so taxed in the latest year.

• Sales and backlog were at all-time highs at year-end for the increasingly important Kleinschmidt Telecommunications Division.

• Several acquisitions were arranged. A paper-coating plant in Phoenixville, Pennsylvania, was purchased to strengthen SCM's total approach to office copying. Acquisition of Shetland Incorporated in Salem, Massachusetts, makers of Shetland appliances and Lewyt rug and floor care products, complements the Proctor-Silex appliance line. Acquisition of L & W Machine Works in Rock Hill, South Carolina, broadened the industrial process machinery operations of Proctor & Schwartz, Inc.

• Sales of traditional SCM products—typewriters, calculators and adding machines—continued to increase, both to home and office users.

• Finally, recognizing the increasing diversity of our operations, in late August we announced organizational changes looking toward a more decentralized operating framework.

The merger with Glidden has made SCM twice as big as when we wrote to you in the last annual report and SCM's face and structure have changed, as is to be expected. But these mere quantitative and administrative changes have in no way affected the basic character of our Company. We remain opportunity oriented—a corporate philosophy that has helped us grow from a typewriter maker into a major business operating in broadly diversified yet generally related fields. The Glidden Company presented us with a great opportunity. We look forward to others in the future.

The pages immediately following consist of observations recently made by some of the executives who guide SCM. In explaining the significance of the Glidden merger, their remarks convey the essence of our "opportunity" philosophy.

This report is our first to a greatly enlarged number of SCM shareholders. We want to take advantage of the occasion to welcome the many former Glidden shareholders to our ranks. And, of course, we want to thank all of our shareholders, employees and customers for their enthusiastic support during the past year. It is good to have you all with us —old and new.

September 22, 1967

Edward H Litchfield

Edward H. Litchfield,
Chairman of the Board

Emerson E. Mead,
President and Chief Executive Officer

GLD38575

THE MEANING OF GLIDDEN: AN SCM FORUM

Mr. Mead: In The Glidden Company, we found a good combination of three things we were looking for. Glidden was profitable, had technology that is very important to some aspects of our business, and brought to SCM the size that is essential for a company that

Emerson E. Mead, President and Chief Executive Officer

hopes to be in position to finance creative ideas.

Glidden-Durkee will be the cornerstone of SCM's growth in the Seventies and Eighties. Working together we have the potential to move forward in those areas of the business where SCM and Glidden technologies mesh, and also to explore possibilities in whole new markets and product categories.

Science and Technology:

It has become commonplace to point out that we are in an era of rapid technological and scientific change. It is nonetheless true. Many observers have predicted that electronics, chemicals and foods will be prominent growth areas of the economy in the few decades remaining in this Century. SCM has the opportunity to exploit markets in each of these basic areas. More important, we look forward to the possibility of welding together these and other technological resources—optics, electro-mechanics and laser technology, for example—and so achieve something bigger and better than we started with. In this way we hope to obtain the fullest participation possible in the growth areas of the Seventies and beyond.

Management:

We have no intention of becoming a mere holding company on the one hand, or of trying to run SCM like a single product/single market company on the other. We are committed to the belief that there is a middle ground, an optimum balance of operating control and delegation of operating authority. We are currently reorganizing to achieve this balance.

Even before the merger was effected we had planned for divisional reorganization. The principal change will find a consolidation of essential staff functions at company headquarters with full operating authority delegated to the Smith-Corona Marchant, Proctor-Silex, Glidden-Durkee and Kleinschmidt Telecommunications Divisions under George Burns, Walter Schwartz, Bill Phillips and Emilio Cadamagnani, respectively. Working directly with me at corporate headquarters will be the vice presidents in charge of the departments concerned with long-range research, corporate development, finance, and legal matters.

Only under the most modern management techniques is decentralized administration of a major industrial concern feasible. We expect to devote a great deal of attention to communications, reporting and analysis, management training and development, and constant assessment of our extensive human resources.

Mr. Phillips: The Glidden Company joins SCM as the Glidden-Durkee Division with the firm conviction that by working together we can achieve growth and

William G. Phillips, Vice President; President, Glidden-Durkee Division

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

profit beyond the reach of either company alone.

All of us want more from this merger than the simple sum of its parts. What we're looking for—and what we expect to accomplish—is something much more than that. Meshing our technical abilities and business knowledge promises to make this merger more than mere arithmetic.

Research has long been vital to all of Glidden's operations. Programs looking toward the development of high-performance plastics, fibers, adhesives, coatings, binders and other polymer composites were all being vigorously pursued at Glidden before the merger with SCM became effective, and work in these areas continues. Our progress in organic chemicals, particularly in flavors and fragrances, also holds great promise. We anticipate the enhanced financial strength of the combined companies will make possible capital expenditures to speed the procedure of getting some of the products we have been working on out of the laboratory and into production.

We have many decades of experience in developing these coatings, foods and specialty organic and inorganic chemicals, and bring to SCM a reputation for unsurpassed product quality equal to its own. Imaginative research and energetic and successful marketing are Glidden-Durkee assets that admirably complement those of SCM.

It is my personal view, however, that our primary contribution to the success of new venture will be Glidden people. Over the years I have been associated with them, they have proven as capable and enthusiastic as it is possible for a group of men and women to be. Working with their new associates from the SCM side, they will continue to create products and develop markets as necessary to fulfill the goals we have set for ourselves.

As part of a much larger corporation it will be possible for Glidden-Durkee to do many things more quickly than we had hoped. All of us look forward to doing them.

Mr. Schwartz: When Proctor-Silex and Proctor & Schwartz came to SCM in 1966 we were about one-fifth of the size of Glidden in terms of sales. Nevertheless, our experience in the year that we have been a part of the SCM family will bear out some of Bill Phillips' observations.

In our case, association with SCM has provided the opportunity and incentive to make management decisions free from many of the concerns that can sap the energies of small companies. While staff functions capable of being centralized at headquarters are coordinated in New York, business decisions in the appliance area are my responsibility. Staff functions directly related to the appliance area are provided at Division headquarters in Philadelphia.

As a result of the financial strength a company the size of SCM affords, Proctor-Silex is in a position to grow by acquisition. Acquiring Shetland Incorporated and L & W Machine Works in April and May of this year would have been very difficult for Proctor-Silex by itself. So far as the Proctor-Silex Division is concerned, the merger has worked to the advantage of both companies. Our operating results over the past fiscal year—particularly in light of softness in appliance sales generally—bear eloquent witness to that conclusion.

Mr. Elicker: We believe there are three prime requisites in a merger of any appreciable size: The surviving company obtains profits, technology and enhanced financial flexibility. If you're talking about relatively small acquisitions, then you can feel free to make generalized comments about "fit"; that is, a close operational relationship of some kind between the two companies. Fit was long a prime consideration for SCM —we said so publicly many times.

But when you merge with a company as large as Glidden, the "fit factor" declines in relative importance. Let's face it, there just aren't any two companies with exact fit once they've grown to a certain size. We think the day has passed when an opportunity-minded company can bide its time waiting for the "ideal" marriage partner to come along and propose. It doesn't happen anymore.

Of course, the surviving company must be willing to use the financial leverage increased size creates. Too many ideas and opportunities are not fully explored simply because people are not financially able to take advantage of them. I would hope and expect that SCM will never become hidebound in that respect.

Paul H. Elicker, Vice President, Finance and Treasurer

Mr. Boller: It might be pertinent to indicate in broad terms what we think will be the economic environment of the Company in the Seventies. A good part of the 1975 economic landscape can already be clearly discerned because its essential elements already exist. Of the 221 million Americans who will make up the 1975 population, for example, over 80 per cent have already been born. Of greater importance, we know how old most people will be and from that can deduce what sort of products they will be buying. Using this approach, economic forecasters are unanimous in predicting continued expansion in the demand for products in our principal manufacturing areas.

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The impact on American business of the great numbers of persons suddenly reaching adulthood is certain to be dramatic in the years immediately ahead. About 3.7 million Americans turned eighteen in 1965, and the number will remain at about that level for the next several years. The large numbers of young adults marrying, building their

G. Robert Boller, Vice President, Corporate Development

first homes and starting families should provide a growing market for companies serving that age group. The rate of household formations is a key economic indicator for long-range predictions of sales of electrical appliances, building materials and consumer products. Other indicators are consulted to assess the prospects for continued growth in other aspects of SCM's business.

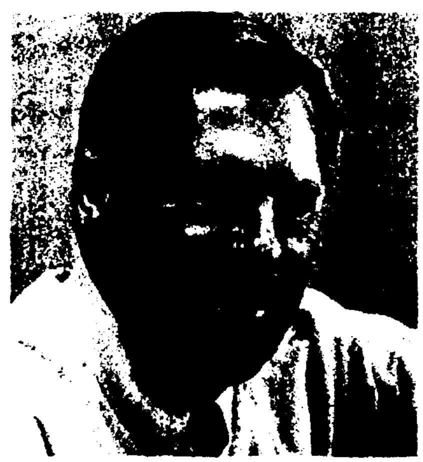
The major unknown quantity in such projections is, of course, the impact of the accelerating developments in science and technology which have come to characterize our economy. New technologies lead to new product categories and, occasionally, transform whole industries. These developments spell "opportunity" to companies determined to play a leadership role in them—just as they may spell "disaster" to companies unwilling or unable to adapt. Long-range planning at SCM is concentrated on uncovering opportunities in areas offering the best promise of compounded growth.

Mr. LeVino: Bill Phillips pointed out that research has been considered vital to Glidden's success. I might say it is and has been no less true at SCM.
We have placed increasing emphasis on our accelerating overall program of research—both basic research, adding to our general knowledge in scientific areas, and applied research, specifically aimed at the creation of new and improved techniques and processes. Creativity in the latter area is the foundation upon which new and better products are developed.

Our long-range research has been conducted primarily in Switzerland. Modern laboratories have been designed and instrumented for theoretical and experimental investigation in several basic sciences. Cooperative research programs are also conducted with a number of Swiss universities.

Projects under way involve new methods of printing, the development of ultra-high-speed pulse techniques and cybernetics, the study of communications and control mechanisms in living beings and machines. It is apparent that the newly enhanced SCM research effort will help the Company to make a significant impact in all of its chosen fields of endeavor.

Mr. Burns: SCM began as an office equipment company and—despite the fact that its product lines have been



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

broadened and whole new market areas entered—office equipment is still one of the most promising areas for future growth.

My concern as President of the newly-created Smith-Corona Marchant Division is with continued success and profitability in these areas, and we are continuing to make progress. We are

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Richard B. Le Vino, Vice President, Research

number one in portable typewriters, number two in office copiers and among the leaders in calculators and adding machines.

In all of these areas we face the stiffest kind of competition. Our products must be continually updated and improved, manufacturing must be to the highest standards of quality, and marketing must be both aggressive and sophisticated—all at the lowest possible cost.

Our product planners have consistently come up with the products that enable us to stay abreast of competition, or, in some cases, do an end run around them as with the Model 250 compact office electric typewriter. In fiscal 1968, two new desktop Coronastats and the Cogito 566 PR will solidify our positions in office copiers and calculators respectively. The gratifying popularity of the Model 250 and innovations such as the battery-powered Poweriter portable will keep us strongly competitive in typewriters.

In fiscal 1967 we made substantial additions to manufacturing capacity and continued to make progress in automating the process of assembling typewriters, copiers and calculators.

Marketing ability has been one of SCM's chief assets over the years. This basic strength has resulted from sheer unrelenting effort to get enough of the right kind of people in the right places. With a trained sales and service force of well over 4,500 alert and dedicated men and women, we have a distribution network unrivaled in our product lines. Through intensified recruitment and training, by applying the most sophisticated research techniques, and by rewarding peak efforts of our people, marketing will remain a key attribute of SCM.

Mr. Cadamagnani: Merger with a company the size of Glidden has indirect effects on the organizational structure of a company as well as direct effects in terms of new technologies, markets and manufacturing processes. Both the Smith- Corona Marchant Division and Kleinschmidt Telecommunications Divisions have achieved semi-autonomous status a little earlier than had first been planned, partly because of Glidden.

Our goal at Kleinschmidt will be to continue to build upon the important technological advances that have been achieved over the years, so as to make our contribution to the overall SCM effort even more important. There are aspects of our work—particularly in the area of chemically-treated pressure paper for use in data printers—that we hope will be enhanced by the Company's new access to advanced chemistry research.

"Kleinschmidt" has been an important name in telecommunications for several decades. One reason for this is Edward E. Kleinschmidt the man *Business Week* recently called "a founding father in telecommunications and easily the dean of practicing U.S. inventors." Though he "retired" some years ago, at 93 Mr. Kleinschmidt still enjoys consulting on the most modern telecommunications techniques with engineers and scientists at our Deerfield, Illinois, facilities.

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

Society's war on crime encompasses some of the most pressing communications problems Kleinschmidt Telecommunications has ever attacked. The Telescripter, Mr. Kleinschmidt's latest patented device, is a teleprinter for police cars and other mobile installations. It promises to be an effective law enforcement tool.

Communications problems and the solutions to them are continually sought

George E. Hall, Vice President, General Counsel and Secretary

in our laboratories by the people whose inspiration Edward E. Kleinschmidt has been for many years. We are confident that innovations and improvements upon innovations will continue to be forthcoming from that work.

Mr. Hall: In addition to the organizational changes necessitated by rapid growth in a company, administrative problems multiply as well. One such problem is that of effectively communicating to shareholders—new and old—the underlying theory and philosophy of that growth.

Anticipating that problem, early this year a new staff function within the office of the Secretary was created to coordinate shareholder activities and in this way to open new avenues of communication between the company and its owners.

As another step in providing more information to shareholders, we assembled the compendium of remarks by some of the senior operating people at SCM which you have just read. In them, we hope, "the meaning of Glidden" to your company and to you as a shareholder has been explained.

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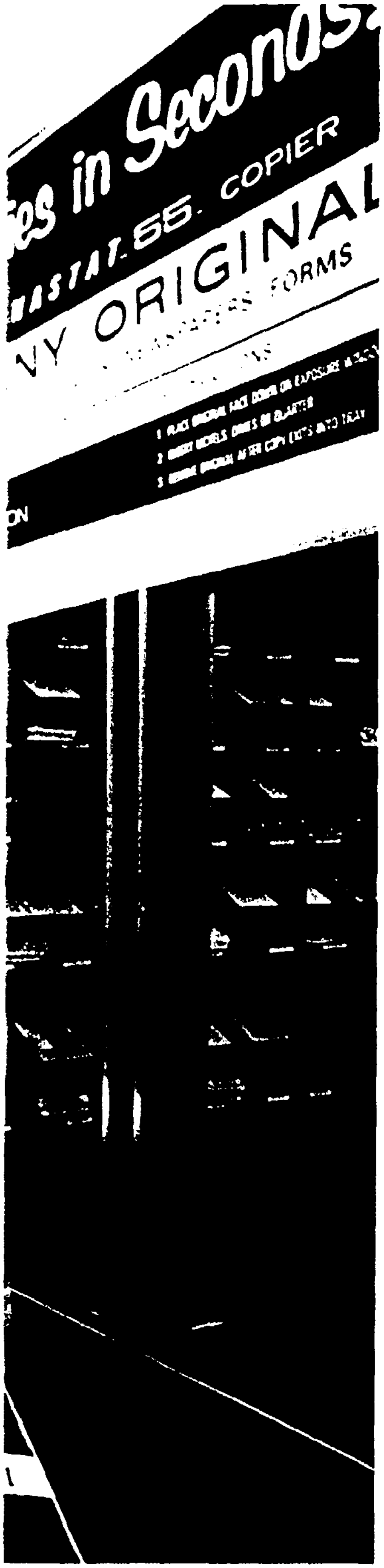


A coin-operated Model 55 Coronastat copier in use at the new Medical School Library at Northwestern University in Evanston. The "55 Coin-op" was developed when SCM marketing research pinpointed a large, relatively untapped market for electrostatic copy machines in school and public libraries, as well as in other public places. The "55 Coin-Op" is truly self service; no attendant is required to operate it.

REVIEW OF OPERATIONS

Office Equipment and Related Products

"Sales and rental income of the office equipment industry is expanding significantly in 1967, and, with a more robust economy envisaged in 1968, growth is likely to be at an even faster pace next year. Broader product lines and far from saturated markets are expected to foster particularly sharp increases for the two sectors that are already the fastest growing—electronic data processing and copying/duplicating."

—Standard & Poor's Industry Surveys, July 27, 1967

ELECTROSTATIC COPIERS

First introduced in 1963, SCM's Coronastat family maintained its second place position in the office copier field in fiscal 1967.

The Coronastat Models 33 and 44 are desktop copiers that have established a reputation for durability that is the envy of a constantly growing number of competitors. The Coronastat Model 55 is a compact office console copier, capable of copying any office document.

The copier market is explosive—and competitive. SCM's revenues from sales and service of electrostatic machines and products rose again in 1967. They were affected by the fact that more Coronastats are being placed on a Copy Service, or rental basis, rather than sold outright. In addition, there was some continued decline in per copy revenues throughout the industry, although in SCM's case this was offset to a degree by the continued growth in the number of copies being made on Coronastats.

Fiscal 1968 should show continued improvement for SCM in the office copying business. Two new desktop Coronastats, now being introduced, will produce copies twice as fast as the older versions and should solidify SCM's pre-eminent position in desktop copiers. Also, the coin-operated

Model 55 Coronastat console now is in full production at the new Libertyville plant and placements are being made in public, school and college libraries, and other public places around the country.

The Model 55 office console also is being received well. Many are replacing the machines of our competitors and, occasionally, our own desktop copiers. The 55 uses about four times more coated paper and electrostatic supplies than the Models 33 and 44, and this makes replacing our own machines profitable.

The value of SCM electrostatic machines and products to the customer has been considerably enhanced by the development of the Copy Service concept. Under Copy Service, the Coronastat copier, paper and supplies are provided with the customer paying a pre-determined price for each copy made.

To keep pace with increased sales of electrostatic products, we added 35 new locations where SCM Coronastats are sold in the U.S. and Canada, and an unprecedented 22 new direct-selling branch offices overseas. We now have almost 400 locations in over 100 countries around the world.

SCM's office copiers utilize a special paper coated with polymeric resin-based zinc oxide. We have long felt the need to obtain a facility where we could manufacture some of this paper ourselves instead of relying wholly on outside suppliers. With the acquisition of a modern paper coating facility in Phoenixville, Pennsylvania, shortly after the close of the fiscal year, we took this important step. With full control over the manufacturing operation in this new plant, we look forward to further improvement of Coronastat paper as well as the opportunity to participate in the profitable paper coating business.

CALCULATORS

Among the broad variety of machines in increasing demand in offices the world over are calculators, adding machines and, of course, typewriters. These are bread-and-butter items to SCM; a long tradition of producing quality equipment marketed under the Smith-Corona and Marchant trademarks has enabled the Company to make impressive sales gains in each of these areas each year—and fiscal 1967 was no exception.

It is becoming increasingly necessary to adapt office equipment—especially calculators—for use as accessory tools for computers and other advanced applications. Accordingly, a dramatic addition to the calculator line, the Cogito 566 PR, was recently introduced. Cogito (Latin for "I think") is the trademark used by SCM for its line of advanced, solid-state, electronic calculators. The Cogito 566 PR is a single unit machine capable of being programmed for up to 66 operations, which are then performed automatically. Computations and printing are accomplished in 1.5 seconds or less. Factors and results are printed in easy-to-read form on adding machine tape.

OFFICE TYPEWRITERS

Sales of Smith-Corona office typewriters were improved in fiscal 1967 as a result of changes in marketing emphasis.

Increasingly, Smith-Corona typewriters are competing in the more-rapidly growing electric typewriter business. The compact office electric, the Model 250, is our most successful product in this area, with sales registering a record 28 per cent gain in 1967. While there is still an appreciable market for manuals (which SCM serves with a full line of machines), offices the world over are choosing the greater speed, efficiency and performance of higher-priced electric typewriters. Sales of electrics now constitute 80 per cent of all sales of office typewriters for commercial use. SCM will introduce a full line of redesigned office typewriters in fiscal 1968.

OFFICE EQUIPMENT INTERNATIONAL

Sales of SCM's office products, particularly copiers, continued to gain around the world. Four years of intensified worldwide marketing efforts have resulted in a 300 per cent growth in sales and service revenues overseas. Coronastat copiers and supplies made the biggest gains. These products have been so successful as to warrant the creation of branch sales offices around the world. Once volume in a given market justifies this investment, we can dispense with attempting to sell our other office products through the more costly "distributor" method. Significant increases also were recorded in overseas sales of typewriters and in the Hamann calculator line in the past year.

EDUCATIONAL PRODUCTS

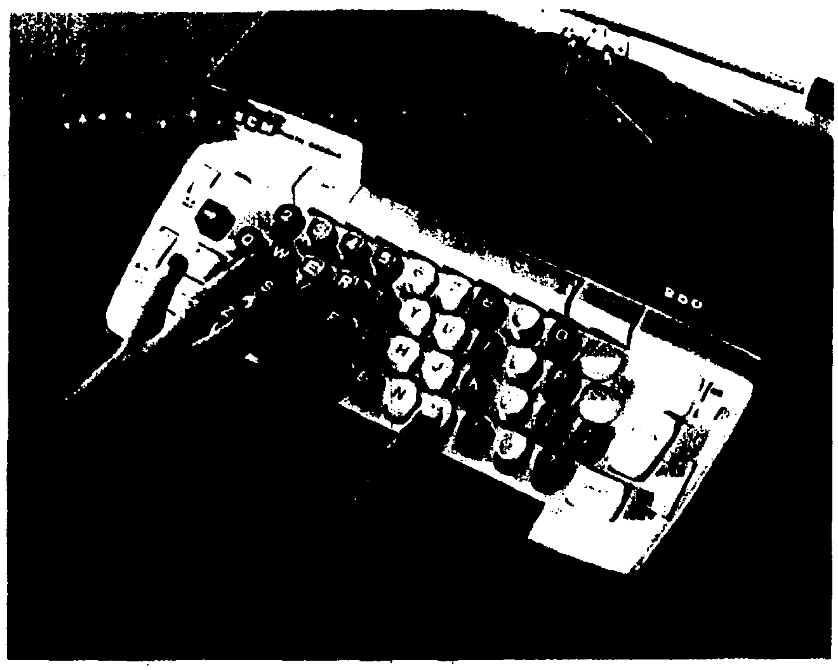
Governments, local, state, and Federal, spend more money for education purposes than for any other single budget category. This has created a massive marketing opportunity in the past few years—to compare the "school market" of 1967 with previous years would be meaningless.

SCM serves this market, at present, in two major ways: through sales of typewriters to educators for specific teaching tasks and, directly to the student, by sales of SCM portables.

Smith-Corona Educational typewriters are an example of both creative innovation and SCM's desire to make technical contributions to educational advances. The very successful Model 250 compact office electric (an innovation in itself) has proved eminently adaptable to these goals.

The small picture on this page shows the keyboard of a Model 250, adapted to aid in teaching small children to recognize letters. The child's fingernails are painted to conform to the color coded keys. Significant experiments in which the 250 CCK was used, along with other techniques and devices, have been conducted with encouraging results.

Other educational adaptations of the Model 250 include the 250 KPT used to train key-punch operators, and



This compact office electric has been modified for use in helping children to recognize the letters of the alphabet. In combination with other teaching devices, the Model 250, so adapted, has proved to be of significant value to educators working with culturally deprived children.

A contemporary co-ed (Boston University) and her contemporary portable (the Poweriter by Smith-Corona) photographed on the banks of the Charles River in Cambridge, Massachusetts. Both the electric portable and the battery-powered portable shown here are innovations from SCM. We sell more portable typewriters than anyone else in the world.

the 250 i/t/a, the keys of which print out "the forty sounds of English" in Sir John Pitman's Initial Teaching Alphabet.

Educational typewriters are not a major part of SCM's total typewriter business. The fact that they exist is a reflection rather of an awareness that this is an area in which we can serve both our shareholders and society in general. Wherever SCM technology can play a meaningful role, however minor, in helping better social conditions, we will take the opportunity to do so.

A potentially more profitable element of the school market lies in the sale of electric typewriters to schools for typing courses. The 250 is ideally suited to this purpose because of its full-size, full-feature key board and low maintenance cost.

An aspect of the education market frequently overlooked is the student himself. It is to this market that the largest portion of our portable sales are made. Electric and battery operated portables, both SCM innovations, are increasing their share of the total portable market despite their understandably higher cost when compared to manuals. The greatly increased college student population, the general increase in affluence of American parents and their desire to give their children every possible academic advantage and, perhaps, eye-weary professors' insistence that all papers be typed, have combined to make portables very important to SCM.

Students are not the only users of portable typewriters, of course. Sales for home and small business use are also rapidly growing. In the past few years, this market has also been tapped by healthy sales of light-duty adding machines, a field in which SCM is a leader. Now successfully promoted as a gift item, adding machines for home use may be expected to be in increased demand as more checking accounts need to be balanced and more care taken with income tax returns.

Chemicals, Coatings and Resins

"The propulsive force of this new age will be that chemical-electric-electronic-aerospace complex which now contains the country's technological elite, and which is phenomenally growing and inter-mixing into one giant, highly competitive innovative industry."
—Fortune, January 1967

In its merger with The Glidden Company, a worldwide diversified manufacturer of chemicals, coatings and resins and foods, SCM stands to participate in a number of exciting growth markets. Glidden brings to SCM approximately $200 million in annual sales of chemicals and coatings. To have achieved this level through creation of a chemicals division and subsequent internal growth would have taken years of effort with no guarantee that so successful an operation as Glidden's would have been achieved.

The chemicals and coatings group within SCM's Glidden-Durkee Division is active in seven principal markets: organic and inorganic chemicals, metal powders, adhesives and building materials, consumer and maintenance coatings, industrial coatings, pigments and colors and ceramic and enamel materials. Each of these markets is served by a Glidden-Durkee subdivision characterized by unusually competent operating, sales and marketing management and staff support.

Division management had developed short- and long-range plans for operations in each of these areas before the merger, and steps are being taken toward fulfillment of the goals established. The long-range plans take account of the rapid growth expected in many of the markets served.

Research and development expenditures are the cornerstone to growth in these days of exploding chemistry technology. In the four-year period that will end in 1968 over $6 million will have been spent on Glidden-

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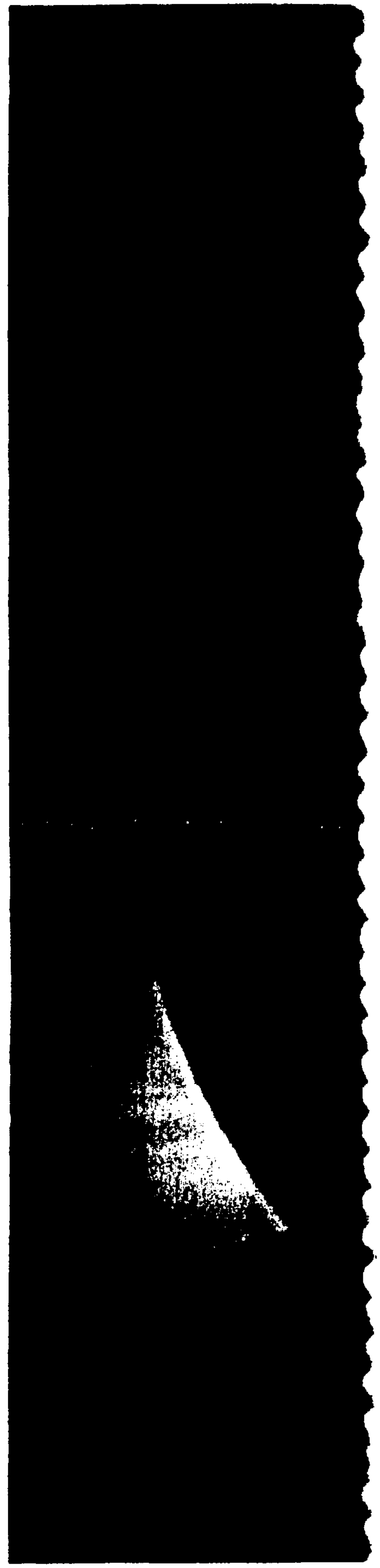
Durkee research facilities alone. Notably included in this total will be the new $4 million Dwight P. Joyce Research Center in Cleveland. This wholly new facility is presently under construction and is expected to house a total of some 250 researchers, scientists and other employees in about a year's time. It will be one of the most advanced research centers of its type in the country. Other research facilities were recently expanded and modernized at the organic chemicals operation in Jacksonville, Florida.

In Ohio, the new Glidden polymer plant at Huron makes possible meaningful SCM contributions to the vast variety of high-performance plastics, fibers, adhesives and other composites based on polymer research that may well transform whole industries in the 1970's.

Here is a rundown of other chemicals and coatings activities:

Organic chemicals: Located in Florida, this division manufactures a variety of chemicals from sulphate turpentine and crude tall oil, by-products of the wood pulp industry. Research in recent years led to the development of a growing line of perfumery and flavor chemicals. Many of these are suitable for replacing costly imported flavors and fragrances used in manufacturing confections, perfume, soap and pharmaceutical products. In addition to their cost advantage, man-made flavors and fragrances have almost absolute chemical purity; there are none of the contaminants associated with nature's own product. Glidden synthetic flavor oils have been approved for use in soft drinks, candy, chewing gum and bakery products by the Food and Drug Administration. Fully 60 per cent of the sales of this important division have been developed in the past five years.

Inorganic chemicals: This division produces pigments and colors used in the manufacture of quality paints, paper coatings and in the rubber and plastics industries. Of particular



A tensile test of a polyester resin viewed with polarized light. Polymeric materials are created through chemical reaction in which two or more small molecules combine to form a large molecule. One prominent scientist has predicted that "polymers will in the future become the *basic structural materials of our civilization.*" The specimen being examined here is of the generic type used in advanced structural materials such as fiberglass. The data obtained are utilized in synthesizing polymers to meet specific production and quality requirements.

interest to SCM is the highly advanced paper coating technology associated with this division, although the area of pigments and color has been a profitable aspect of the chemicals industry in its own right.

Powder metallurgy: In an era when strength-to-weight ratios for metals becomes increasingly important, the market for metal powders is expanding rapidly. Within five years, for example, about 25 to 30 pounds of powdered metal products will be used in American-made automobiles, as opposed to an average of about 13 pounds in current models. The metal powders market should double to $750 million by 1970. SCM, through Glidden, is a major factor in it.

Adhesives and building materials: Glidden had established a small but important position in this fast-growing industry with the acquisition of Macco Chemical Company in 1964. Macco manufactures and distributes adhesives, cements, sealants, caulks and similar materials for use in the construction industry.

Ceramic and enamel materials: Like building materials and adhesives, these products will benefit from the expected boom in housing construction. The division is one of the largest producers of porcelain enamel and ceramic frit material in the country. Sales to major appliance manufacturers, as well as to the expanding construction industry, should provide continued growth for this new aspect of our business.

Consumer, industrial and maintenance coatings: All of these divisions will play an important role in SCM's profit performance in the years immediately ahead. Glidden has long been one of the nation's leading manufacturers of quality household, industrial and maintenance paints. These are good businesses with a good growth potential; the many advances made by Glidden over the past years assure SCM of remaining prominent in them. Most observers recognize the modern coatings industry as a branch of the chemicals industry that is growing in importance. To maintain its leadership position, for example, Glidden people early planned to manufacture many of their own raw materials such as resins, polymers, co-polymers and monomers. This they now do at the polymer plant at Huron, Ohio, and in coatings and resins plants across the country and around the world.

In the consumer area, continued progress has been made in improving the quality and performance of coatings while lowering costs of manufacture by improving processes and equipment. In this aspect of the coatings industry, constant development of improved products and marketing techniques is a necessity. Several new products are now in development with 1968 introduction planned. Glidden sales have benefitted from increased emphasis on "Home Decorating Centers" and leased departments in department and mass-merchandising stores. Glidden merchandising efforts will continue to be the key to success in consumer product operations.

Chemicals research has lead to product improvements in coatings sold for maintenance purposes, an area where product performance is the prime consideration. A typical example of product advances in this area is the new Glidden Lifemaster coating. The water-soluble coating is finding a ready market in heavy industry maintenance because of its non-flammable character, ease of application and clean-up and outstanding chemical resistance.

Another example of innovation in coatings is Glidden's development of finishes for application by the electrocoating process. This is the process for applying a very uniform coating by a dip method similar to that used in metal plating. Interest in electrocoating, as well as in the Glidden coatings used in the process, is gaining momentum in the domestic and European automobile industries and in other metal products industries.

This giant paper coating machine at our recently-acquired plant near Philadelphia symbolizes the intermeshing of Glidden and SCM technologies. SCM now has in-house capabilities required for all aspects of office copying: chemistry, coating facilities and reliable office copiers.

GL D38588

Dining out this week? You will be one of 57.3 million Americans to do so, and you may choose any one of almost 350,000 public places. This Durkee pre-portioned, pre-processed chicken is about to be consumed at a new King Fish drive-in near Louisville, Kentucky. Durkee also supplied the vegetable oil in which the chicken was deep-fried. Food service to all segments of the "away-from-home" market now accounts for gross annual sales of almost $30 *billion.* As shown in this photograph, the market is supported primarily by some 38 million 18-to-34-year-olds—and their kids.

Durkee Foods

"Aspects of the huge U.S. foods market with the greatest prospects for growth include specialty and convenience foods as well as food service to the away-from-home market. With more money, more places to go and more time to do it, American housewives want to prepare quality foods quickly. Or, better yet, eat out."
—From a Glidden-Durkee study.

The growth-oriented Durkee Foods group, long an important member of the Glidden family, presents SCM with the opportunity to participate in yet another basic U.S. industry with good growth potential.

Durkee Foods is divided into three principal areas: food service, consumer sales and industrial sales. These divisions serve, respectively, the away from home market, such as restaurants, drive-ins, hospitals and the like; the consumer, in packaged convenience foods and spices; and large food processors.

We expect the greatest growth and profitability in the Food service business. Through more than 1200 distributors in all major markets, Durkee sells a growing line of quality pre-processed foods to restaurants, vending machine operators, drive-ins, in-transit feeders and government institutions.

Consumer products and spices is where Durkee started—and is still growing. Our aim in this area is to provide quick-to-prepare food specialties that taste good. We can do this better than most because Glidden-Durkee people know food chemistry, know processing and know food marketing. We expect to continue to be a major factor in this basic market through a rapidly growing line of quality convenience foods sold, through wholesalers, to grocery chains and other food stores.

Durkee's industrial food products division sells to food processors such as wholesale bakeries and the confectionery industry. Glidden-Durkee people have unrivaled technical ability and knowledge of vegetable oil and emulsifiers. The development, through chemistry, of dairy product substitutes, for example, is but one avenue toward continued growth and profitability in this area.

The basic aim in all of Durkee's food operations is to provide convenience and quality to the consumer whether it be in proportion-controlled entree items to a restaurant, a gravy mix to the housewife or a new dairy product substitute to an industrial baker. These aspects of the food business—the convenience and specialty foods aspects—are rapidly growing. SCM, through Durkee foods, expects to participate fully in that growth.

Proctor & Schwartz

In addition to serving industry at home and overseas with industrial and maintenance coatings, SCM manufactures, through its relatively small Proctor & Schwartz Machinery Division, an extensive line of custom-made process control machinery. Primary customers include the food, tobacco and textile industries. SCM capital goods equipment is usually large, elaborate and one-of-its kind, designed for a special industrial process. New orders continue at a satisfactory rate.

The outstanding characteristic of the Machinery Division is the high quality of its entire systems engineering organization. Proctor & Schwartz people have come to be recognized around the world as experts in the high-speed, continuous-process textile machine and drying equipment industry. The increasing preference for systems-designed electromechanical equipment both at home and overseas should provide new impetus to this division.

During fiscal 1967, acquisition by SCM of L & W Machine Works in Rock Hill, South Carolina, complemented the line of continuous-process textile equipment available.

Appliances

"What the teenage explosion did for the youth market in the mid-sixties, the fast-growing "young marrieds" will do for the home goods market by 1970. Producers of all the things that go into homes—necessities and luxuries, standard products and new developments—will benefit."
—From an SCM study.

Consumer spending for durable goods (automobiles, furniture, appliances and the like) was about $45 billion in 1960. By 1970 this figure should almost double to $84 billion and we think the $100 billion mark will be passed shortly thereafter. With an expanding line of household appliances, SCM's Proctor-Silex Division is admirably situated to participate fully in this growth.

Since becoming a part of the SCM family, Proctor-Silex has contributed more than its share of profits based on the number of shares issued to acquire it. Assisted by new capital to finance growth both internally and by acquisitions, this healthy contribution is expected to continue.

With the acquisition of Shetland Incorporated, new products, including the Lewyt line of vacuum cleaners and floor polishers, were added to the basic SCM appliance group. Shetland will add approximately $20 million in SCM appliance sales.

National distribution of Proctor-Silex "Lifelong" appliances will begin in the fall of 1967. Because of the modular or building-block approach to their manufacture, "Lifelong" appliances need never be returned to the factory for servicing. If an element should wear out or get broken, the housewife simply purchases a new element and replaces it herself. All of the 50,000 outlets for Proctor-Silex products will carry a full line of replacement parts.

It is likely that the Proctor-Silex "Lifelong" concept will be studied and eventually imitated by competitors, but a considerable advantage in manufacting lead-time has already been established.

The modular concept, by-product of the space age, adapted to electrical appliances. It is now as easy to replace the sole plate on a Mary Proctor Spray-steam-dry iron as it is to replace a light bulb. This array of Proctor- Silex "Lifelong" appliances represents a creative application of advanced concepts to already successful consumer products. SCM product engineers constantly study each other's work. While some examine the possibility of a "Lifelong" typewriter, others investigate "cordless" appliances.

[redacted]

Telecommunications

"By the 1970's, industry observers predict, hundreds of thousands of (computer remote) terminals—with related communications support equipment—will be in use. The total market, they add, will come to at least $1 billion a year in shipments and installations by 1972."
—Business Week, August 5, 1967

Sales and profits of Kleinschmidt Telecommunications Division continued to make significant contributions to SCM sales and earnings in 1967. The changing nature of military requirements have resulted in an unprecedented backlog of orders both for Kleinschmidt's standard military teleprinters and the new electronic Models 311 and 321. More land and buildings were acquired in 1967 to expand SCM operations in this increasingly important aspect of our business. Airlines are showing a growing interest in Kleinschmidt electronic data printers. As computers come on line in ticketing and reservation systems, the need for instantaneous and rapid print-out creates a parallel need for equipment like Kleinschmidt's models 311 and 321.

One of the most exciting products developed recently through Kleinschmidt research is the Telescripter, pictured at right. The Telescripter is a small, fully transistorized teleprinter designed for use in police cars and other mobile installations as well as for such stationary locations as turnpike toll booths.

Designed primarily as a crime fighting tool for law enforcement agencies, the Telescripter will virtually guarantee ungarbled *printed* communications wherever normal radio transmission is possible. The policeman need not return to his vehicle each time a radio call comes in—whether a license number of a stolen car or a description of a fleeing suspect; the Telescripter has the message in printed form when he gets back.

Data Processing Systems

SCM's Data Processing Systems Division was formed by capitalizing on the technological and research skills of Marchant Calculators and Kleinschmidt data printers, with a healthy assist from Smith-Corona typewriters. The system, known collectively as Typetronic, is completely modular; each unit can be sold separately or in conjunction with others depending upon customer need.

The aspect of data processing SCM is most interested in has scarcely been tapped: small-and medium-sized businesses and the decentralized locations of larger businesses. We do not manufacture "multimillion-dollar monsters" but strive instead to bring big systems capability to smaller users with limited clerical staffs. We believe the day is coming when a kind of data processing capability will be essential to all medium-sized businesses, whether a beer distributor, the stock transfer division of a bank or a large warehouse.

Further success at DPS will depend on further innovations. New products, developed through planned engineering and research programs, will be introduced in 1968 as SCM continues to help make it possible for the businessman to cope with the paperwork blizzards that follow each new advance in the "science and technology explosion."

This report to our shareholders on the business of SCM opened and closed with a discussion of our opportunities related to the business of information handling. Serving that business, both as it exists today and as it will grow in the future, remains one of our primary goals. In the intervening pages we reported on other aspects of SCM, many new, some old. The prospects for growth discussed in those pages are equally as exciting to the Company.

There are more than 165,000 police cars in the United States. The Telescripter, an innovation from the Kleinschmidt Telecommunications Division, is shown being tested by police in a large Midwestern city. Should a message come over his radio while the officer is investigating an accident near the ambulance in the background, it will be printed out in his absence at 100 words per minute. The signals are broadcast in a special code minimizing possible interception or garbling. The Telescripter is equally suitable for other mobile applications, especially in the transportation industry.

FINANCIAL REVIEW

Merger With The Glidden Company

On September 22, 1967 The Glidden Company was merged into SCM Corporation, completing steps initiated on May 16, 1967 when the merger agreement between the two companies was signed. Glidden-Durkee will be operated as a Division of SCM Corporation.

SCM acquired, for $66,867,000, 2,157,000 shares of Glidden stock from a stockholder who had recently acquired them through a public tender offer. Concurrent with the merger these shares were cancelled and the balance of 5,010,000 shares of Glidden common stock were exchanged for 2,305,000 shares of SCM common stock. The financing for the Glidden shares acquired was arranged through a group of banks under an agreement whereby this borrowing will be replaced prior to August 2, 1968 by permanent financing. It is the company's intention to refinance these borrowings through rights offerings of common stock and convertible debt and with non-convertible debt.

This merger has been treated as a pooling of interests, and therefore all financial statements in this Annual Report are for SCM and Glidden combined for all periods shown.

Changes in Capitalization

In addition to the changes resulting from the Glidden merger, described above, there were several other changes in SCM's capital structure during the past year. During the year 113,000 shares of common stock were issued for the acquisition of several companies. In February, 1967 $20,000,000 of 5¾% debentures were sold. In March, 1967 the Glidden $2.125 preferred stock was called for redemption and in June, 1967 SCM's 5¼% convertible debentures were called for redemption. Over 96% of the original amount of these securities has been converted into common stock. All of these changes simplified the capital structure in preparation for the Glidden merger and forthcoming refinancing.

Earnings Per Share

Earnings per share for all periods shown in this report have been calculated based on the SCM and Glidden combined average common shares outstanding during the respective periods adjusted for subsequent stock dividends. In fiscal 1968, common shares outstanding will be reduced by 992,000 shares as a result of the cancellation of 2,157,000 Glidden shares acquired for cash and will subsequently be increased by the common shares sold under the refinancing program. These changes in common shares outstanding are not expected to have a material effect on fiscal 1968's earnings per share, which will again be calculated based on average common shares outstanding during the year.

Sales

Sales volume was $640,064,000, an increase of 10% over last year's $582,760,000 and an all-time record for the company, as has been the case for each of the past eight years.

Results for SCM Corporation and The Glidden Company separately also set sales records. Sales for SCM separately were $275,866,000, up 15% over last year's $240,560,000. Glidden's sales of $364,198,000 were up 6% over $342,-200,000 for the preceding year, with both years restated to a June 30 basis.

Major increases for SCM over last year were domestic sales of portable typewriters which were up 25%, worldwide electrostatic revenues which increased 20% despite a substantial shift in the proportion of machines placed under lease; and Proctor-Silex household appliances which showed an 11% increase despite the housewares industry showing declines during much of the period due to general economic conditions. This increase in household appliance sales does not include sales of Shetland Incorporated, which was purchased in April, 1967.

Glidden sales were 55% in coatings, resins and chemicals, and 45% in foods, with the principal increases over last year occurring in foods.

Earnings

Net income was $23,623,000, up 5% over last year's $22,406,000. Earnings per share were $3.13 based on 7,443,000 average shares compared to last year's adjusted figure of $3.11 based on 7,068,000 average shares, both calculated as described above.

Results for SCM Corporation separately increased 10% over last year to $11,776,000 or $2.70 a share, compared to $10,658,000 of net earnings or $2.60 a share for the previous year; this was a record for the fourth consecutive year.

Net income for The Glidden Company separately was $11,847,000 compared to $11,748,000 for the preceding year. Earnings per share on Glidden shares before conversion to SCM shares were $1.72 a share, compared to $1.75 for the preceding year.

Portable typewriters and electrostatic products contributed the largest share of SCM profit. Proctor-Silex appliances were next and contributed more than their share of earnings to the separate SCM results based on the number of shares issued to acquire Proctor-Silex. Profits from Glidden-Durkee product lines were roughly proportionate to sales volumes, except that chemicals were somewhat more profitable as a percent of sales and foods were somewhat less profitable. It should be noted that generally, the products experiencing the greatest growth rates are the more profitable ones.

Cash and Stock Dividends

During the year SCM paid a quarterly cash dividend of 10¢, and in October, 1966 paid a 3% stock dividend. On August 17, 1967, in recognition of continuing improvement in operations and the forthcoming Glidden merger, the Board of Directors voted to increase the quarterly cash dividend to 15¢, and to continue its stock dividend policy by declaring a stock dividend for the sixth consecutive year. This dividend is 3% and will be paid on October 16, following the SCM-Glidden merger, so that it is available to both groups of stockholders.

Net Capital Expenditures

Net capital expenditures were $32,036,-000, compared to the preceding year's $19,379,000. The major items of increase are the expansion of portable typewriter facilities at Cortland, N.Y., construction of new office copier facilities at Libertyville, Ill., a substantial increase in the number of office copying machines placed on lease, and the fixed assets of companies acquired.

SCM CORPORATION STATEMENT OF CONSOLIDATED INCOME

	Years Ended June 30, 1967	Years Ended June 30, 1966
Net sales	$640,064,018	$582,760,209
Costs and expenses:		
Cost of sales	445,648,923	404,654,414
Selling, administrative, and research expenses	148,162,767	134,898,972
Interest expense—net	5,330,761	3,191,230
	599,142,451	542,744,616
Income before income taxes	40,921,567	40,015,593
United States and foreign income taxes	17,298,481	17,609,885
Net income	$ 23,623,086	$ 22,405,708
Net income per share	$3.13	$3.11

STATEMENT OF CONSOLIDATED RETAINED EARNINGS

Balance at beginning of year	$109,248,880	$100,268,722
Net changes resulting from poolings of interest	76,704	1,686,304
Net income	23,623,086	22,405,708
Total	132,948,670	124,360,734
Less:		
Pro-rata charge for Glidden shares retired	53,838,503	2,676,074
Dividends:		
SCM common stock:		
Cash (per share: 1967—$.40; 1966—$.30)	1,734,827	937,634
Stock (1967—3%, 1966—2½%)	7,299,630	4,269,055
Other companies prior to their merger with SCM	7,047,024	7,229,091
Total	69,919,984	15,111,854
Balance at end of year	$ 63,028,686	$109,248,880

See accompanying notes to financial statements.

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SCM CORPORATION CONSOLIDATED BALANCE SHEET

Assets

	June 30, 1967	June 30, 1966
Current assets:		
Cash	$ 14,290,520	$ 7,621,913
Marketable securities — at cost	2,971,343	3,311,270
Accounts receivable, less allowance for doubtful accounts—		
1967, $2,334,926; 1966, $2,318,208	93,683,623	84,838,873
Inventories, at lower of cost or market:		
Raw materials and work in process	76,428,350	65,074,734
Finished products	94,644,524	71,788,698
Total inventories	171,072,874	136,863,432
Prepaid taxes and expenses	3,660,134	3,145,067
Total current assets	285,678,494	235,780,555
Property, plant and equipment, at cost, less accumulated depreciation and depletion—		
1967, $107,780,398; 1966, $94,625,005	117,719,534	99,369,345
Other assets	7,245,853	6,640,701
Total	$410,643,881	$341,790,601

See accompanying notes to financial statements.

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SCM

Liabilities and Stockholders' Equity

	June 30, 1967	June 30, 1966
Current liabilities:		
Loans payable to banks	$ 22,431,032	$ 11,647,000
Accounts payable and accrued liabilities	49,420,387	45,788,714
United States and foreign income taxes	8,777,809	14,263,497
Deferred revenue on maintenance agreements	5,588,133	5,186,135
Long-term debt payments due within one year	2,233,550	1,465,107
Total current liabilities	88,450,911	78,350,453
Temporary financing of Glidden shares acquired	66,867,466	
Long-term debt	90,114,132	57,567,075
Deferred income taxes	7,808,854	6,252,654
Stockholders' equity:		
Capital stock:		
Preferred		4,920,975
Common	34,279,400	35,552,635
Additional paid-in capital	60,094,432	49,897,929
Retained earnings	63,028,686	109,248,880
Total stockholders' equity	157,402,518	199,620,419
Total	$410,643,881	$341,790,601

See accompanying notes to financial statements.

SCM CORPORATION STATEMENT OF CONSOLIDATED SOURCE AND APPLICATION OF FUNDS

	Years Ended June 30, 1967	Years Ended June 30, 1966
Source of funds:		
Net income	$ 23,623,086	$ 22,405,708
Depreciation and depletion	13,685,697	11,229,185
Provision for deferred income taxes	1,556,200	435,030
Amortization of deferred charges and intangibles	328,730	1,165,281
Cash flow from operations	39,193,713	35,235,204
Increase from issuance of long-term debt	39,667,097	13,292,224
Sale of common stock	907,730	1,542,088
Stock issued for net assets of companies acquired	5,574,212	736,515
Total	$ 85,342,752	$ 50,806,031
Application of funds:		
Net capital expenditures	$ 32,035,886	$ 19,378,683
Reduction of long-term debt	3,588,147	2,946,700
Cash dividends	8,781,851	8,166,725
Redemption of stock, and other items	1,139,387	3,088,878
Increase in working capital	39,797,481	17,225,045
Total	$ 85,342,752	$ 50,806,031

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

Principles of Consolidation

All wholly owned operating subsidiaries are included in the consolidated financial statements.

In September, 1967 The Glidden Company was merged into SCM and the consolidated financial statements for 1966 and 1967 give effect to this merger as a pooling of interests. In connection with the merger, SCM acquired for cancellation 2,157,113 shares from a stockholder who acquired these shares shortly before the merger through a tender offer and SCM issued 2,304,606 shares of its common stock for the remaining 5,010,013 shares of The Glidden Company. The acquisition of the Glidden shares was financed with bank loans which the company intends to retire during the next fiscal year with the proceeds of sales of additional shares of common stock and long-term convertible and non-convertible debt securities.

Several other acquisitions were made during 1967 by issuance, in the aggregate, of 112,636 shares of common stock. Certain of these acquisitions were treated as poolings of interest; however, since the operations of these companies are not significant in relation to total consolidated operations, 1966 results were not restated.

Long-Term Debt

At June 30, 1967 long-term debt due after one year consisted of the following:

5½% sinking fund debentures—due 1983	$ 23,995,000
5¾% sinking fund debentures—due 1987	20,000,000
Bank loans—prime rate plus a fraction	28,000,000
Notes payable to insurance companies	11,375,000
Other loans	6,744,132
	$ 90,114,132

During the next five years long-term debt maturities will be:

1968, $2,234,000; 1969, $5,789,000; 1970, $7,458,000; 1971, $9,669,000; 1972, $11,633,000.

Under the most restrictive provisions of the loan agreements, at June 30, 1967 $4,800,000 of retained earnings was available for cash dividends. This amount will increase by $6,800,000 when the Company's plan for re-financing the borrowings for the Glidden shares acquired is accomplished (see "Principles of Consolidation").

Additional Paid-in Capital
After restatement of the June 30, 1966 balance to give effect to the pooling, the net increase of $10,196,503 in additional paid-in capital during the year ended June 30, 1967 resulted from the following:

Excess of fair value at date of declaration over par value of common stock issued as a dividend	$ 6,670,460
Excess of sales price over par value of common stock issued upon exercise of stock options	713,805
Excess of principal amount of subordinated debentures over par value of common stock issued on conversion	2,935,335
Excess of fair value over par value of common stock issued for the purchase of assets	4,890,073
Difference between par value of stock of pooled companies and par value of common stock issued in exchange therefor	(66,245)
Excess of par value of preferred stock over par value of common stock issued on conversion	3,620,678
Pro-rata charge for Glidden shares retired	(8,067,603)
Costs in connection with pooling of interest	(500,000)
Net increase	$10,196,503

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, 1967, 6,855,880 shares of common stock were deemed to be issued and outstanding, including shares subsequently issued on the conversion of the Company's 5¼% debentures which were called for redemption on August 1, 1967. At June 30, 1967, 423,362 shares of common stock were reserved for issuance under the Company's stock option plans.

Glidden stock options outstanding at the merger date were converted into options to purchase SCM common stock and no additional options may be granted under the Glidden plan. During the year, on a combined basis, options to purchase 30,000 shares of common stock were granted, options for 38,785 shares were exercised and options for 6,259 shares were cancelled. At June 30, 1967 after adjustment for stock dividends there were options for 258,825 shares outstanding. Options granted prior to January 1, 1964 were at 95% of the fair market value of the stock on the dates granted; all other options were granted at the fair market value on the dates granted.

Retirement Plans
The Company has several pension plans covering substantially all of its employees. In 1967 the Company's provision for pension expense, calculated in accordance with current accounting practice, was $1,200,000 which included amortization of prior service costs over periods ranging from 25 to 40 years. The Company's estimate of unfunded vested benefits at June 30, 1967 was $1,300,000.

Commitments
At June 30, 1967 the Company's annual rental for real property under leases expiring after June 30, 1970 was approximately $5,050,000. These leases have varying expiration dates through 1992. This obligation will decrease by about $1,500,000 by 1975 and by an additional $2,300,000 by 1985.

AUDITORS REPORT

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

To the Stockholders
SCM Corporation

We have examined the financial statements of SCM Corporation and its subsidiaries, except The Glidden Company and its subsidiaries, for the year ended June 30, 1967. 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. As to the amounts included in the financial statements for the Glidden Company and its subsidiaries, which amounts constitute substantial portions of the respective consolidated totals, we were furnished with the report of other accountants on their examination of the financial statements of such companies for the year.

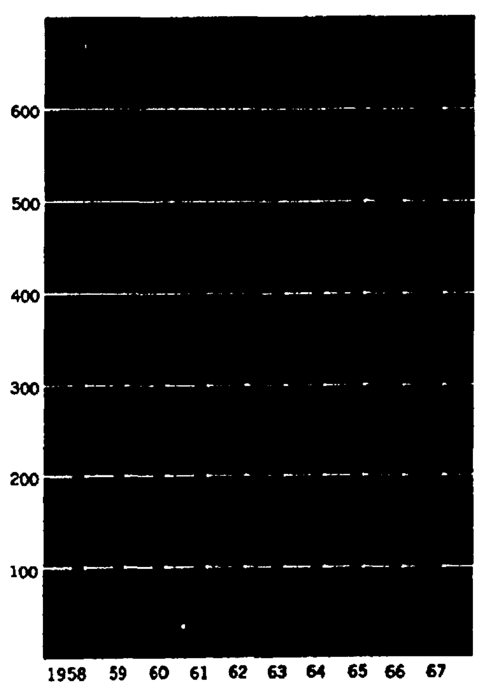
In our opinion, based on our examination and the report of other accountants referred to above, the accompanying consolidated balance sheet and the statements of consolidated income and consolidated retained earnings present fairly the financial position of the companies at June 30, 1967 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year, and the accompanying statement of consolidated source and application of funds presents fairly the information shown therein.

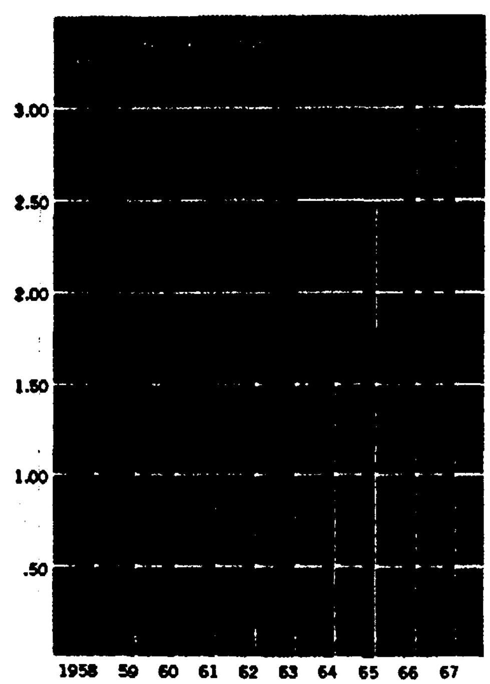
Haskins & Sells

September 22, 1967

SCM CORPORATION TEN YEAR STATISTICAL SUMMARY (All dollar amounts presented

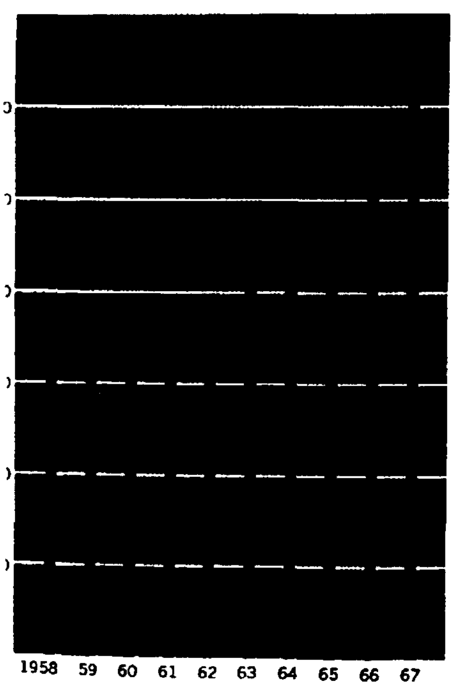
	1967	1966
Income		
Net sales	$640,064	$582,760
Income before income taxes	40,922	40,016
U.S. and foreign income taxes	17,299	17,610
Net income	23,623	22,406
Dividends on common stock	8,479	7,666
Income reinvested	14,841	14,239
Depreciation and depletion	13,686	11,229
Per Common Share		
Net income	$ 3.13	$ 3.11
SCM cash dividends	.40	.30
Stock dividends	3%	2½%
Cash flow from operations	5.27	4.99
Book value	22.96	26.91
Financial Position		
Working capital	$197,228	$157,430
Property, plant and equipment—net	117,720	99,369
Total assets	410,644	341,791
Other Statistics		
Net capital expenditures	$ 32,036	$ 19,379
Return on equity	15.0%	11.5%
Return on net sales	3.7%	3.8%
Current ratio	3.23	3.01
Number of employees	30,300	28,400
Number of stockholders	41,800	43,300
Average common shares outstanding	7,443,000	7,068,000

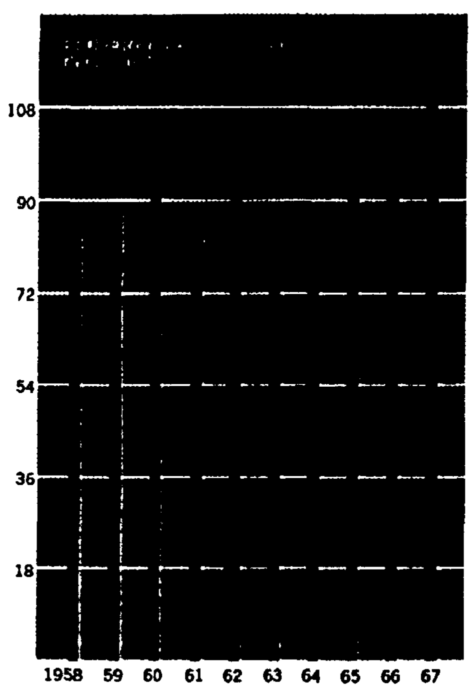




n thousands, except figures given on a per share basis.)

1965	1964	1963	1962	1961	1960	1959	1958
$505,874	$425,169	$404,854	$383,540	$346,045	$327,409	$314,077	$333,650
30,001	23,280	18,471	18,586	12,212	14,683	16,154	16,080
13,916	11,395	8,478	8,052	6,477	6,814	8,565	8,509
16,085	11,885	9,993	10,534	5,735	7,869	7,589	7,571
5,547	4,920	4,663	4,884	4,622	4,719	6,158	6,088
9,267	5,728	4,450	5,232	912	3,121	1,397	1,426
10,186	9,971	10,575	9,440	10,670	9,850	9,009	7,801
$ 2.47	$ 1.83	$ 1.56	$ 1.75	$ .99	$ 1.36	$ 1.33	$ 1.38
—	—	—	—	—	—	—	—
5%	3%	3%	2%	—	—	—	—
4.66	3.87	3.75	3.65	2.66	3.07	2.90	2.80
26.30	26.41	25.47	24.81	23.86	24.08	23.74	24.11
$138,668	$135,610	$130,731	$111,221	$110,382	$105,728	$106,125	$ 94,190
92,268	87,383	87,227	90,480	85,009	91,390	88,658	85,369
299,226	288,048	271,660	263,942	250,167	244,522	233,201	228,649
$ 14,263	$ 10,155	$ 5,900	$ 14,912	$ 3,988	$ 12,576	$ 11,688	$ 13,734
8.8%	6.9%	5.9%	7.0%	4.1%	5.6%	5.5%	5.6%
3.2%	2.8%	2.4%	2.8%	1.7%	2.4%	2.4%	2.3%
3.24	3.36	3.82	2.99	3.18	3.49	4.06	3.16
27,200	22,700	22,300	21,300	20,000	19,200	18,400	18,600
39,600	34,500	34,200	34,300	34,200	35,400	33,700	32,500
6,022,000	5,857,000	5,843,000	5,823,000	5,800,000	5,793,000	5,716,000	5,501,000





SCM CORPORATE DATA

Directors

Edward H. Litchfield, *Chairman**
John T. Booth
Lewis H. Durland
Paul H. Elicker
George E. Hall
Wallace W. Knox*
Emerson E. Mead*
William G. Phillips
Paul W. Neidhardt
Walter M. Schwartz, Jr.
Elwyn L. Smith*
James M. Symes*
George S. Warner
William I. Myers, *Emeritus*

*Members of Executive Committee

Corporate Officers

Edward H. Litchfield
Chairman of the Board

Emerson E. Mead
President and Chief Executive Officer

G. Robert Boller
Vice President-Corporate Development

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

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

Paul H. Elicker
Vice President-Finance; Treasurer

George E. Hall
Vice President and General Counsel; Secretary

Richard B. Le Vino
Vice President-Research

William G. Phillips
Vice President; President, Glidden-Durkee Division
Cleveland, Ohio

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

Robert W. Holmes
Vice President

John E. Wilson
Vice President

Transfer Agents

Marine Midland Grace Trust Company of New York
140 Broadway, New York, N.Y. 10005

Bank of America National Trust & Savings Association
300 Montgomery Street, San Francisco, California 94104

Registrars

Manufacturers Hanover Trust Company
55 Broad Street, New York, N.Y. 10004

United California Bank
405 Montgomery Street, San Francisco, California 94104

Corporate Headquarters

410 Park Avenue, New York, New York 10022
Telephone: 212-752-2700

Annual Meeting

The Annual Meeting of Shareholders will be held at 11:00 a.m. on October 19, 1967, at the Robert Meyer Hotel, Jacksonville, Florida.

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