Glidden

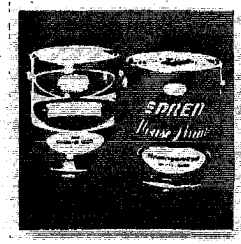
The Glidden Company Annual Report 1963

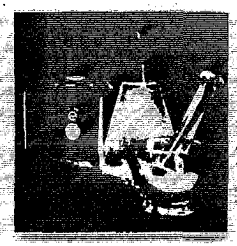
















LITHO IN U.S.A.

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Board of Directors

DWIGHT P. JOYCE
ALEXANDER D. DUNCAN
B. W. MAXEY
JOHN H. WEEKS
ROBERT D. HORNER
WILLIAM G. PHILLIPS
GEORGE M. HALSEY
GEORGE S. WARNER
WILLIAM P. SMITH
PAUL W. NEIDHARDT
RICHARD H. TURK, SR.
WILLIAM A. BITTENBENDER

Corporate Officials

Dwight P. Joyce,
Chairman of the Board and President

B. W. Maxey,
Vice Chairman of the Board and
Vice President-Finance

William G. Phillips,
Administrative Vice President

George M. Halsey,
Vice President, Chemicals Group

Robert D. Horner,
Vice President, International Group

John H. Weeks,
Vice President-Personnel

George S. Warner,
Vice President-Operations
Chemicals Group

Paul W. Neidhardt,
Vice President, Coatings and
Resins Group

Richard H. Turk, Sr.,
Vice President, Pemco Division

Robert E. Dorfmeyer,
Vice President-Corporate Development

Robert L. Lozon,
Vice President-Purchasing

William A. Bittenbender,
Corporate Director of Research

Richard K. Dutton,
Secretary and General Counsel

Richard W. Patterson,
Treasurer

Donald E. Erskine,
Controller

M. D. Higbee,
Assistant Controller

G. W. Reid,
Assistant Secretary

J. P. White,
Assistant Secretary

M. W. Peters,
Assistant Treasurer

G. K. Brewin,
Assistant Treasurer

Corporate Data

Executive Offices
900 Union Commerce Building
Cleveland, Ohio

Trustee-Sinking Fund Debentures
First National City Bank of New York
New York, New York

Transfer Agent—Preferred Stock
The Glidden Company
900 Union Commerce Building
Cleveland, Ohio

Transfer Agents—Common Stock
Chemical Bank New York Trust Company
New York, New York
The Cleveland Trust Company
Cleveland, Ohio

Registrars—Common Stock
The Chase Manhattan Bank
New York, New York
Central National Bank of Cleveland
Cleveland, Ohio

The debentures and common stock of the company are listed on the New York Stock Exchange and the common stock has trading privileges on other major stock exchanges.

The annual meeting of stockholders will be held on Thursday, December 12, 1963, at 10 a.m., in the Euclid Ballroom of the Hotel Statler Hilton, Cleveland, Ohio.

Financial Highlights

	1963	1962	Change
Net sales	$240,954,776	$237,882,381	+ 1%
Income before taxes	$ 14,467,335	$ 14,024,705	+ 3%
Net income	$ 7,494,335	$ 6,689,705	+12%
Per common share	$3.03	$2.72	+11%
Cash flow	$ 15,640,718	$ 14,006,042	+12%
Per common share	$6.53	$5.86	+11%
Dividends on common stock	$ 4,662,880	$ 4,650,214	
Per share	$2.00	$2.00	
Dividends on preferred stock	$ 420,066	$ 317,667	
Depreciation and depletion	$ 6,750,383	$ 6,099,337	+11%
Expenditures for plant and equipment	$ 4,023,449	$ 11,755,093	−66%
Working capital	$ 73,359,202	$ 67,970,025	+ 8%
Current ratio	4.51 to 1	4.60 to 1	
Shareholders' equity	$105,390,441	$102,960,909	+ 2%
Per common share	$41.26	$40.31	
Number of shareholders			
Preferred	135	121	
Common	20,809	21,043	
Number of employees	7,505	7,115	+ 5%

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Report from the Chairman and President

Sales of The Glidden Company reached an all-time high of $240,954,776 in fiscal 1963, compared with sales of $237,882,381 in fiscal 1962. Sales of the Coatings and Resins Group, the Chemicals Group and the International Group were ahead of the previous year, while sales of the Foods Group were down from fiscal 1962. Net income for 1963 amounted to $7,494,335, compared with net income of $6,689,705 for the previous fiscal year. The year's operating results are discussed in detail in other sections of this report.

The year 1963 was one of contrast. It began sluggishly and moved at a slow pace through the winter months, due partially to the extremely bad weather in many parts of the country. With the coming of spring, demand picked up well in many of our product lines, particularly coatings and chemical intermediates. As a result, we enjoyed an excellent second half and ended the 1963 fiscal year ahead of the previous year in both sales and profits. It should be noted that though the sales increase was relatively small, the profit increase was a substantial 12 per cent. This increase was achieved because of several factors: First, we are concentrating more of our sales efforts on those areas of our business which offer the best profit potential. Second, we are exercising rigid expense controls in all segments of the company to keep our day-to-day expenses to a minimum consistent with good business practices. Third, we are now beginning to reap the benefits of substantial capital investments made during previous years to improve our manufacturing processes and increase efficiency, and we are continuing to invest money where needed to cut costs and to manufacture new products.

Earnings for fiscal 1963 would have shown an even larger increase had we not increased marketing expenses, including advertising. This was due partially to more intense competition in many lines, and partially to additional expenses connected with the introduction of several new or improved food, coatings and chemical products. Development costs in connection with the ilmenite mine, the Architectural Products Division and other programs also exerted a downward pressure on earnings.

As I have stated to you previously, we are investing considerable sums of money in future growth, and we expect that expenditures for this purpose will remain at relatively high levels. We are continuing to follow the policy of foregoing a dollar's worth of profit today if that dollar well spent will lead to greater profits in the future. For example, we are continuing to invest in research and new product development. Expenditures for this purpose amounted to $5.9 million in fiscal 1963, an increase of $600,000 over the previous fiscal year and $3.3 million over the amount spent just four years ago. This money is being used to expand and upgrade research staffs in all our operating groups and to improve research facilities.

We are also making greater use of market research to help define areas of future growth and to assist in developing the best methods of entering such areas. Market research outlays have been increased substantially in the past four years, and we expect that these expenditures will continue in the years to come.

We are devoting a great deal of time and money to overseas markets, particularly in Europe. During the year, we acquired a majority interest in an Italian industrial coatings manufacturer, and began construction of a porcelain enamel frit plant in Belgium. A new synthetic resin plant is being completed at a West German coatings plant in which Glidden has a substantial interest. These projects are discussed in detail elsewhere in this report. The company is investigating several opportunities in the coatings, foods and chemicals markets overseas. It is our intention to expand our markets and operations abroad so that an increasing portion of the company's sales and profits are generated by overseas operations. As in other areas of activity, we are attempting to create the best opportunity for maximum profit at minimum risk.

Several important organizational changes were announced during the year. Mr. Alexander D. Duncan, Senior Vice President and a member of the Board of Directors, has retired, effective November 5, 1963. Mr. Duncan was elected Vice President of The Glidden Company's Paint Division and a Director in 1947, and headed the International Group when it was formed in 1961. In March, 1963, he was appointed Senior Vice President and was succeeded as Vice President-International Group by Mr. Robert D. Horner, formerly Vice President, Secretary and General Counsel of the company. Mr. Richard K. Dutton, formerly Assistant Secretary, was elected Secretary and also serves as General Counsel.

Mr. William G. Phillips, formerly Vice President-Planning and Treasurer, was elected Administrative Vice President, a newly created position. He is in charge of the Foods Group, as well as several headquarters staff functions. Mr. Richard W. Patterson, formerly Assistant Treasurer, was elected Treasurer. Mr. Robert E. Dorfmeyer, also formerly Assistant Treasurer, was elected Vice President-Corporate Development and coordinates Glidden's long range planning effort, particularly in the areas of acquisitions and market research.

In the Coatings and Resins Group, Mr. George S. Forbes was appointed Vice President-Operations, and the following were appointed Regional Vice Presidents: Mr. John H. Lathe, Jr. (Pacific) and Mr. Richard H. Stephens (Southwest). Mr. James W. Fowler was elected Vice President of The Glidden Company, Limited. In the Chemicals Group, Mr. James C. Rankin was appointed Vice President-Marketing and Mr. Robert P. T. Young was appointed Vice President of the Organic Chemicals Division. Mr. G. Keith Brewin was elected Assistant Treasurer and is assigned to the International Group.

I am pleased to point out that 1963 marks the thirty-first consecutive calendar year in which The Glidden Company has paid a dividend. Every year since 1933, the company has paid its shareholders a return on their investment in the business. We are proud of this record, and it will serve as a constant reminder to us that our primary obligation is to you—the owners of the company.

Sincerely,

Dwight P. Joyce

Chairman and President

November 11, 1963



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Operating Results of The Glidden Company in 1963

SALES–The consolidated sales of The Glidden Company were $240,954,776 in 1963, compared with $237,882,381 in 1962.

Sales by operating groups for fiscal 1963 compared with fiscal 1962 were:

	1963 (000)	1962 (000)	Change
Coatings and Resins	$ 96,300	$ 95,300	+ 1%
Foods	95,600	98,600	− 3%
Chemicals	43,200	40,100	+ 8%
International	5,900	4,000	+48%
Total	$241,000	$238,000	

The decline in the Foods Group was due to lower vegetable oil prices.

NET INCOME–Consolidated net income in 1963 was $7,494,335, compared with net income of $6,689,705 in fiscal 1962. Net income per common share was $3.03, compared with $2.72 for 1962. Profits of the Coatings and Resins Group and Chemicals Group increased, but profit of the Foods Group was down slightly, due primarily to price pressures on commodity type oil products. Total profit of the International Group was down, but regular operating profit was up. International Group results for fiscal 1962 contained a substantial non-recurring royalty payment. Net income by quarters was:

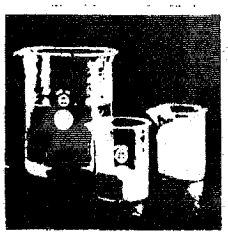
Quarter Ended	1963 Amount (000)	1963 Per Common Share	1962 Amount (000)	1962 Per Common Share
November 30	$1,414	$ .56	$1,392	$ .59
February 28	993	.38	1,012	.38
May 31	2,114	.86	1,761	.71
August 31	2,973	1.23	2,525	1.04

DIVIDENDS–Dividends on common stock totaled $4,662,880, based on the regular $2.00 annual rate. For the year, 66 per cent of net income available for common was distributed to common shareholders as dividends. Dividends declared on the $2.125 preferred stock amounted to $420,066 for the entire fiscal year, compared with $317,667 for nine months of the previous fiscal year.

During the 1963 calendar year the following quarterly dividend payments were made on common stock:















Chicago, Toronto, Baltimore, Jacksonville and St. Louis. The effort to improve our manufacturing efficiency is never ending and will always require certain capital expenditures—but the programs requiring substantial capital outlays, which we undertook several years ago, are now virtually complete, and we are making efficient use of these new facilities. We fully expect, however, that our research and development effort will bring forth new products, requiring substantial additional capital expenditures for productive capacity, but we have not yet reached this point. It should also be pointed out that capital expenditures for fiscal 1962 were somewhat higher than in the years immediately prior, due mainly to the acquisition of Olney & Carpenter, Inc.; therefore, the decrease in capital expenditures for fiscal 1963 from fiscal 1962 tends to be exaggerated.

It is now estimated that capital expenditures for fiscal 1964 will be between $9 and $10 million.

SALES AND PROFITS—The following is the percentage of sales and profits for each operating group in 1963, along with the portion of the total assets employed to produce these sales and profits:

	% Sales	% Profit	% Assets
Coatings and Resins	40	37	35
Foods	40	24	26
Chemicals	18	36	34
International	2	3	5

ADVERTISING—Advertising expenditures for all operating groups amounted to $6,217,784. The previous fiscal year's total advertising expenses were $5,768,864.

NEW PRODUCTS—During the year many new or improved products were brought to market. A few of the more significant ones are highlighted.

• In July, we announced the introduction of a new metal prime coating for protecting automobile bodies against corrosion. This new coating was developed for use in an equally new process called electrocoating, which was developed to a high degree by Ford Motor Company. One major advantage of electrocoating is that this method imparts a film of uniform thickness to most surfaces, including sharp edges and inaccessible areas. Development efforts are being broadened to include other metal fabricating uses for both prime coat materials and one-coat enamels.

• Our new "Homogenized" Spred Satin is a significant refinement in latex emulsion paints. The new homogenized formulation eliminates a weakness of latex paints—that of stratifying into layers. It also provides a tougher finish, adheres better to woodwork, has less light reflection and washes better. These improvements are possible through the use of a modified acrylic latex which Glidden now manufactures.

• During the year the Grocery Products Division of the Durkee Famous Foods Group began intensive nationwide promotion of a new line of fourteen convenience sauce mixes. These sauce mixes, which have excellent flavor characteristics, are achieving outstanding acceptance in the markets in which they are being offered.

• In the Chemicals Group, several new or improved products were brought to market during the year. These include:

—A new form of thermoplastic colors, called color tabs, for ceramic labeling and decorating glass bottles and containers.

—New Mirac porcelain enamel frits for the appliance industry.

—A new line of yellow and red pigments for the plastics industry, which are stronger and have greater heat resistance.

—New metal powder alloys with special corrosion and heat-resistant characteristics.

OVERSEAS ACTIVITIES—Early in fiscal 1963, work was begun on a new porcelain enamel frit plant at Bruges, Belgium, to serve industries in the Common Market, elsewhere in Europe, and in the United Kingdom. Construction is on schedule, and initial production will begin early in 1964.

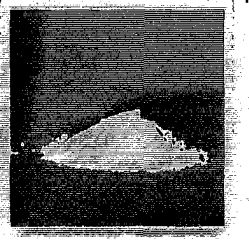
In March, 1963, Glidden acquired a 51% interest in an Italian coatings manufacturer, now known as Glidden-Salchi S.p.A., with headquarters in Milan. A new plant is now being constructed near that city. We expect that Glidden's technical knowledge will enable Glidden-Salchi to achieve a much greater penetration of the Italian markets for industrial finishes.

A new synthetic resin plant and other facilities are



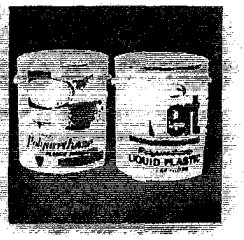














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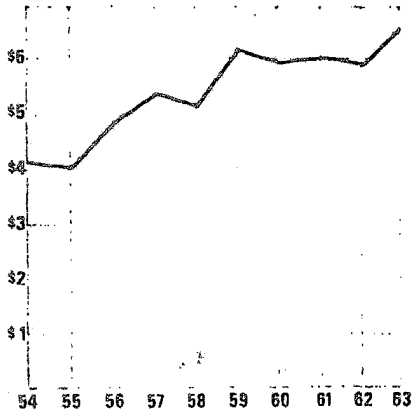
Cash Flow per Common Share 1954–1963



being added to the plant of Lackwerke Wulfing, the West German paint company in which Glidden owns an interest.

Glidden's operations are also doing well in Latin America. We recently announced the purchase of a tract of land in Mexico City for the erection of a paint plant, and construction is under way. Another paint plant is under construction in Panama. We have also opened a new paint branch in Puerto Rico – the sixth such outlet there – to serve the island's growing economy.

WAGES AND SALARIES–Wages, salaries and employee benefits amounted to $46,902,954, which was 19.5% of sales. For fiscal 1962, they were $46,053,835, or 19.4% of sales. During the year, the Board of Directors, with the approval of the stockholders, made certain improvements in the company's benefit and pension plans to keep these plans in line with those of competitive companies.

INVENTORIES–At the end of 1963 fiscal year, inventories totaled $52,448,724, compared with $48,621,870 at the end of the 1962 fiscal year. Fully hedged crude vegetable oil stocks largely account for this increase.

DEPRECIATION–Charges against income for depreciation and depletion amounted to $6,750,383 for 1963, compared with $6,099,337 for fiscal 1962. By using Internal Revenue Service guideline lives, additional depreciation of $2,193,373 will be claimed for 1963 federal tax purposes. In 1962, this amounted to $2,399,059. Provision has been made for the taxes which have been deferred as a result of this treatment, and this is consistent with the practice we followed in 1962.

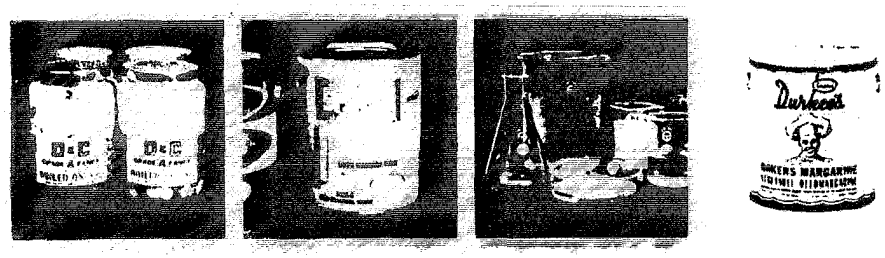
TAXES–Taxes on income amounted to $6,973,000, or $2.99 per common share. Of this amount, $5,577,000 represents taxes which are payable currently, and $1,396,000 represents taxes for which payment has been deferred to future years. This deferment of taxes provides an additional cash flow amounting to $0.60 per common share and is due to two factors: additional tax depreciation previously referred to, and investment tax credit available retroactively to January 1, 1962, under the Revenue Act of 1962 which became effective in October of that year. These factors and the consolidation of Canadian and overseas operations (where lower tax rates are in effect) combine to reduce substantially the tax rate for the company.

Real estate, personal property, franchise and other miscellaneous taxes amounted to $1,544,860.

CASH FLOW–Cash flow was equal to $6.53 per common share in fiscal 1963, compared with cash flow of $5.86 per share in fiscal 1962.

LITIGATION–The Glidden Company and nine other vegetable oil processors are under indictments on charges of stabilizing prices and restricting competition in the sale of shortening and salad oil for industrial purposes in ten western states. Two executives of our Foods Group, together with individuals employed by other processors, were also indicted. All of the corporate and individual defendants involved entered pleas of "not guilty." The trial of the shortening aspect of the indictments began in Los Angeles on October 1, 1963. In view of this, we feel it would not be prudent to comment at this time on the merits of the indictments other than to confirm that it is The Glidden Company's policy to compete independently and vigorously for business of all kinds and that we have no reason to believe that either our company or its employees have violated the antitrust laws.

At the present time, the U. S. Court of Appeals for the Second Circuit is reviewing the case of Zdanok, et al v. Glidden and the companion case of Alexander, et al v. Glidden, involving a total of 129 plaintiffs (25 fewer than reported last year). This is to determine whether a breach of the plantiffs' union contract occurred when they were not offered employment with full seniority at the new operations at Bethlehem, Pennsylvania, following the closing of the company's coconut and condiment plant at Elmhurst, New York. In October, 1962, the U. S. Supreme Court denied review of the labor issues in the Zdanok case, and the case was remanded to the U. S. District Court. There, it was consolidated with the Alexander case, tried in January, 1963, and an interlocutory judgment was entered against Glidden. This has permitted us to appeal the cases to the U. S. Court of Appeals as to the applicable issues of law without first going through a long trial to determine damages, if any. Because of the evidence introduced at the January, 1963, trial and the development of legal principles in other cases, which we believe are controlling and are contrary to the decisions against Glidden, we are hopeful that the Court of Appeals will find in our favor, and that the actions against the company will ultimately be terminated without liability. Regardless of the outcome, it is the opinion of counsel that the company's potential financial liability is not material.





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A Ten Year Comparison

(All dollar amounts are expressed in thousands, except figures given on a per share basis.)

	1963	1962	1961	12 Months – August 31 1960	1959	1958	1957	1956	10 Months August 31 1955	12 Months October 31 1954
INCOME										
Net sales	$ 240,955	$ 237,882	$ 206,702	$ 197,491	$ 195,764	$ 217,353	$ 225,537	$ 226,290	$ 180,525	$ 209,084
Cost of products sold	171,260	172,819	150,173	142,809	142,535	168,979	176,874	177,538	142,047	167,845
Selling and administrative expenses	54,959	50,877	43,950	40,616	36,803	34,149	32,995	31,974	24,047	27,701
Income from operations	14,736	14,187	12,548	14,066	16,426	14,225	15,668	16,778	14,431	13,538
Income before taxes	14,467	14,025	12,607	13,638	15,926	12,350	15,387	16,451	14,325	14,235
Taxes on income	6,973	7,335	6,190	6,948	8,292	6,287	8,123	8,304	7,212	7,142
Net income	7,494	6,690	6,417	6,690	7,634	6,063	7,264	8,147	7,113	7,093
Dividends on preferred shares	420	318	–	–	–	–	–	–	–	–
Dividends on common shares	4,663	4,650	4,622	4,621	4,610	4,596	4,594	4,592	4,589	4,582
Earnings reinvested	2,411	1,722	1,795	2,069	3,024	1,467	2,670	3,555	2,524	2,511
Depreciation, depletion and amortization	6,750	6,099	7,441	6,960	6,579	5,838	5,046	2,870	2,235	2,333
Provision for deferred income taxes(1)	1,396	1,217	–	–	–	–	–	–	–	–
FINANCIAL POSITION										
Working capital	$ 73,359	$ 67,970	$ 68,061	$ 59,722	$ 58,248	$ 52,572	$ 53,100	$ 35,696	$ 47,156	$ 51,226
Property, plant and equipment – net	59,658	61,261	54,691	62,106	60,907	59,992	59,517	53,414	39,993	34,493
Total assets	158,891	151,840	140,039	138,034	137,552	133,240	140,370	118,738	106,762	102,670
Long-term debt	30,000	30,000	30,000	30,000	30,000	26,000	27,500	7,500	9,000	10,500
Shareholders' equity	105,390	102,961	94,666	92,847	90,679	87,304	85,837	83,091	79,513	76,923
PER COMMON SHARE										
Net sales	$ 94.33	$ 93.15	$ 89.43	$ 85.47	$ 84.82	$ 94.58	$ 98.14	$ 98.56	$ 78.65	$ 91.16
Net income	3.03	2.72	2.78	2.90	3.31	2.64	3.16	3.55	3.10	3.09
Depreciation, depletion and amortization	2.90	2.62	3.22	3.01	2.85	2.54	2.20	1.25	.97	1.02
Provision for deferred income taxes(1)	.60	.52	–	–	–	–	–	–	–	–
Dividends	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
Shareholders' equity	41.26	40.31	40.96	40.18	39.29	37.99	37.35	36.19	34.64	33.54
Price of Glidden common shares(2) – High	44.63	45.38	47.00	45.63	50.25	47.00	37.50	41.12	44.50	42.50
– Low	36.12	32.75	35.75	34.75	41.88	28.00	29.50	34.50	36.12	28.75
OTHER STATISTICS										
Expenditures for property, plant and equipment	$ 4,024	$ 11,755	$ 7,823	$ 8,764	$ 7,607	$ 9,214	$ 12,465	$ 16,637	$ 8,155	$ 4,021
% net income to shareholders' equity	7.1%	6.5%	6.8%	7.2%	8.4%	6.9%	8.5%	9.8%	8.9%	9.2%
% common dividends to net income available for common	65.9%	73.4%	72.0%	69.1%	60.4%	75.8%	63.2%	56.4%	64.5%	64.6%
Ratio of current assets to current liabilities	4.51	4.60	5.43	4.93	4.45	3.64	2.96	2.27	3.58	4.36
Preferred shares outstanding	197,270	198,900	–	–	–	–	–	–	–	–
Common shares outstanding	2,332,485	2,329,872	2,311,245	2,310,590	2,307,850	2,298,170	2,298,170	2,295,990	2,295,350	2,293,455
Number of shareholders – Preferred	135	121	–	–	–	–	–	–	–	–
– Common	20,809	21,043	20,873	20,969	20,993	22,405	21,686	20,758	20,019	19,174
Number of employees	7,505	7,115	6,372	6,151	6,023	6,353	6,455	6,387	6,397	6,198
PRO FORMA *(excluding operations of Chemurgy Division for the fiscal years 1954-1958)*										
Net sales	$ 240,955	$ 237,882	$ 206,702	$ 197,491	$ 195,764	$ 185,380	$ 190,424	$ 190,483	$ 151,752	$ 169,823
Income from operations	14,736	14,187	12,548	14,066	16,426	11,923	13,590	13,956	12,706	11,362
Income before taxes	14,467	14,025	12,607	13,638	15,926	10,294	13,590	14,252	13,102	12,271
Net income	7,494	6,690	6,417	6,690	7,634	5,076	6,402	7,091	6,526	6,150

(1) Used in cash flow calculation

(2) Calendar years, except 1963 which is to October 1, 1963

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Consolidated Balance Sheets

The Glidden Company and Subsidiaries

August 31, 1963, and August 31, 1962

Assets

Current Assets	1963	1962
Cash	$ 9,574,833	$ 9,957,068
Short-term securities – at cost	5,964,509	1,989,993
Trade accounts receivable, less allowances of $510,363 (1962–$502,720)	24,731,444	24,066,793
Inventories – generally at the lower of accumulated-average cost or replacement market:		
Raw materials and work in process	$ 23,052,416	$ 21,043,890
Finished products	29,396,308	27,577,980
	$ 52,448,724	$ 48,621,870
Other current accounts and investments	1,020,465	1,432,680
Prepaid expenses	506,979	780,947
TOTAL CURRENT ASSETS	$ 94,246,954	$ 86,849,351
Property, Plant, and Equipment		
Land and mineral deposits – at cost	$ 5,601,040	$ 5,487,499
Buildings – at cost	30,709,018	29,868,259
Machinery and other equipment – at cost	69,313,744	66,832,306
	$105,623,802	$102,188,064
Less accumulated depreciation and depletion	45,965,423	39,709,681
TOTAL PROPERTY, PLANT, AND EQUIPMENT – NET	$ 59,658,379	$ 62,478,383
Other Assets and Deferred Charges	4,985,860	3,729,501
	$158,891,193	$153,057,235

Liabilities and Shareholders' Equity

Current Liabilities	1963	1962
Accounts payable	$ 10,853,159	$ 9,401,826
Accrued taxes, interest, and other expenses	2,249,027	2,170,787
Notes payable by subsidiary to banks	1,342,968	900,000
Dividend payable	1,166,242	1,164,936
Income taxes – estimated	5,276,356	5,241,777
TOTAL CURRENT LIABILITIES	$ 20,887,752	$ 18,879,326
4¼% Sinking Fund Debentures – payable $1,500,000 annually 1964-1983	30,000,000	30,000,000
Deferred Federal Income Taxes – *Note B*	2,613,000	1,217,000
Shareholders' Equity – *Notes C, D, and E*		
Cumulative Preferred Stock without par value:		
Authorized – 500,000 shares, of which 199,840 have been designated as $2.125 series		
Outstanding – 197,270 shares, at stated value of $25 a share (1962 – 198,900)	$ 4,931,750	$ 4,972,500
Common Stock – par value $10 a share:		
Authorized – 3,500,000 shares		
Reserved for conversion and options – 367,584 shares (1962 – 376,888)		
Outstanding – 2,332,485 shares (1962 – 2,329,872)	23,324,850	23,298,720
Additional capital paid in	11,114,025	11,081,262
Earnings retained for use in the business	66,019,816	63,608,427
TOTAL SHAREHOLDERS' EQUITY	$105,390,441	$102,960,909
	$158,891,193	$153,057,235

See notes to financial statements.

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Consolidated Statements of Income and Earnings Retained for Use in the Business

The Glidden Company and Subsidiaries

Years ended August 31, 1963, and August 31, 1962

Income	1963	1962
Net sales	$240,954,776	$237,882,381
Operating costs:		
Cost of products sold	$171,259,979	$172,818,579
Selling and administrative expenses	54,958,828	50,876,936
	$226,218,807	$223,695,515
INCOME FROM OPERATIONS	$ 14,735,969	$ 14,186,866
Other income and (deductions):		
Foreign technical service fees	$ 274,124	$ 679,370
Income from foreign associates	320,220	268,600
Canadian exchange adjustment	– 0 –	(286,041)
Interest on long-term debt	(1,425,000)	(1,425,000)
Other items – net	562,022	600,910
	$ (268,634)	$ (162,161)
INCOME BEFORE INCOME TAXES	$ 14,467,335	$ 14,024,705
Provision for income taxes – *Note B*:		
Current year	$ 5,577,000	$ 6,118,000
Deferred	1,396,000	1,217,000
	$ 6,973,000	$ 7,335,000
NET INCOME	$ 7,494,335	$ 6,689,705

Provision for depreciation and depletion was $6,750,383 (1962 – $6,099,337)

Earnings Retained for Use in the Business		
Balance at beginning of year	$ 63,608,427	$ 61,886,603
Net income	7,494,335	6,689,705
	$ 71,102,762	$ 68,576,308
Cash dividends declared:		
Preferred Stock	$ 420,066	$ 317,667
Common Stock – $2.00 a share	4,662,880	4,650,214
	$ 5,082,946	$ 4,967,881
Balance at end of year	$ 66,019,816	$ 63,608,427

See notes to financial statements.

Summary of Source and Application of Funds

The Glidden Company and Subsidiaries

Years ended August 31, 1963, and August 31, 1962

Source of Funds	1963	1962
From operations:		
Net income	$ 7,494,335	$ 6,689,705
Charges which did not involve current expenditures:		
Provision for depreciation and depletion	6,750,383	6,099,337
Provision for deferred income taxes	1,396,000	1,217,000
TOTAL FROM OPERATIONS	$15,640,718	$14,006,042
Sale of Common Stock under option plans (1963 – 2,613 shares; 1962 – 17,570 shares)	99,631	629,793
Net current assets acquired from Pemco Corporation for Preferred Stock	– 0 –	3,381,562
Other sources (applications) – net	164,803	(490,524)
	$15,905,152	$17,526,873

Application of Funds		
Dividends declared	$ 5,082,946	$ 4,967,881
Expenditures for property, plant, and equipment	4,023,449	11,755,093
Additional investments in and advances to associated companies	1,328,092	894,884
Redemption of $2.125 Cumulative Preferred Stock (1,630 shares)	81,488	– 0 –
Increase (decrease) in working capital	5,389,177	(90,985)
	$15,905,152	$17,526,873

Notes to Financial Statements

Year ended August 31, 1963

Note A – The consolidated financial statements include the accounts of all wholly-owned operating subsidiaries. The accounts of the consolidated foreign subsidiaries have been translated at rates of exchange prevailing during the year, except for the property, plant, and equipment accounts of the Canadian subsidiary, which are included on a dollar-for-dollar basis.

Note B – Of the $2,613,000 shown as deferred federal income taxes at August 31, 1963, there was $1,217,000 reported at August 31, 1962, as accumulated depreciation and depletion.

The investment tax credit approximating $520,000 (of which $326,000 represents credit retroactively available against investment in the period from January 1, 1962,

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Notes to Financial Statements—Continued

to August 31, 1962) has been accounted for by a reduction of $520,000 in the provision for current income taxes for the year ended August 31, 1963, offset to the extent of $225,000 in the provision for deferred income tax.

Note C – The $2.125 Cumulative Preferred Stock is convertible at any time into Common Stock at an exchange rate of 1¼ shares of common for each share of preferred and is redeemable at prices ranging from $55 a share in 1966 to $51 a share in 1981 and thereafter. At August 31, 1963, there were 221,929 common shares reserved for conversion.

Note D – At the beginning of the year, options were outstanding for 129,625 shares of Common Stock pursuant to restricted stock option plans for key personnel. During the year, options for 2,613 shares were exercised and options for 7,857 shares were canceled. At August 31, 1963, options for 119,155 shares were outstanding and 26,500 shares were reserved for the granting of future options.

Note E – The indenture relating to the Company's 4¾% Sinking Fund Debentures permits the declaration of dividends after August 31, 1963 to the extent of $21,400,000 plus consolidated net income earned after that date.

Note F – The Company and a consolidated subsidiary maintain and absorb all costs of employee retirement plans that provide benefits to eligible employees in proportion to the employees' basic earnings during stimulated periods of service and subject to certain maximums. At August 31, 1963, the unfunded liability for past service costs under the plans was estimated to be $4,900,000 and the annual current service cost (which does not include funding of the past service cost) was estimated to be $1,400,000.

Note G – Reference is made to the Operating Results section of this annual report with respect to litigation.

Accountants' Report

Shareholders and Board of Directors
The Glidden Company
Cleveland, Ohio

We have examined the consolidated financial statements of The Glidden Company and its subsidiaries for the year ended August 31, 1963. 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. We made a similar examination of the financial statements for the preceding year.

In our opinion, the accompanying balance sheet and statements of income and earnings retained for use in the business present fairly the consolidated financial position of The Glidden Company and its subsidiaries at August 31, 1963, and the consolidated 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. It is also our opinion that the accompanying summary of source and application of funds presents fairly the information therein shown.

Ernst & Ernst

Cleveland, Ohio
October 11, 1963

Coatings and Resins Group

Paul W. Neidhardt, Vice President
George S. Forbes, Vice President-Operations

Regional Vice Presidents
Thomas N. Armel, Chicago, Ill.
James L. Beauchamp, Atlanta, Ga.
John H. Lathe, Jr., San Francisco, Calif.
Robert B. Simpson, Cleveland, Ohio
Richard H. Stephens, Carrollton, Tex.
Herman F. Winger, Reading, Pa.
James W. Fowler, Vice President, The Glidden Co., Ltd.

Coatings and Resins Plants

Atlanta, Ga.	New Orleans, La.
Carrollton, Tex.	Portland, Ore.
Chicago, Ill. (2)	Reading, Pa.
Cleveland, Ohio	St. Louis, Mo.
Los Angeles, Calif.	San Francisco, Calif.
Minneapolis, Minn.	Toronto, Ont.
Montreal, Que.	

Architectural Products Pilot Plant
Atlanta, Ga.

Foods Group

William G. Phillips, Vice President

George F. Atkinson, Vice President
Institutional and Industrial
Products Divisions

Paul D. Hursh, Vice President
Grocery Products Division

Plants

Berkeley, Calif.	Eden, N. Y.
Bethlehem, Pa.	Louisville, Ky.
Chicago, Ill. (2)	Wolcott, N. Y.

Chemicals Group

George M. Halsey, Vice President
George S. Warner, Vice President-Operations
Richard H. Turk, Sr., Vice President, Pemco
James C. Rankin, Vice President-Marketing
R. P. T. Young, Vice President-Organic Chemicals
Vice Presidents—Pemco Division
Herbert Turk, Sr.—Administration
Karl Turk, Jr.—Operations

Plants

Baltimore, Md. (3)	Johnstown, Pa.
Hammond, Ind.	Port St. Joe, Fla.
Jacksonville, Fla.	

International Group

Robert D. Horner, Vice President

Affiliated Companies Operating in:		Licensees in:	
Belgium	Costa Rica	Australia	France
Italy	Japan	West Indies	Germany
West Germany	Guatemala	Chile	Iceland
Mexico	Ecuador	Colombia	Japan
Puerto Rico	Philippines	Guatemala	The Netherlands
Panama	South Africa	Peru	Spain
		Denmark	United Kingdom
		Norway	South Africa
		Sweden	New Zealand
		Ecuador	Italy
		Finland	Philippines

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