Financial Highlights

(All dollars in millions, except per share data)

Years ended June 30	1976	1975	% Increase (Decrease)
Operating highlights:			
Net sales	$1,331.9	$1,287.5	3
Income before income taxes	53.7	42.1	28
United States and foreign income taxes	23.3	14.2	64
Net income	30.4	27.9	9
Earnings per share:			
Net income	3.30	3.04	9
Net income assuming full dilution	3.04	2.83	7
Additions to property, plant and equipment	38.7	87.1	(56)
Depreciation	38.2	33.1	15
Cash dividends per share	.675	.50	35
At year end			
Financial position:			
Working capital	$ 287.9	$ 251.6	14
Property, plant and equipment, net	251.3	258.9	(3)
Total assets	740.1	704.1	5
Long-term debt	210.4	214.5	(2)
Shareholders' equity	313.6	289.4	8
Statistical data:			
Number of shareholders	44,900	47,500	(5)
Common shares outstanding	9,162,000	9,157,000	—
Number of employees	27,100	26,300	3

SCM Corporation is a diversified manufacturing company whose products are sold in consumer, industrial and office markets.

SCM's strongest operations are in four basic industries: coatings and chemicals, foods, pulp and paper and consumer products. Products for the office and government markets are less important than they once were.

About half of SCM's products are recognizable to the consumer. They include Smith-Corona typewriters, Glidden paint, Durkee foods and Proctor-Silex appliances.

SCM has 21 operating groups (see page 43 for a list) competing in over 100 product lines. About 27,000 people work in our 72 principal manufacturing locations in the U.S. and around the world.

To the Shareholders

1976 marked the third consecutive year of record results for SCM Corporation. Net income, earnings per share and sales were again higher than the preceding year. This record was continued despite a turbulent economic period marked by inflation, shortages and the most severe recession in four decades.

In fiscal 1976, net income increased 9 per cent to $30.4 million, or $3.30 per share, up from $27.9 million, or $3.04 a share in 1975. We were able to achieve this increase in net income even though our effective tax rate was a more normal 43.4 per cent last year, up from 33.7 per cent in 1975. Sales were slightly higher than last year's $1.3 billion. Profit margins improved to 2.3 per cent of sales from 2.2 per cent in 1975. A basic objective has been to raise profit margins, and they have improved each year since 1970 (except 1975 when they declined only slightly).

Here are some highlights of fiscal 1976:

• Typewriters and Appliances (Smith-Corona and Proctor-Silex) provided a good example of the recession hitting different products at different times. Typewriters were one of the last products to experience the economic downturn and one of the first to recover. Appliances, by contrast, suffered an early and steep decline when the recession hit in late 1974 and nine months passed before this business felt the effects of increased consumer spending.

• For the third consecutive year, Allied Paper was the leading contributor to SCM's profits. Once again, our Jackson, Ala., pulp mill operated at capacity; however, Allied's profit was down substantially from 1975's record level in large measure as a result of lower margins in all operations.

• In the past four years, Durkee Foods has undergone a major turnaround. In 1972 this business was unprofitable; in 1973 and 1974 it was marginally profitable; and it had operating income of $6.1 million in 1975. Last year Durkee had record operating income of $14.9 million, aided by the second consecutive record year for Consumer Foods.

• Coatings and Resins, SCM's largest business, started to recover from the recession early in calendar 1976 and showed improvement over fiscal 1975.

• Chemicals recovery was slow, both in organic products, due to low demand, and in inorganic products, due to inability to recover increased raw material and energy costs. Continued improvement in market conditions is expected to result in higher sales and profits next year.

• Business Equipment was SCM's only unprofitable line of business last year, although its losses were reduced appreciably from 1975. As a result of changes that have been made over the past two years, we expect that losses will again be reduced in 1977.

As the table on page 29 shows, SCM is today a better balanced, and therefore a stronger company, than ever before. Except for Business Equipment, each of our major lines of business contributed to profits about in proportion to size; although paper is currently running somewhat higher and chemicals somewhat lower than normal.

We continued our close attention to the balance sheet last year. Accounts receivable stayed level though sales were up 3.5 per cent. Even before the recession we had started to reduce inventories, and we were able to maintain them at good levels last year as the economic recovery moved ahead.

Total borrowings decreased 7 per cent last year. A $50 million issue of sinking fund debentures was sold in May. We were one of only a very few Baa/BBB rated industrial companies who have placed debt in the public market since the recession. We think raising this money when we did will prove to have been good judgment.

Over the past several years we have, despite the dislocations in the economy, been gradually restructuring SCM. Most of these changes have been evolutionary rather than revolutionary, as emphasis is directed away from office machines and toward our

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basic strengths in specialty chemicals and coatings, foods, paper and consumer appliances.

One of our prime objectives is to give strong emphasis to those products where we have a leading position and to concentrate our efforts in specialized segments where we do not need across-the-board market prominence. Two businesses we are emphasizing—chemicals and paper—illustrate this objective. Chemicals has an overall growth rate twice that of all other manufacturing businesses, and it is highly segmented. This means that we can develop our specialties without necessarily being required to compete with other companies with major positions in the broader field. We are leaders in metal powders and terpene chemistry, two of the segments we are in position to emphasize. Segmentation is also important in paper: we are the industry leader in lightweight book publishing papers, the area we have focused on.

Further illustration of this emphasis is shown by the allocation of capital. Our chemicals and paper businesses each represented 12 per cent of net sales in 1976. But in 1977, they are budgeted to consume more than half of our capital budget, 35 per cent for chemicals and 20 per cent for paper. We are expanding by about 20 per cent the pulp capacity of our Jackson mill; we recently began new expansion of our titanium dioxide facility at Ashtabula, Ohio, and we plan to expand further our titanium dioxide plant at Baltimore. Our organic chemical operations at Jacksonville, Fla. are also being expanded.

Continued improvement in operations and a sound and improved cash position made it possible for the regular quarterly cash dividend to be increased twice last year. The two increases raised the quarterly cash dividend to 20 cents a share from 12½ cents, and the annual rate to 80 cents from 50 cents. This is the highest dividend rate in SCM's history. Our current policy is to raise the cash dividend by small amounts as often as possible with the objective of paying out approximately 20 per cent of earnings in the form of cash dividends.

I believe SCM will continue the improvement of the past five years. The first half of fiscal 1977 should exceed results of the first half of fiscal 1976, a period which was affected by the recession. If economic trends continue, the second half should also be better than the year-earlier period. We expect record profits, record dividends and a record level of capital construction in fiscal 1977.

Paul H. Elicker

Paul H. Elicker
August 18, 1976

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Coatings and Resins

Glidden Coatings and Resins, the fourth largest paint manufacturer in the U.S., had a good improvement in profits last year, but results were below the record level of 1974. Operating income increased 39 per cent on a 9 per cent increase in sales. This group, SCM's largest business, accounted for 27 per cent of total operating income on 27 per cent of the company's average assets in 1976. Comparable figures for 1975 were 23 per cent of overall operating income on 28 per cent of the average assets.

Recovery from the recession in this business began in the first quarter and continued to gain momentum in the second half of fiscal 1976. Physical volume in the last quarter rebounded to the record level of 1973.

The $4 billion domestic coatings and resins industry is, in fact, two broad and quite distinct industries: trade sales and chemical coatings.

Trade Sales: This is the slightly larger of the two, consisting of sales to home owners, painting contractors and the industrial/commercial maintenance market. Overall, Glidden trade sales recovered well last year. Volume and capacity utilization for the year were adversely affected by the general lag in residential and other construction, the planned withdrawal from Woolco leased department operations and the liquidation of W. T. Grant, for whom we had manufactured private brand paint for 60 years. The loss due to the bankruptcy was modest.

"Spred" is our main line of consumer paint. Late last year, Glidden introduced Spred Latex Gloss, a new house paint that combines the advantages of a latex paint (ease of application and clean up) with a gloss finish. Most latex house paints dry with a flat finish. Consumer reaction to this new paint has been good.

(In millions)	1976	1975	1974	1973	1972
Net sales	$363.0	$332.8	$312.0	$259.1	$229.2
Operating income	$ 19.3	$ 13.9	$ 22.9	$ 18.3	$ 17.2
Return on net sales	5.3%	4.2%	7.3%	7.1%	7.5%
Average assets	$197.1	$186.1	$174.2	$144.4	$121.6
Return on average assets	9.8%	7.5%	13.1%	12.7%	14.1%

Chemical Coatings: The second broad segment of the coatings and resins industry is made up of a wide variety of specialized finishes used on such products as automobiles, appliances, furniture, metal containers, construction materials and many others. Beginning in December, Glidden's chemical coatings had a strong recovery from the prior year. Wood finishes did well, especially in the second half because of good demand from the household remodeling market. The moderate gain in housing starts also helped.

Last year's annual report noted good progress in the development and marketing of water-soluble chemical coatings. The new coatings do not require the installation of expensive pollution-control equipment needed to remove hydrocarbons emitted during the drying process. During the last half of 1976, we shipped our first commercial quantities of these new coatings for use on beverage containers. Substantial quantities have already been shipped and successfully used as coil coatings, fabricated metal finishes and as sealers on hardboard.

In 1976, production of powder coatings began at our facility at Huron, Ohio, site of Glidden's newest and one of the industry's most modern paint manufacturing plants. These new coatings have great promise for industrial users in terms of pollution control (no solvent), lower energy consumption and, in some cases, lower cost of application.

An extensive distribution network is vital to serve the retail and painter-maintenance markets effectively. Products for these markets are made at 10 of Glidden's 14 plants in the U.S. and Canada (including the Huron, O. plant shown here). Glidden's distribution system includes 218 company-operated branches, 56 leased departments and more than 6,000 dealers.

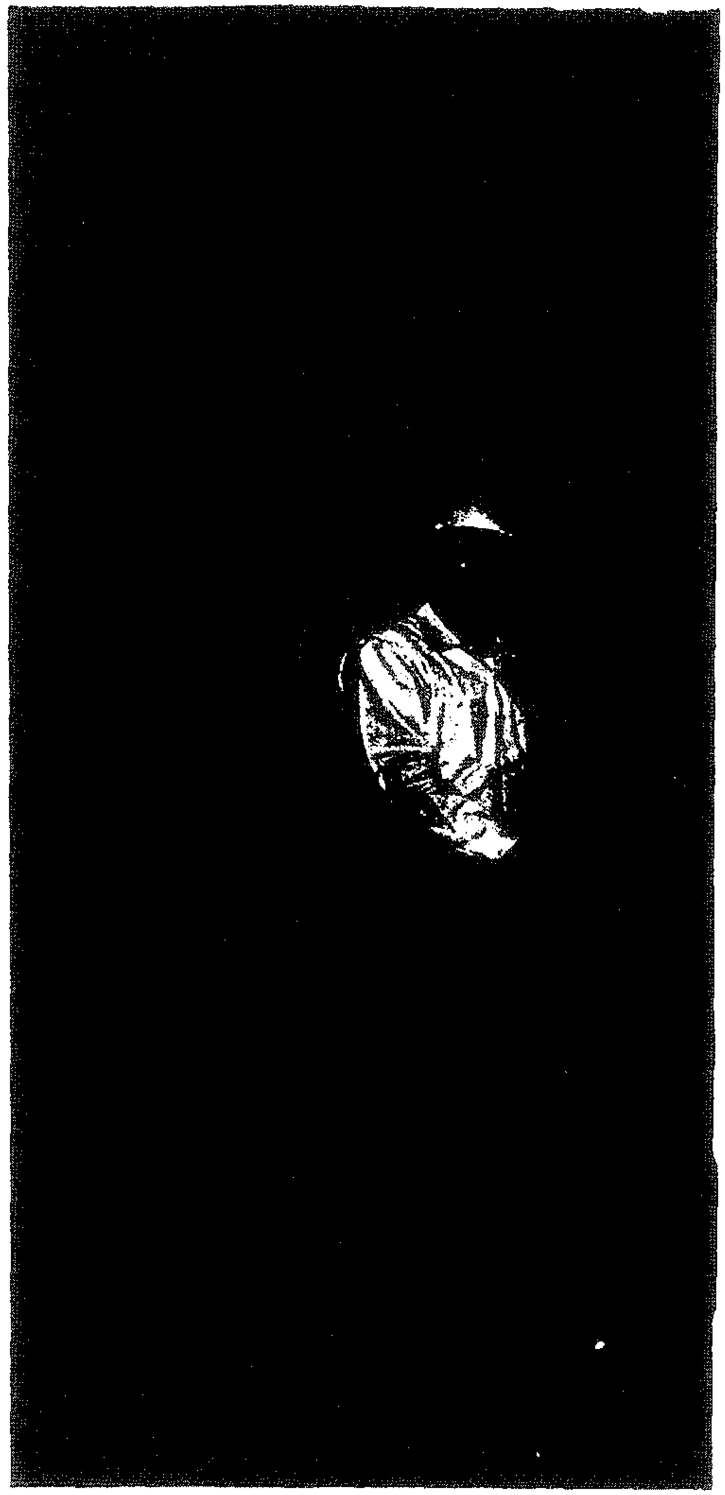
International: Glidden has 13 coatings and resins plants in 10 countries outside the U.S. These accounted for 33 per cent of group sales and had increased profits last year. The rate of improvement differed widely from country to country, depending on how fast each economy recovered from the recession. Operations in Canada recovered from the previous year's modest decline.

Our subsidiaries in Mexico, Panama and Ecuador had record profits for the second consecutive year. Tintas Ypiranga, our Brazilian subsidiary, had a substantial decline in profits from the record level of 1975. Brazil was buffeted by an inflation rate in excess of 40 per cent, a severe recession and a substantial devaluation of its currency last year. In an effort to combat inflation, the government imposed strict regulations on the importation of raw materials.

Despite Brazil's current problems, we are optimistic about its future. Although the growth rate dropped to 4 per cent in 1975, in the last five years Brazil's growth rate has been 9 to 10 per cent. Brazil's GNP is the largest in Latin America. We are constructing a new plant near Sao Paulo, designed primarily for production of chemical coatings. This plant will supplement our facility in Rio de Janeiro and will serve the rapidly-growing market in southern Brazil.

Our coatings business in West Germany and Italy improved last year. Businesses in both countries have been slow to recover from the recession.

Outlook: The improvement in most Coatings and Resins operations that began last year should continue into 1977, particularly in the U.S. and Canada. Trade sales and chemical coatings will benefit from the expected improvement in industrial production, residential and commercial construction, as well as increased retail sales and consumer spending.



At our Huron, O. chemical coatings facility, the ingredients of powder coatings are mixed, heated, dispersed and extruded in one operation.
After being cooled, the hardened material is ground to powder which is applied electrostatically to metal products such as office furniture, boat trailers and external parts for lawn mowers.

Typewriters and Appliances

Smith-Corona typewriters and Proctor-Silex appliances together more than doubled operating income on a 19 per cent increase in sales last year after having been severely affected by the recession in 1975. This group accounted for 19 per cent of SCM's overall operating income on 18 per cent of the company's average assets last year. Comparable figures for 1975 were 11 per cent of the operating income on 17 per cent of the average assets.

Sales started to improve early last year as consumer spending began to recover from a substantial decline during the recession.

Typewriters: We estimate industry unit sales of portable typewriters in the U.S. increased over 8 per cent last year, still well below the unit sales of calendar 1970, for example. Smith-Corona unit sales were higher with almost all of the increase in full-featured models. Our leading market position improved slightly in both the U.S. and Canada. Profits were close to 1974's record level.

Consumer acceptance of the Coronamatic cartridge ribbon since Smith-Corona introduced this new concept over three years ago has been gratifying. Sales of Coronamatic cartridges have reflected the growing population of Coronamatic cartridge typewriters.

Smith-Corona strives to maintain its leadership position through constant innovation. Last January at Danbury, Conn., we opened a research and development center for advanced engineering of portable typewriters. Engineering for existing products will continue to be carried out at our Cortland, N.Y. manufacturing facilities.

Distribution was expanded last year for the "Electra," our mid-priced portable electric typewriter introduced in 1975. Almost all Smith-Corona channels of distribution now handle this line.

"Electras" are manufactured for worldwide consumption at our three-year-old plant in Singapore. During the year the first planned expansion of this facility was completed. Smith-Corona typewriters are manufactured in Canada and the United Kingdom as well as in the United States.

Appliances: Proctor-Silex showed improved results but was still not profitable in 1976. Demand was strong last year for our "Toaster Oven/Plus," a deluxe toaster oven that features broiling, baking and a pop-up toaster. Production is being expanded. Irons also had a good year following several years of declining sales. An increase in the popularity of clothing made from cotton is a prime reason for new growth in the market for steam irons.

Conventional toasters continued to be our most important profit producer and our number one market position was maintained.

"Coffee Magic," our automatic drip coffeemaker, did not attain the market penetration we anticipated due to production problems last year. The problems were corrected by January and efforts are underway to make up for lost time. New versions of "Coffee Magic" were introduced last year.

(In millions)	1976	1975	1974	1973	1972
Net sales	$216.0	$181.1	$203.1	$182.7	$181.8
Operating income	$ 14.0	$ 6.9	$ 16.8	$ 16.5	$ 12.1
Return on net sales	6.5%	3.8	8.3	9.0	6.7%
Average assets	$127.6	$116.7	$109.4	$107.0	$104.8
Return on average assets	11.0%	5.9	[illegible]	[illegible]	11.5%

Proctor-Silex's Toaster Oven/Plus is the only toaster oven that broils, bakes and has a pop-up toaster. All these features make Toaster Oven/Plus a versatile and energy-saving appliance. Manufactured at our Altoona, Pa., facility, every toaster oven is "toast tested" before final inspection and shipping.

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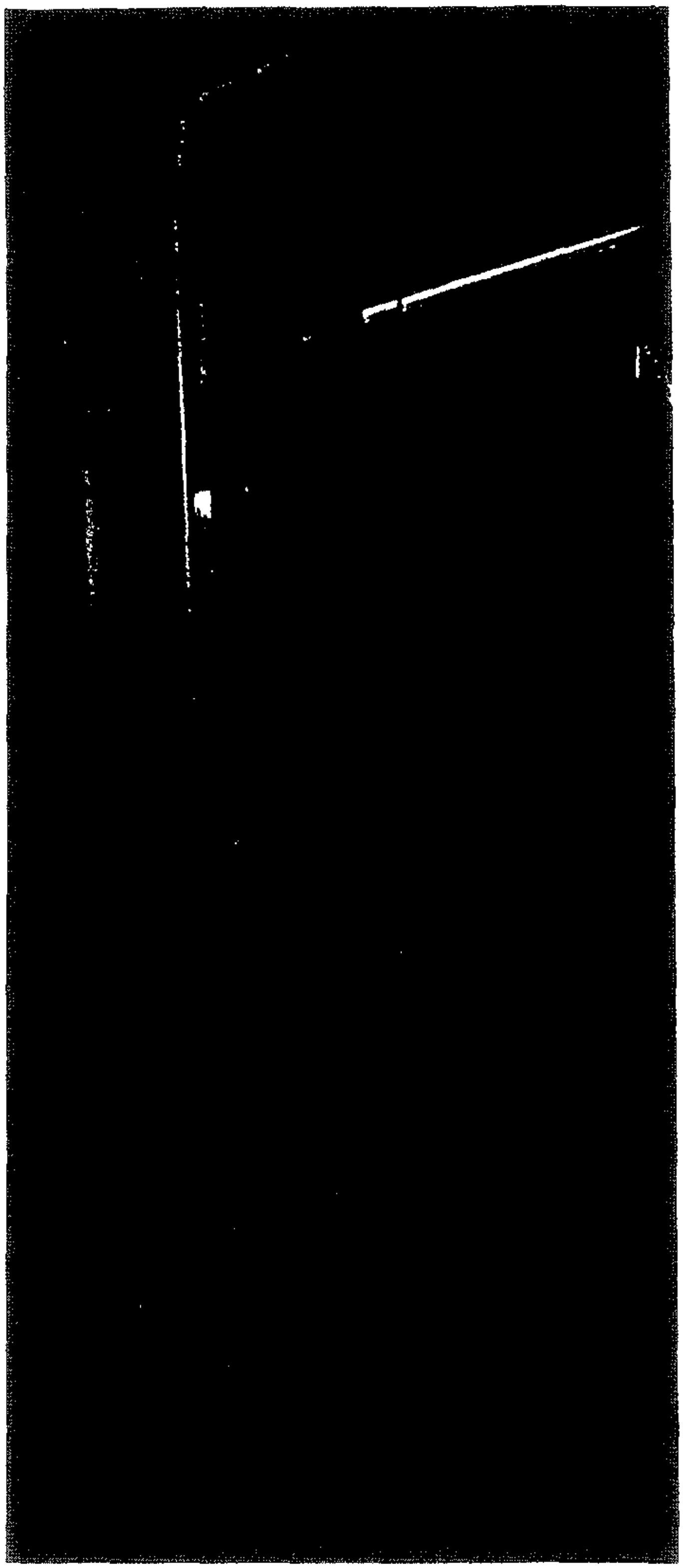

During the year we continued to concentrate our efforts on a relatively small number of products in which we have or hope to have a good opportunity to acquire satisfactory market shares. As an example, last year we stopped manufacturing blenders, a product line in which our position was unsatisfactory.

International: Smith-Corona's lightweight typewriters are produced at West Bromwich, England, and sales of this model in world markets were helped by last year's decline in the value of the British pound. The "Electra," a moderately priced electric portable will be our main product in international markets, it was introduced last year in England, France and the Benelux countries and has been well received.

Proctor-Silex has no overseas manufacturing facilities. Last year, we established our own direct sales force in the U.K. This organization is responsible for sales in the U.K., Europe and other overseas markets.

Sales and profits in Canada were up substantially. "Coffee Magic" was introduced there and did well.

Outlook: Industry sales of portable typewriters are expected to increase next year. Smith-Corona expects a strong year with profits at or near record levels. The recovery in Proctor-Silex operations that began last year is expected to gain momentum in 1977.

A special feature of the Coronamatic typewriter is the double-walled plastic carrying case that protects it. The blow molding machine at our Cortland, N.Y. manufacturing plant produces a significant portion of cases. We will have the capacity to produce all our own blow-molded cases sometime during 1977.

Foods

Durkee Foods, SCM's second largest business, had record profits last year. Operating income more than doubled on a 7 per cent decrease in sales (a reflection of lower material prices). This group accounted for 21 per cent of SCM's overall operating income on 16 per cent of the company's average assets. Comparable figures for 1975 were 10 per cent of operating income on 16 per cent of the company's average assets.

Industrial Foods: This business, a major manufacturer of edible oils, shortening systems and food additives, is the largest part of Durkee Foods, accounting for about half of total food sales last year.

Industrial Foods performed much better last year than in 1975. Unit sales volume increased 20 per cent, reflecting stronger consumer demand and the impact of new products. Manufacturers of cakes, cookies and candy, for example, are important Durkee customers, and last year bought more of these products than they did during 1975.

Volume improved for specialty products that require special manufacturing techniques. One such product is B-12K, a fluid shortening system for bread that contains both shortening and conditioners in liquid form. The B-12K system offers bakers an efficient alternative to solid shortening.

With crude domestic and foreign vegetable oils declining in price during the year, demand improved. We continued to benefit from increased efficiency in our oil refineries with lower processing costs resulting both from cost reductions and from increased volume. We currently refine as much oil in our two refineries at Joliet, Ill. and Louisville, Ky. as we did at four locations five years ago.

Food Service: This business, which accounted for about a quarter of Durkee sales, had a solid profit last year after operating at a loss for 1975. Food Service markets its products, which include shortening, oils, spices, frozen dough, frozen hors d'oeuvres, preportioned frozen fish and pre-plated meals, to restaurants, fast-food chains, bakeries, hospitals, schools and contract feeders.

Among the most important customers for our frying oils are fast-food franchises. Their ability to keep prices down, plus increased consumer spending last year, encouraged more people to eat out, and this led to increased demand for our products.

Our small frozen dough business had a sizeable gain in volume last year. Production increased 36 per cent last year, and we are now operating near capacity in our new plant in Thorofare, N.J. The product line was expanded last year, and we are now selling frozen dough to supermarkets that use it in their in-store bakery operations. This new market has large potential and will become an important one for us.

Dolphin Seafood made an important contribution to profits last year as a result of the enthusiastic industry reception of its new "Batter-Fri" fish product. Under a patented process Dolphin produces fil-

(In millions)	1976	1975	1974	1973	1972
Net sales	$320.3	$343.0	$289.2	$215.5	$211.4
Operating income	$ 14.9	$ 6.1	$ .4	$ .2	$ (2.9)
Return on net sales	4.7%	1.8%	.1%	.1%	—
Average assets	$116.3	$108.6	$110.5	$ 97.0	$100.3
Return on average assets	12.8%	5.6%	.4%	.2%	—

A 5,000 gallon centrifuge is important equipment at Durkee Foods' refinery at Joliet, Ill. This refinery, our newest and most modern, processes a wide range of edible oils. Complex manufacturing techniques produce emulsifiers, shortening systems and additives sold to leading food manufacturers.

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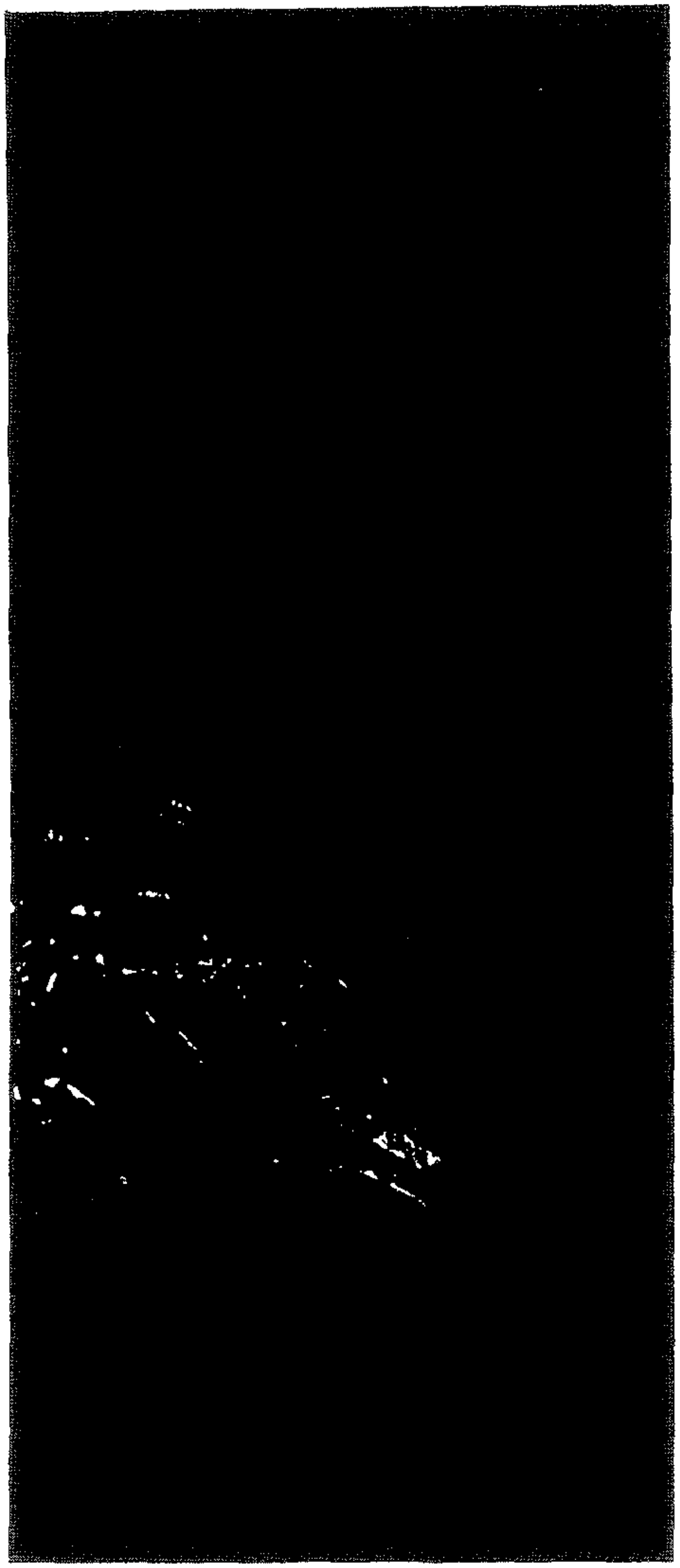

let-like cuts of fish which are dipped in a unique tempura-style Durkee batter and then frozen. Dolphin's production facilities are being expanded and additional capacity should be available in fiscal 1977.

Consumer Foods: This group accounts for more than a quarter of Durkee sales and had its second consecutive year of record profits last year. Durkee Consumer Foods is the second leading processor and marketer of spices in the U.S. and the largest importer of Spanish green olives. It markets a wide variety of specialty foods including dry sauce and gravy mixes, extracts, canned potato snacks, canned french fried onions, dehydrated and boiled onions, barbecue sauce, frozen hors d'oeuvres, coconut and other snack and convenience foods.

Operations were aided by stability in the price of imported raw materials and general improvement in the economy. The increase in disposable income resulted in better volume for certain luxury items last year, such as Durkee's frozen hors d'oeuvres. The group was aided by a return to "basic" cooking, utilizing spices and seasonings. Coconut was an important contributor to profits last year. We introduced several extensions of existing brands, including new "oven bag" and seasoning mixes. However, the major reason for Durkee's volume increase is better representation in both new and existing areas of distribution.

Outlook: Durkee Foods should continue to improve during fiscal 1977. The three parts of this business should benefit from the anticipated growth in the economy. In particular, spices, Dolphin Seafood, frozen doughs, and the specialty products segment of Industrial Foods, including confectionery coatings and fluid shortening systems should all be strong.

Durkee Consumer Foods markets a wide variety of specialty foods. French fried potato sticks, sold under the O & C label, are made at our plant at Wolcott, N.Y. The Wolcott facility uses 25 million pounds of potatoes a year. This packaging machine fills 72,000 foil bags a day.

Chemicals

Glidden Chemicals' operating income increased 5 per cent last year on a 28 per cent gain in sales. This group accounted for 14 per cent of SCM's operating income on 21 per cent of the company's average assets. Comparable figures for 1975 were 16 per cent of operating income on 17 per cent of the average assets.

Pigment: This operation produces titanium dioxide, a white pigment sold to the paint, paper, rubber and plastics industries for use as a whitener and opacifier, other pigments and fine particle silica. Titanium dioxide sales are the major part of the business. Demand for titanium dioxide closely follows the general economy. Sales picked up late in fiscal 1975 and continued to gain strength last year.

Titanium dioxide is produced by either the sulfate or the newer chloride process. We operate chloride plants at Baltimore and Ashtabula, Ohio, and a sulfate plant at Baltimore. Production reached a record level at our Baltimore chloride plant but poor demand in the first half required us to operate the sulfate plant at less than capacity during that period. Our Ashtabula plant was in full operation throughout the year. Demand for titanium dioxide recovered at a slower pace overseas than in the U.S.

The Pigment group's performance was helped by two price increases last year, even though the higher prices did not fully offset continued escalation in the cost of energy and raw materials.

Plans were approved last year for major expansion of the Ashtabula plant that will increase annual capacity 40 per cent. This incremental increase in capacity, will be much less costly than a complete new plant. The expanded capacity will be available in fiscal 1978. We expect to follow it with a similar incremental expansion of the Baltimore chloride plant.

Substantial progress was made last year toward bringing our Baltimore sulfate operation in compliance with environmental regulations. When this work is completed, this plant will be among the most pollution free sulfate plants in the world, although compliance has added appreciably to our production costs. We believe that all domestic and foreign producers will eventually have to meet these standards, thus negating the competitive edge some non-complying domestic producers and all foreign producers presently have.

Sales and profits of our other pigments products were excellent last year.

Organic Chemicals: Our Jacksonville, Fla., plant converts crude sulfate turpentine, a by-product of the kraft pulp industry, into basic terpene products, such as pine oil and camphene, and high-technology fine chemicals for use in perfumes, flavors, and as vitamin and pharmaceutical intermediates.

At Port St. Joe, Fla., Sylvachem, our joint venture with St. Regis Paper Company, is an important pro-

SCM's Organic Chemicals Group is the world's leader in terpene chemistry and the largest refiner of crude sulfate turpentine. With the capacity to handle over 100,000 tons of crude tall oil and 12 million gallons of crude sulfate turpentine, this group produces a wide range of intermediates and fine chemicals.

(In millions)	1976	1975	1974	1973	1972
Net sales	[illegible]	$122.2	$116.7	$103.6	$ 84.6
Operating income	$ 10.0	$ 9.5	$ 10.8	$ 5.5	$ 3.1
Return on net sales	6.4%	7.8%	9.3%	5.3%	3.7%
Average assets	$148.4	$116.5	$ 81.4	$ 78.9	$ 73.0
Return on average assets	6.7%	[illegible]	13.3%	7.0%	4.3%

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ducer of products refined from crude tall oil, mainly fatty acids and rosins used as raw materials for a wide range of industrial products.

Profits last year were down substantially from the record level of 1975. This business felt the impact of the worldwide recession late, and was late recovering from it. Product demand started to slump toward the end of fiscal 1975, and the softness continued for most of 1976.

Decreased industrial and consumer demand for vitamins, flavors and fragrances resulted in a sharp drop in worldwide prices of organic chemical products, and of the natural essential oils with which they compete. By year end, however, prices worldwide had firmed, and demand increased.

We currently are more than midway through a three-year multi-million dollar program to expand our Jacksonville facilities. We have already substantially increased our fine chemical production capacity; for example, in 1975, we brought on-stream the world's only terpene-based synthetic *l*-menthol plant. It has since been expanded twice and ran at capacity all year. When our expansion program is completed we will have attained further increases in capacity with most of it devoted to technically unique processes.

Pemco Products: This group is a leading producer of ceramic frit from which porcelain enamel and ceramic glazes are made for use in the manufacture of household appliances, dinnerware and building materials such as ceramic tiles.

Pemco had a strong improvement in profit last year as many of its important markets recovered from the recession. Increased consumer spending resulted in an improved year for appliance makers. Also, the modest increase in new housing starts translated into increased demand for ceramic tile. Pemco sales were also bolstered by the introduction of new products, including a line of metallurgical glasses. We continue to experience difficulty obtaining prices high enough to offset higher raw material and energy cost, as well as the added expense of full compliance with environmental controls.

Metals: A broad variety of metal powders produced by this group is employed to form bearings, bushings, gears, and many other high volume, close tolerance small parts for automobiles, appliances, and other durable goods as well as in specialized applications in the chemical and electronic industries.

Metals had a significant increase in profits over fiscal 1975 as markets for the group's products, having been in a decline, began to recover at the end of 1975. The group experienced steady improvement throughout the year as production volume continued to increase and capacity utilization returned to more normal levels.

Outlook: All segments of Chemicals should have improved performance next year as the economic recovery continues. Organic Chemicals, the part most severely affected last year, should have a good year based on year end demand and firmer prices. Production of titanium dioxide will increase as our Baltimore sulfate operation is expected to operate at capacity for the entire year. Higher production rates and stronger prices are also expected in both titanium dioxide operations.

Our plant at Ashtabula, O., uses modern technology to produce titanium dioxide by the chloride process. This is a complicated procedure involving vapor phase oxidation of titanium tetrachloride. The chloride process produces titanium dioxide, with a more perfect crystalline structure than the older sulfate process, which is still in wide use.

r Products

third consecutive year, Paper Products was est contributor to SCM's operating profit, ough profits were, as expected, down from ecord level. Allied Paper, nevertheless, out- ed the overall pulp and paper industry for nd year in a row. Operating income declined ent while sales were about even with those of llied accounted for 33 per cent of SCM's perating profit on 9 per cent of the com- ssets, compared to 67 per cent of operating n 9 per cent of overall assets in the prior year.

ssion had a major impact on the pulp and dustry during the last half of fiscal 1975 and half of fiscal 1976. Improvement began mid- ough last year, but it was uneven. Certain f the industry, pulp, for example, had firmer an paper. Operating rates, weak in some the beginning of the year, had recovered ally by year end. Business forms felt the f the recession about six months later than of the industry and at year end, was still g below former levels.

ices softened somewhat during the year, but expected. These stronger-than-anticipated sulted from a prolonged strike in Canada moved a large supply of pulp from the mar- the fact that a substantial inventory of pulp andinavian countries was not placed on the For the first time we were successful in our of selling more than half of our market der term contracts. This had the effect of protecting us to some degree from market volatility as contract prices have proved more stable than the spot market.

In anticipation of continued strong demand for pulp, a program has been initiated to increase the efficiency of the Jackson mill by better balancing of various pieces of equipment used in making pulp. This $15 million project, which should be completed late next year, will increase the mill's capacity by about 20 per cent.

In the past few years, natural gas supplies to industrial users in the southeast like the Jackson mill have been sharply cut back. We are forced to substitute higher-cost fuel oil when gas is not available. To minimize purchases of oil, we are generating increased amounts of energy from by-product fuel produced in the pulping process. Under study is a project to further increase the capacity and efficiency of equipment used to generate steam by burning bark and wood waste.

Paper: Demand for paper began to fall off during the last half of fiscal 1975, and remained weak through the first half of last year. Lower demand caused deterioration in prices, and lower profit margins. Recovery began during the spring and at year end margins were the best they have been since the recession. However, operations for the year as a whole declined from the previous year.

Business Forms: This business, composed of Allied/ Egry Business Systems and Walton Printing, manufactures stock as well as continuous

Jackson, Ala. pulp mill can produce 175,000 ulp per year. Part of the mill's output is used d's own needs, and the remainder is sold to s in the U.S. and overseas. A first step in ing process is moving logs to a slasher deck ey are sawed into sections prior to being and reduced to chips.

(In millions)	1976	1975	1974	1973	1972
Net sales	$161.7	$165.7	$141.1	$102.5	$ 86.1
Operating income	$ 23.9	$ 40.6	$ 24.5	$ 7.8	$ 4.2
Return on net sales	14.8%	24.5%	17.4%	7.6%	4.9%
Average assets	$ 65.9	$ 60.0	$ 52.7	$ 39.2	$ 36.2
Return on average assets	36.3%	67.7%	46.5%	19.9%	11.7%

GLD30895

forms used in computer data processing equipment and other specific forms and systems at five plants in the United States.

Last year the industry suffered the first decline in unit volume since the proliferation of data processing computers began in the 1950's. This decline began in the fourth quarter of fiscal 1975 and continued last year. As a result, sales and profits from Allied's forms were substantially lower last year.

The industry's growth rate is expected to return to historic levels, but there are no signs of an early recovery. Recent industry additions to capacity are acting as a deterrent to the rapid recovery of profit margins.

Histacount sells specialized forms, stationery and related items by catalog to the medical, legal, accounting and other professions. Profits were up substantially to record levels last year.

Office and Stationery Group: This group manufactures and distributes a broad line of paper products used at home and in schools and offices. Over the past two years, the Office and Stationery Group has expanded its sales force and distribution network and has become a major supplier in the eastern and midwestern markets with the broadest line and leading market share in most of its products. This group increased both its sales, and share of market last year despite generally weak industry-wide conditions.

Outlook: Fiscal 1977 should be another good year for Allied. Our pulp operation should continue to operate at a high level of capacity, and the markets for our paper products should improve. The forms business, however, will continue under price pressure, reflecting excess capacity.

Allied is the nation's largest producer of high-quality, light-weight book publishing papers. Last year, eight of the ten "best sellers" in the Bible, dictionary and reference book category were printed almost exclusively on Allied Paper. Our paper-making machines are at Jackson, Ala. and Kalamazoo, Mich.

ness Equipment

Equipment was unprofitable last year,
losses were substantially less than in 1975.
y years of cash investment, last year Busi-
pment generated in excess of $30 million
rations and reduction of assets. A significant
e loss is a result of special expenses, includ-
erox lawsuit, reduction of the depreciable
lain paper copiers held for lease and a
of a portion of those copiers. This business
d for 7 per cent of SCM's average assets last
pared to 11 per cent in 1975.

roducts: SCM copier sales and lease opera-
he U.S. have undergone a major streamlin-
am designed to reduce losses. This program
h lower administrative, sales and research
lopment expenses—were responsible for the
d results.

, 33 direct copier branches were sold to inde-
dealers. Copier Products continues direct
g of coated paper and plain paper copiers
r products to large national accounts and to
iness users through 34 branches in 31 cities.
roducts assets were substantially reduced
e year. At year end, for example, total assets
siness Equipment division were $32 mil-
n from $70 million at June 30, 1975. The
r toner plant in Hazelton, Pa. and the
nt to Allied Paper of the coated paper
uring facility at Phoenixville, Pa., were
in the asset reduction program. These
will be purchased by the Copier Products
om the new operators of these facilities.

	1976	1975	1974	1973	1972
	$107.1	$122 0	$124.6	$106.0	$110.4
ncome	$(13.2)	$(18 2)	$(14 3)	$(4.2)	$(3.3)
net sales	–	–	–	–	–
sets	$ 53.6	$ 71.4	$ 57 9	$ 52 6	$ 74 8
verage assets	–	–	–	–	

We continued to press our suit against Xerox Corporation filed in July, 1973. The suit charges Xerox with unlawful monopolization of the plain paper copying business. The Federal Court in New Haven has set June 6, 1977 as the trial date.

International: International operations are somewhat larger than domestic. Foreign operations, centered in Western Europe and Latin America, were better than 1975 when they had been adversely affected by the worldwide recession. Operations improved at a better rate than our domestic business.

These improved results were due in part to stringent cost reduction programs similar to those instituted in the U.S. We also sold our copier branches in Finland and Sweden last year, but we will continue to sell copiers and copier supplies to these businesses as we are doing with domestic branches that are now independent businesses.

Outlook: Business Equipment is expected to remain unprofitable next year, but losses should be considerably less than in fiscal 1976. Our analyses indicate that an adequate concentration of Model 6740 plain paper copiers, supplemented by an extensive population of zinc oxide machines, should be able to make money if concentrated in major metropolitan areas. As this program is completed we will continue to review the worldwide business and reassess our position within it.

The Model 6740 is a high-speed, plain paper copier that can produce 67 copies a minute in 40 different paper sizes. Last year the Business Equipment division continued the program begun in 1975 of concentrating placements of 6740's in urban markets where skilled sales and service personnel provide quick attention to customer needs.

GLD30898

Other

Included in this category are Proctor & Schwartz, Kleinschmidt and two special engineering development projects. The engineering development work (on optical character recognition and a slide copier) was discontinued during the year. Operating income increased 36 per cent on an 18 per cent decline in sales. This represented 4 per cent of SCM's operating income and 2 per cent of the company's average assets. This compares with 4 per cent of operating income on 2 per cent of the company's average assets in 1975.

Proctor & Schwartz: This group is the world's foremost manufacturer of industrial drying machinery used in the food, chemical, tobacco and textile industries. It is a growing factor in the market for industrial baking equipment. Proctor dryers tend to be huge and complex and frequently constitute major capital investments for users. Proctor also makes film stenters, machines that stretch and shape film for use in such products as photographic and X-ray film, magnetic tapes and packaging material.

Proctor & Schwartz plants are at Lexington, N.C., Philadelphia and Glasgow, Scotland. Sales and engineering are in both Philadelphia and Glasgow.

Proctor & Schwartz had its third consecutive year of record profits even though sales declined last year. The downturn in sales came as backlogs from the capital goods market Proctor & Schwartz participates in declined in a delayed reaction to the recession.

Kleinschmidt: Headquartered in Deerfield, Ill., this group designs and manufactures telecommunications equipment for military and commercial markets. For the past several years, Kleinschmidt has been developing a new generation high-speed telecommunications terminal for the United States Army Electronics Command. A large contract, on which Kleinschmidt bid, was awarded to another company after the close of fiscal 1976.

Kleinschmidt continued working to increase its commercial business last year. It has the capability to supply businesses with specialty software items needed to solve specific problems—data handling for railroad transportation systems, for example.

Outlook: Proctor & Schwartz' domestic business began to improve in November, 1975, (although sales abroad continued weak) and this upturn has continued at a modest rate. International markets have been slower to recover from the recession. We expect profits for fiscal 1977 to be about even with last year. Longer term profit performance is excellent based on the favorable outlook for the capital goods markets.

Kleinschmidt was profitable last year, and it is expected to continue this performance in fiscal 1977. It plans to continue to expand its non-governmental work while also bidding on government contracts when it is practical to do so.

(in millions)	1976	1975	1974	1973	1972
Net sales	$28.6	$34.9	$30.6	$24.8	$26.5
Operating income	$ 3.0	$ 2.2	$ .8	$(.2)	$ .4
Return on net sales	10.5%	6.3%	2.6%	-	1.5%
Average assets	$13.2	$16.1	$13.6	$14.8	$18.3
Return on average assets	22.7%	13.7%	5.9%		2.0%

Proctor & Schwartz is known the world over as a leading maker of conveyor dryers. Proctor dryers are of modular construction which allows them to satisfy a variety of special needs. This synthetic fiber dryer is being built for a plant in Iran.

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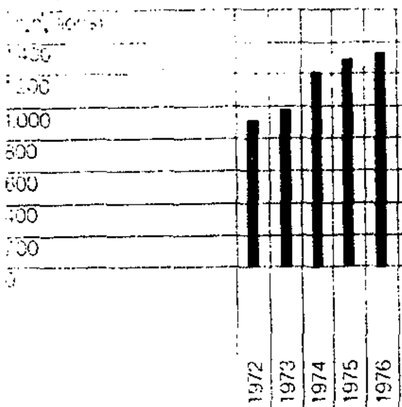
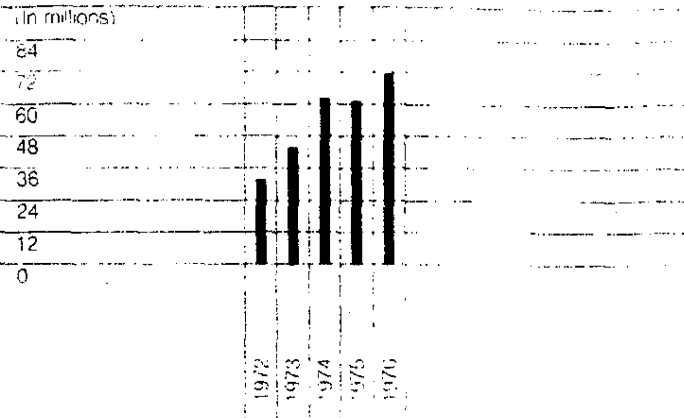
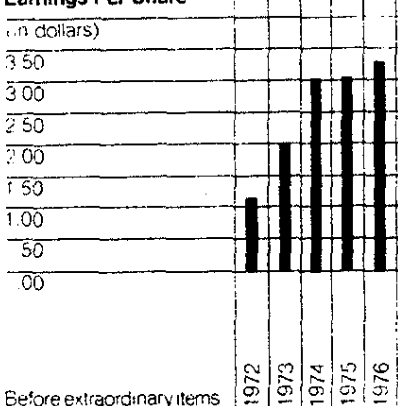
Sales



Operating Income

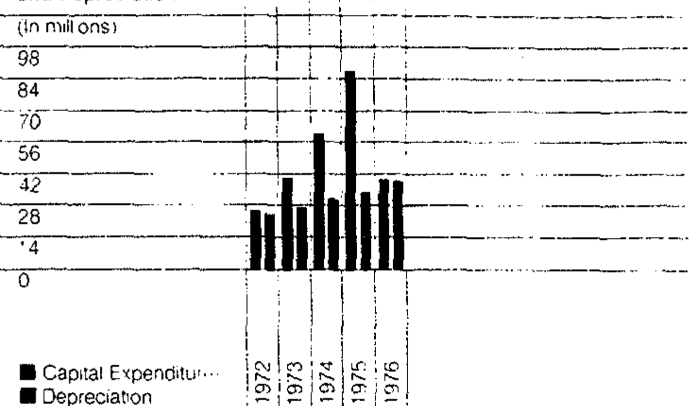


Earnings Per Share

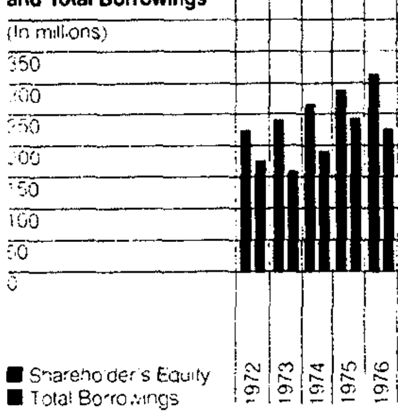


Before extraordinary items

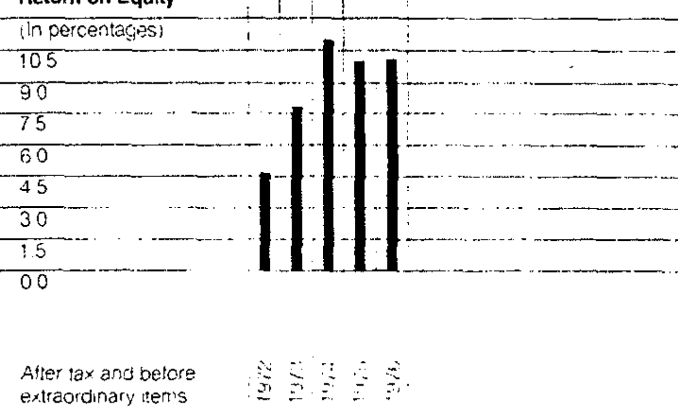
Capital Expenditures and Depreciation



Shareholder's Equity and Total Borrowings



Return on Equity



After tax and before extraordinary items

GLD30902

Net Sales, Operating Income and Average Assets by Lines of Business

(In millions)	Years ended June 30	1976	1975	1974	1973	1972
Net Sales	Coatings and Resins	$ 363.0	$ 332.8	$ 312.0	$ 259.1	$ 229.2
	Typewriters and Appliances	216.0	181.1	203.1	182.7	181.8
	Foods	320.3	343.0	289.2	215.5	211.4
	Chemicals	155.9	122.2	116.7	103.6	84.6
	Paper Products	161.7	165.7	141.1	102.5	86.1
	Business Equipment	107.1	122.0	124.6	106.0	110.4
	Other	28.6	34.9	30.6	24.8	26.5
		1,352.6	1,301.7	1,217.3	994.2	930.0
	Eliminations	(20.7)	(14.2)	(15.1)	(13.9)	(12.2)
	Total	$1,331.9	$1,287.5	$1,202.2	$ 980.3	$ 917.8
Operating Income	Coatings and Resins	$ 19.3	$ 13.9	$ 22.9	$ 18.3	$ 17.2
	Typewriters and Appliances	14.0	6.9	16.8	16.5	12.1
	Foods	14.9	6.1	.4	.2	(2.9)
	Chemicals	10.0	9.5	10.8	5.5	3.1
	Paper Products	23.9	40.6	24.5	7.8	4.2
	Business Equipment	(13.2)	(18.2)	(14.3)	(4.2)	(3.3)
	Other	3.0	2.2	.8	(.2)	.4
	Total	$ 71.9	$ 61.0	$ 61.9	$ 43.9	$ 30.8
Average Assets	Coatings and Resins	$ 197.1	$ 186.1	$ 174.2	$ 144.4	$ 121.6
	Typewriters and Appliances	127.6	116.7	109.4	107.0	104.8
	Foods	116.3	108.6	110.5	97.0	100.3
	Chemicals	148.4	116.5	81.4	78.9	73.0
	Paper Products	65.9	60.0	52.7	39.2	36.2
	Business Equipment	53.6	71.4	57.9	52.6	74.8
	Other	13.2	16.1	13.6	14.8	18.3
	Total	$ 722.1	$ 675.4	$ 599.7	$ 533.9	$ 529.0

Sales:
Net sales were $1.33 billion in the year ended June 30, 1976, a 3.5 per cent increase over fiscal 1975 sales of $1.29 billion. The major contributors to the increase in net sales were the Chemicals, Typewriters and Appliances, and Coatings and Resins lines of business. The largest percentage sales gains were registered by Chemicals, particularly titanium dioxide which benefited from improved volume as a result of new plant capacity. Typewriters and Appliances showed improved unit volume due primarily to the recovery from the depressed market conditions of the prior year particularly in the portable typewriter, toaster oven and iron product lines. Coatings and Resins sales improvement reflected an increased share of the consumer and chemical coating markets. Paper Products continued to increase volume but, due to pulp prices being off from the record levels of fiscal 1975, sales revenue was about even with the prior year. Sales decreases were registered by Foods and Business Equipment. In Foods, higher volume was offset by commodity price declines in edible oils. Business Equipment sales decreased as a result of the copier marketing realignment and branch dealerization programs initiated in fiscal 1975.

In fiscal 1975, sales were up 7 percent over 1974 because of price increases and strong demand for Foods and Paper Products, particularly in the first half of the year. In the second half, the sales increases were lessened by the recession and the resultant reduction in consumer spending.

Operating Income:
Operating income for fiscal 1976 was $71.9 million, an increase of 18.0 per cent over last year's operating income of $61.0 million. Improved performance was recorded in each line of business except Paper Products. Foods registered the largest gain in operating income. Improved margins resulted from continued expansion in distribution of specialty consumer food items and increased volume and manufacturing efficiencies in edible oils. Operating income of Typewriters and Appliances increased as a result of recovery from the prior year's depressed market conditions and an improvement in foreign manufacturing operations. Coatings and Resins profit also reflects recovery from the recession as well as the elimination in 1975 of two unprofitable manufacturing facilities. In Chemicals, the slight increase in profitability resulted from increased sales due to capacity expansion, partially offset by a reduction in demand for organic chemicals, especially in foreign markets where economic recovery has been slower than that of the United States. Paper Products, off from the record level of 1975, experienced reduced demand in business forms and some industry-wide price deterioration in pulp. Business Equipment results improved appreciably over last year. Such results include, as part of our continuous business evaluation, increased depreciation and the write-off of a portion of plain paper copiers, as well as increased costs of SCM's antitrust suit against Xerox Corporation.

Manufacturing costs decreased slightly as a per cent of sales reflecting the benefit of volume improvement over the prior year. Selling and administrative expenses increased over prior years due principally to higher operating levels and inflationary pressures.

Depreciation expense was $38.2 million in 1976, up $5.1 million over the 1975 level of $33.1 million, due to accelerated copier depreciation and a higher depreciation base resulting from recent capital expenditures.

In 1975, operating income of $61.0 million was about the same as in 1974 as the impact of the recession was offset by price increases and cost reduction programs implemented during the year. Paper Products recorded the most significant gains due principally to favorable industry conditions and record plant operating levels. Foods improved substantially from 1974 due to a less volatile raw material market and an expanded distribution of specialty consumer food items. Coatings and Resins and Typewriters and Appliances were below 1974 due to inflationary cost increases and sharply reduced consumer spending. Business Equipment losses exceeded those of 1974 due to lower copier usage rates, high support costs of the Model 6740 and costs associated with the copier marketing realignment and the closing of plain paper copier development facilities.

Net Income:

Net income was $30.4 million, a 9.0 per cent increase over the fiscal 1975 level of $27.9 million. Income before taxes increased 27.6 per cent to $53.7 million due to improved operations and a decline in interest expense. Interest expense decreased 8.4 per cent as a result of an overall decrease in borrowings and lower interest rates.

The U.S. and foreign effective tax rate of 43.4 per cent, up from the low fiscal 1975 rate of 33.7 per cent, is more in line with SCM's historical rate. U.S. and foreign income taxes were $23.3 million in fiscal 1976, compared to $14.2 million in fiscal 1975. The U.S. and foreign tax rate in fiscal 1975 reflected the benefit of high investment tax credit, DISC export sales and the liquidation of a foreign investment.

Capital Program:

Capital expenditures were approximately $39 million, down from $87 million a year earlier. The fiscal 1976 expenditures were for capacity expansion, new products, cost reduction and environmental improvements. The fiscal 1975 expenditures included $32 million for new capacity in Chemicals, primarily for the manufacture of titanium dioxide, and $24 million for copiers held for lease.

Financial Position:

Working capital increased $36.2 million and SCM's current ratio improved from 2.5 at June 30, 1975 to 2.6 at June 30, 1976. Inventories increased $26.3 million or 12.3 per cent. Current liabilities increased $14.0 million as a result of higher operating levels and the increase in income tax liabilities, partially offset by decreases in short-term borrowings.

In May, 1976 SCM issued $50 million of sinking fund debentures. A portion of the proceeds was used to repay other borrowings, including the amount outstanding under the Revolving Credit and Term Loan Agreement, which was subsequently cancelled. The balance of the proceeds, $35 million, which is currently invested in short-term securities, is available for general corporate purposes.

During fiscal 1976, total debt decreased $17.4 million to $225.0 million, principally due to improved cash flow. At June 30, 1976 total debt, short and long-term, was 41.8 per cent of total debt plus equity as compared to 45.6 per cent at June 30, 1975.

Return on Capital:

SCM's return on average equity was about 10 per cent in fiscal 1976 and 1975. Total capital, equity plus interest bearing debt, increased 1.3 per cent to $538.6 million in fiscal 1976. Return on total capital, net income plus after tax interest divided by total capital, was 7.3 per cent in 1976 and 7.1 per cent in 1975.

Dividend and Common Stock Data:

SCM declared dividends of $.675 per share in 1976 and $.50 per share in 1975, reflecting increases in the quarterly dividend from $.125 to $.175 per share in the second quarter and from $.175 to $.20 per share in the fourth quarter.

Fiscal Quarter	Price/Earnings Ratio 1976		1975		New York Stock Exchange Price 1976		1975	
	High	Low	High	Low	High	Low	High	Low
First	4	3	3	2	13⅞	10¼	11⅛	8⅛
Second	5	3	3	2	12¼	10	11⅝	8¼
Third	7	4	4	3	18⅜	11⅛	14¾	9
Fourth	7	3	4	4	18⅛	14½	13⅝	11⅝

GLD30905

Ten Year Statistical Summary

(All dollars in millions, except per share amounts)	Years ended June 30	1976	1975
Summary of Operations	Net sales	$1,331.9	$1,287.5
	Cost of sales	968.2	956.6
	Gross profit	363.7	330.9
	Selling, administrative and research expenses	291.8	269.9
	Operating income	71.9	61.0
	Interest expense, net	17.4	18.9
	Other (income) expense, net	.8	—
	Income before income taxes and extraordinary items	53.7	42.1
	United States and foreign income taxes	23.3	14.2
	Income before extraordinary items	30.4	27.9
	Extraordinary items net of tax	—	—
	Net income (loss)	$ 30.4	$ 27.9
	Earnings per share:		
	Income before extraordinary items	$ 3.30	$ 3.04
	Net income (loss)	$ 3.30	$ 3.04
	Net income (loss) assuming full dilution	$ 3.04	$ 2.83
Per Common Share	Cash dividends	$ .675	$ .50
	Book value	34.23	31.60
Financial Position	Working capital	$ 287.9	$ 251.6
	Property, plant and equipment, net	251.3	258.9
	Total assets	740.1	704.1
	Long-term debt	210.4	214.5
	Shareholders' equity	313.6	289.4
Other Statistics	Depreciation expense	$ 38.2	$ 33.1
	Income before extraordinary items:		
	Return on net sales	2.3%	2.2%
	Return on average assets	4.2%	4.1%
	Return on average equity	10.1%	10.0%
	Long-term debt to long-term debt plus equity	40.1%	42.6%
	Number of employees	27,100	26,300

See the Financial Review (pp. 30-31) and the Notes to Financial Statements (pp. 38-42) for

GLD30906

1974	1973	1972	1971	1970	1969	1968	1967
$1,202.2	$980.3	$917.8	$875.1	$854.5	$807.6	$744.8	$705.2
876.1	709.0	671.9	638.0	618.7	571.2	532.3	499.1
326.1	271.3	245.9	237.1	235.8	236.4	212.5	206.1
264.2	227.4	215.1	208.2	213.8	186.1	170.8	157.4
61.9	43.9	30.8	28.9	22.0	50.3	41.7	48.7
13.1	12.0	13.5	16.1	15.4	11.9	11.8	5.7
1.0	.6	(.3)	(.3)	(1.3)	(1.0)	(.9)	(.6)
47.8	31.3	17.6	13.1	7.9	39.4	30.8	43.6
20.2	13.0	7.3	6.0	1.5	18.8	13.0	18.5
27.6	18.3	10.3	7.1	6.4	20.6	17.8	25.1
—	—	(10.2)	(9.3)	(4.5)	—	(4.7)	—
$ 27.6	$ 18.3	$ .1	$ (2.2)	$ 1.9	$ 20.6	$ 13.1	$ 25.1
$ 3.02	$ 2.00	$ 1.13	$ .77	$ .71	$ 2.37	$ 2.13	$ 2.90
$ 3.02	$ 2.00	$ .02	$ (.24)	$ .21	$ 2.37	$ 1.58	$ 2.90
$ 2.81	$ 1.91	$ .02	$ (.24)	$ .21	$ 2.24	$ 1.54	$ 2.79
$ .425	$ .10	$ —	$ —	$ .60	$ .60	$ .60	$ .40
29.06	26.47	24.57	24.56	24.81	25.54	24.24	22.24
$ 232.0	$229.9	$224.3	$230.7	$234.0	$231.8	$221.7	$207.1
207.2	187.4	176.8	184.1	197.1	168.3	148.2	138.1
646.7	552.7	515.1	542.9	578.1	524.2	470.0	451.4
152.9	149.4	162.0	178.4	192.9	170.6	161.1	98.1
266.1	242.3	224.9	224.7	226.8	226.6	209.2	177.4
$ 30.3	$ 27.2	$ 23.8	$ 22.4	$ 21.8	$ 19.4	$ 17.8	$ 15.4
2.3%	1.9%	1.1%	.8%	.8%	2.6%	2.4%	3.6%
4.6%	3.4%	2.0%	1.3%	1.2%	4.1%	3.9%	6.0%
10.9%	7.8%	4.6%	3.1%	2.8%	9.5%	9.2%	12.8%
36.5%	38.1%	41.9%	44.3%	46.0%	43.0%	43.5%	35.6%
29,600	29,400	28,300	28,600	31,100	33,500	33,200	33,100

Management's Discussion and Analysis of the Summary of Operations.

Statement of Consolidated Income

(In thousands, except per share amounts) Years ended June 30	1976	1975
Net sales	$1,331,897	$1,287,454
Cost of sales	968,179	956,550
Gross profit	363,718	330,904
Selling, administrative and research expenses	291,816	269,898
Operating income	71,902	61,006
Interest expense, net	17,398	18,992
Other (income) expense, net	823	(55)
Income before income taxes	53,681	42,069
United States and foreign income taxes	23,286	14,183
Net income	$ 30,395	$ 27,886
Earnings per share:		
Net income	$ 3.30	$ 3.04
Net income assuming full dilution	$ 3.04	$ 2.83

Statement of Consolidated Retained Earnings

(In thousands, except per share amounts) Years ended June 30	1976	1975
Balance, beginning of year	$ 132,244	$ 108,937
Net income	30,395	27,886
Cash dividends (per share—$.675, 1976; $.50, 1975)	(6,182)	(4,579)
Balance, end of year	$ 156,457	$ 132,244

See accompanying notes to financial statements.

GLD30908

Statement of Changes in Consolidated Financial Position

(In thousands)	Years ended June 30	1976	1975
Sources:	Operations:		
	Net income	$ 30,395	$ 27,886
	Items not requiring working capital:		
	Depreciation	38,168	33,055
	Other, net	9,313	2,117
	Working capital provided by operations	77,876	63,058
	Issuance of long-term debt	53,236	72,741
	Disposals of property, plant and equipment	4,022	2,442
	Total	$135,134	$138,241
Applications:	Additions to property, plant and equipment	$ 38,702	$ 87,139
	Reduction of long-term debt	57,319	11,175
	Cash dividends	6,182	4,579
	Other changes in non-current items	(3,291)	15,684
	Increase in working capital	36,222	19,664
	Total	$135,134	$138,241
Changes in Working Capital:	Current assets:		
	Cash and marketable securities	$ 24,068	$ 14,369
	Accounts receivable, net	1,694	(19,360)
	Inventories	26,338	681
	Deferred income taxes	(4,432)	(7,223)
	Prepaid expenses	2,548	1,402
	Total	50,216	(10,131)
	Current liabilities:		
	Loans payable	8,042	14,693
	Accounts payable	(5,671)	10,408
	Accrued liabilities	(11,531)	(720)
	United States and foreign income taxes	(10,077)	9,556
	Long-term debt payments due within one year	5,243	(4,142)
	Total	(13,994)	29,795
	Increase in working capital	$ 36,222	$ 19,664

See accompanying notes to financial statements.

GLD 30909

Consolidated Balance Sheet

Assets (In thousands) June 30	1976	1975
Current assets:		
Cash	$ 9,401	$ 15,358
Marketable securities (at cost which approximates market value)	35,676	5,651
Accounts receivable	178,900	176,757
Less allowance for doubtful accounts	7,542	7,093
	171,358	169,664
Inventories:		
Raw materials and work in process	117,347	105,734
Finished goods	123,025	108,300
	240,372	214,034
Deferred income taxes	2,205	6,637
Prepaid expenses	6,981	4,433
Total current assets	465,993	415,777
Property, plant and equipment, at cost:		
Land and buildings	141,655	134,685
Machinery and other equipment	376,626	373,146
	518,281	507,831
Less accumulated depreciation	266,989	248,952
	251,292	258,879
Other assets	22,805	29,422
Total	$740,090	$704,078

See accompanying notes to financial statements.

Liabilities and Shareholders' Equity (In thousands)	June 30	1976	1975
Current liabilities:			
Loans payable		$ 12,508	$ 20,550
Accounts payable		60,979	55,308
Accrued liabilities		89,449	77,918
United States and foreign income taxes		13,100	3,023
Long-term debt payments due within one year		2,104	7,347
Total current liabilities		178,140	164,146
Long-term debt		210,389	214,472
Deferred income taxes		12,751	11,586
Other liabilities		25,167	24,495
		248,307	250,553
Shareholders' equity:			
Common stock		45,809	45,784
Additional paid-in capital		111,377	111,351
Retained earnings		156,457	132,244
Total shareholders' equity		313,643	289,379
Total		$740,090	$704,078

See accompanying notes to financial statements

GLD30911

Accounting Policies:

Principles of Consolidation: The consolidated financial statements include the accounts of all wholly-owned and majority-owned subsidiaries. Investments of 20 per cent or more in minority-owned affiliates and joint ventures are adjusted to recognize SCM's share of their income or losses.

Inventories: Inventories are generally priced at the lower of average cost or market, except for inventories of pulp, paper, and the raw material content of edible oils which are priced at the lower of last-in, first-out (LIFO) cost or market.

Property, Plant and Equipment: Depreciation is provided on a straight-line basis at rates based on estimated useful lives. At the time properties are retired or disposed of, the property and related accumulated depreciation accounts are relieved of the applicable amounts, and any profit or loss is included in operating income.

Maintenance and Repairs: Routine maintenance and repairs are charged against operations as incurred. Expenditures that materially increase capacities or extend useful lives are capitalized.

Income Taxes: Income taxes are provided for in the year transactions affect net income regardless of when such transactions are recognized for tax purposes. The tax effect of timing differences is accounted for as deferred taxes. Provision is also made for income taxes on undistributed earnings of foreign subsidiaries not considered to be permanently invested. Investment tax credits are included as reductions of income tax expense in the year such credits become deductible.

Retirement Plans: SCM has several retirement plans that provide pensions for substantially all of its employees. Pension plan provisions include normal cost, interest on unfunded prior service liabilities, and amortization of actuarial gains or losses including prior service costs arising from plan amendments. Contributions to pension funds are made when actuarial computations prescribe such funding.

Earnings Per Share:

Net income per share is computed by dividing net income by the weighted average number of common and common equivalent shares outstanding. Net income per share assuming full dilution is computed based on the assumption that convertible debt obligations were converted and dilutive outstanding stock options were exercised as of the beginning of the fiscal year.

Retirement Plans:

Pension expense, including interest on unfunded prior service liabilities and, in 1976 a provision for vested benefits, was approximately $15,000,000 for the year ended June 30, 1976 and $13,000,000 for the year ended June 30, 1975. At June 30, 1976 and 1975, unfunded prior service liabilities approximated $88,000,000 and $86,000,000; and the actuarial value of vested benefits exceeded the total of the trust fund assets and the consolidated balance sheet accrual by approximately $30,000,000 and $29,000,000.

Inventories:

As of June 30, 1976, approximately 17 per cent of SCM's total inventories were priced on the LIFO method.

Had all inventories currently on LIFO been priced on a FIFO basis, inventories would have been approximately $11,400,000 higher at June 30, 1976 and $21,300,000 higher at June 30, 1975.

Other Assets:

As of June 30, 1976 and 1975 other assets includes unexpended proceeds of environmental improvement revenue bonds of $7,700,000 and $13,100,000; investments in unconsolidated affiliates and joint ventures of $4,500,000 and $4,100,000; and deferred debt expense, goodwill and other intangibles of $4,500,000 and $5,500,000.

Research and Development:
Research and development cost recorded as expense was $14,000,000 and $19,000,000 for the years ended June 30, 1976 and 1975, respectively.

Income Taxes: (In thousands)

Years ended June 30	1976	1975
United States and foreign income taxes consist of:		
Current		
United States	$14,210	$10,271
Foreign	5,363	4,331
Investment credit	(1,884)	(2,645)
Total current	17,689	11,957
Deferred		
United States	5,144	2,562
Foreign	453	(336)
Total deferred	5,597	2,226
Total income tax expense	$23,286	$14,183
Reconciliation of effective tax rate:		
Statutory tax rate	48.0%	48.0%
Investment credit	(3.5)	(6.3)
DISC benefit	(.9)	(4.7)
Other, net	(.2)	(3.3)
Effective tax rate	43.4%	33.7%
Deferred taxes result from timing differences relative to:		
Inventory valuations	$ 1,023	$ 111
Foreign operations	2,466	(879)
Depreciation	1,446	1,585
Pension expense	(691)	(758)
Other, net	1,353	2,167
Total deferred taxes	$ 5,597	$ 2,226

State income taxes, included in selling, administrative and research expenses, were $1,900,000 for the year ended June 30, 1976 and $800,000 for the year ended June 30, 1975.

At June 30, 1976, provision for income taxes has not been made on $47,000,000 of undistributed earnings of subsidiaries and joint ventures since these earnings are considered to be permanently invested.

Foreign Subsidiaries and Foreign Exchange:
The effect of subsidiary operations outside the United States and its possessions on consolidated net sales, net income and net assets for the years ended June 30, 1976 and 1975 was:

(In thousands)	1976	1975
Net sales	$213,078	$197,706
Net income (loss)	2,463	(3,099)
Net assets	80,816	78,055

At June 30, 1976, SCM adopted the requirements of Statement No. 8 of the Financial Accounting Standards Board relating to the translation of foreign currency amounts. The effect of this change on opening retained earnings and on net income of any one prior period is immaterial. Net foreign exchange losses charged against operations were $1,800,000 in fiscal 1976 and $1,400,000 in fiscal 1975.

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Long-Term Debt: (In thousands)

June 30	1976	1975
5½% sinking fund debentures due 1978-1983	$ 9,050	$ 10,473
5¾% sinking fund debentures due 1978-1987	13,892	14,920
7¼% sinking fund debentures due 1978-1988	14,873	15,887
9¼% sinking fund debentures due 1978-1990	29,750	31,500
10% sinking fund debentures due 1982-1996	50,000	—
Bank credit agreement due 1982	—	41,000
8⅞% note (Industrial Revenue Bonds) due 1991-2000	17,000	17,000
Lease obligation (6% Environmental Improvement Revenue Bonds, due 1984-1993)	10,000	10,000
Other loans from 5% to 10%	11,051	17,208
5½% convertible subordinated debentures due 1978-1988	39,773	41,484
5¼% convertible subordinated debentures due 1979-1989	15,000	15,000
Total long-term debt	$210,389	$214,472

Approximate long-term debt maturities, including the current portion of long-term debt, during the next five years will be: 1977-$2,104,000, 1978-$7,039,000, 1979-$10,510,000, 1980-$9,670,000, 1981-$9,388,000.

Under the most restrictive provisions of the indentures related to long-term debt, retained earnings of $43,000,000 was available at June 30, 1976 for declaration of cash dividends.

On May 19, 1976 SCM issued $50,000,000 sinking fund debentures due 1996. A portion of the proceeds was used to pay the balance of the bank credit agreement (Revolving Credit and Term Loan Agreement dated March 20, 1975), which agreement was cancelled subsequent to June 30, 1976, and the balance of such proceeds are available for general corporate purposes.

Credit Lines and Compensating Balances:
The maximum short-term borrowing outstanding at any month end during the year was $18,000,000 at July 31, 1975. SCM's total unsecured short-term credit lines at June 30, 1976 were $25,000,000 of which $12,500,000 was outstanding. Subsequent to June 30, 1976, SCM obtained an additional $40,000,000 of unsecured short-term credit lines. The average short-term borrowing outstanding during the fiscal year was $13,000,000 and the average interest rate was 13.7 per cent calculated by dividing total interest by the average amount outstanding. The average interest rate at June 30, 1976 for short-term borrowings, which are principally foreign, was 12.5 per cent without giving effect to compensating balances.

SCM has informally agreed to maintain compensating balances, generally based on 10 per cent of unused credit lines and 20 per cent of borrowings, on the domestic unsecured credit lines. At any given date, cash is not restricted by compensating balance agreements.

Capital Stock:

The authorized stock consists of 500,000 shares of preferred stock, par value $50 each and 15,000,000 shares of common stock, par value $5 each. A summary of shares of common stock outstanding and reserved as of June 30, 1976 and 1975 was:

	1976	1975
Outstanding	9,161,885	9,156,885
Reserved for issuance under stock option plans	452,400	457,622
Reserved for issuance upon conversion of—		
5½% subordinated debentures due 1978-1988	855,158	891,946
5¼% subordinated debentures due 1979-1989	322,234	322,234

During 1976 options to purchase 28,000 shares of common stock were granted; options for 28,171 shares expired; and options for 5,000 shares were exercised contributing $25,000 to Common Stock and $26,625 to Additional Paid-In Capital. In 1975, options for 400 shares were exercised. At June 30, 1976, options for 356,517 shares were outstanding.

Leases:

Annual rental expense, reduced by related income of $1,100,000 and $1,500,000, amounted to $26,600,000 and $24,600,000, of which $5,200,000 and $6,000,000 related to financing leases, for the years ended June 30, 1976 and 1975, respectively.

Future minimum rental commitments at June 30, 1976 under all non-cancellable leases, reduced by related sublease income of $4,200,000, are as follows:

(In thousands)

	Financing Leases		
Year	Real Property	Personal Property	Non-Financing Leases
1977	$ 1,000	$ 4,000	$ 11,000
1978	1,000	3,000	9,500
1979	1,000	3,000	9,000
1980	500	2,500	8,000
1981	500	2,500	7,000
1977-1981	4,000	15,000	44,500
1982-1986	3,000	4,500	22,000
1987-1991	2,500	2,500	13,500
1992-1996	1,000	3,500	7,000
Remainder	1,500	—	2,000
Total	$12,000	$25,500	$89,000

Minimum rental commitments under non-financing leases are principally related to real property.

If all non-capitalized financing leases were capitalized, the effect on net income would be immaterial.

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Quarterly Results (Unaudited)

Unaudited financial results by quarter for fiscal years ended June 30, 1976 and 1975 are summarized b

(In thousands, except per share amounts)				Earnings Per Sh
Fiscal Quarter	Net Sales	Operating Income	Net Income	Net Income
1976 First	$ 317,166	$16,172	$ 6,694	$ .73
Second	329,071	17,964	8,068	.88
Third	329,765	13,338	5,488	.60
Fourth	355,895	24,428	10,145	1.09
Total	$1,331,897	$71,902	$30,395	$3.30
1975 First	$ 340,273	$22,773	$10,072	$1.10
Second	336,985	21,836	9,081	.99
Third	287,063	8,486	2,747	.30
Fourth	323,133	7,911	5,986	.65
Total	$1,287,454	$61,006	$27,886	$3.04

The 1976 third quarter includes $2.0 million, or $.22 per share, the after tax effect of the decision to write off a portion of plain paper copiers. In addition, the 1976 results include approximately $1.3 million or $.14 per share, the after tax effect of reducing the depreciable lives of plain paper copiers.

The 1975 third and fourth quarter tax provis million and $(1.7) million, reflected a change annual effective tax rate and, in the fourth q the benefit arising from a decision to liquid foreign investment.

Auditors' Opinion

The Shareholders
SCM Corporation:

We have examined the consolidated balance sheet of SCM Corporation and subsidiary companies as o 30, 1976 and 1975 and the related statements of income, retained earnings, and changes in financial po for the years then ended. Our examination was made in accordance with generally accepted auditing s dards, and accordingly included such tests of the accounting records and such other auditing procedu considered necessary in the circumstances.

In our opinion, such consolidated financial statements present fairly the financial position of the comp June 30, 1976 and 1975 and the results of their operations and the changes in their financial position f years then ended, in conformity with generally accepted accounting principles applied on a consistent

New York, New York
August 18, 1976

Haskin

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Operating Businesses

Allied Paper Division
2030 Portage Street, Kalamazoo, Mich. 49003
Ernest J. Klimczak, President

John P. Feeley, Senior Vice President

- Southern Mill Group (Jackson, Ala.)
  Ralph V. Zepp, Vice President-Resident Manager
- Kalamazoo Paper Mill Group
  E.J. Gilman, Vice President-Manufacturing;
  John Nisbet, Vice President-Sales
- Office and Stationery Group (Marion, Ind.)
  W.R. Gates, President
- Allied/Egry Group (Dayton, O.)
  G.W. Underwood, President
- Walton Printing Group (Buena Park, Cal.)
  R.L. Walton, President
- Histacount, Inc. (Melville, N.Y.)
  Joseph Gebbia, President
- Specialty Coatings Group (Phoenixville, Pa.)

Business Equipment Division
299 Park Avenue, New York, N.Y. 10017
William L. Rodich, President

- Copier Products Group
- International Group,
  Francis D. DeMaio, Vice President

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

- Smith-Corona Group
  Paul J. Uebbing, Vice President
- Proctor-Silex Group (Philadelphia, Pa.)
  Harry Hill, Vice President

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

Robert E. Dorfmeyer, Vice President
and Assistant to the President

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

Robert L. Lozon, Vice President-Inorganic Chemicals

- Coatings and Resins Group
  William D. Kinsell, Jr., Vice President
- Industrial Foods Group
  Adrian J. Lathe, Vice President
- Food Service Group
  W.A. Hagen, Vice President
- Consumer Foods Group
  William A. Miller, Vice President
- Pigment Group (Baltimore, Md.)
  Peter C. Firing, Vice President
- Metals Group
  W.E. Jones, Vice President
- Pemco Products Group (Baltimore, Md.)
  William A. Hubbard, Vice President
- Organic Chemicals Group (Jacksonville, Fla.)
  R.P.T. Young, Vice President
- Proctor & Schwartz Group (Philadelphia, Pa.)
  J.R. Johnson, Vice President

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

Officers and Directors

Directors and Principal Occupation

Robert O. Bass, President
Borg-Warner Corporation

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

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

Lewis H. Durland, Chairman, First National Bank
and Trust Company of Ithaca, New York

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

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

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

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

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

Crocker Nevin*, Investment Banker,
Drexel Burnham & Co., Inc.

William W. Quinn, President, Quinn Associates,
management consultants

E. Everett Smith, of counsel,
McKinsey & Company

*Member of Executive Committee

Corporate Officers

Paul H. Elicker, President and Chief Executive

George E. Hall, Senior Vice President-
Administration; Secretary

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

James Balph, Vice President

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

William V. Cawley, Vice President and Treasurer

Herbert H. Egli, Vice President-
Finance and Controller

Victor E. Feuerherd, Vice President

Ernest J. Klimczak, Vice President;
President, Allied Paper, Inc.

Robert L. Lozon, Vice President

William L. Rodich, Vice President;
President, Business Equipment Division

Richard Sexton, Vice President and General Counsel

Gerard F. Stoddard, Vice President

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SCM Corporation
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