THE GLIDDEN COMPANY

CLEVELAND, OHIO

December 31, 1935

TO THE SHAREHOLDERS:

On behalf of the Board of Directors the certified annual report of The Glidden Company for the year ending October 31, 1935 is herewith submitted. There has been no change in the company's established procedure in bookkeeping and accounting and the figures contained therein can easily be compared with the last annual report.

The net profits for the year after interest, depreciation charges and all State and Federal taxes, amounted to $2,645,590.17 as compared with a profit of $1,532,323.99 for the previous year. After allowing for payment of dividends on the Prior Preference stock, these earnings are equivalent to $3.23 per share on 678,883 shares of common capital stock, which was the average number of shares outstanding for the year. At the end of our last fiscal year there were outstanding 650,000 shares of common capital stock. At the end of July, 1935 the company sold 103,881 shares, bringing the number of shares outstanding on October 31, 1935 to a total of 753,881. The profits per share on the common stock outstanding at the end of the year amounted to $2.91 per share.

All the properties of the company have been maintained in splendid physical condition and the regular schedule for charging depreciation has been followed. The total depreciation charges for the past fiscal year amounted to $527,871.39

In the last annual report attention was directed to the modern Soya Bean Oil extraction plant at Chicago which had just been completed, and to the Lecithin and Soya-Protein plants which were being constructed. These plants were completely destroyed by a disastrous explosion on October 7, 1935. Fortunately, the buildings and equipment were well covered by insurance and full settlement, not only for loss by explosion but for Use and Occupancy, has been received. Reconstruction of the various units comprising these new enterprises is now under way and will be pushed to completion as rapidly as possible. It is the belief of the management that the new plants will be in operation early in the Spring so the company can take advantage of the opportunities afforded by the present large crop of Soya Beans.

During the year the plant of our affiliated company, the American Zirconium Corporation, built for the production of titanium pigments, has been put into complete operation and should now show satisfactory profits.

The company has purchased the minority interest in the Nelio-Resin Corporation and this corporation is now a wholly owned subsidiary. The output of its plants has been sold for the ensuing year and the future looks very bright for this new development.

The profits for November, the first month of the new fiscal year, as compared with November of last year, were nearly double. Our sales are increasing in all divisions and the prospects for our whole business for the new year are most encouraging.

The Board of Directors and officers desire to take this opportunity of expressing their appreciation of the good work of the employees and executives in charge of operations whose efforts have contributed so substantially to the results shown in this report.

By order of the Board of Directors.

ADRIAN D. JOYCE

President.

GLIDDEN

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CONDENSED B.
THE GLIDDEN COMPANY AND CONSOLIDATED SUBSIDIA

ASSETS

Current			
Cash on Hand, on Deposit and in Transit		$ 1,030,969.19	
Customers' Notes and Acceptances Receivable	$ 100,605.92		
Customers' Accounts Receivable	4,041,819.20		
	$ 4,142,425.12		
Less: Reserves	193,955.18	3,948,469.94	
Miscellaneous Current Accounts and Creditors' Debit Balances		149,799.59	
Inventory (lower of cost or market values):			
Raw Material, in Process, Finished Goods and Supplies		9,258,576.03	$ 14,387,814.75
Other Assets			
Insurance Claims Paid in December 1935		$ 707,241.85	
Cash Surrender Value of Life Insurance		334,148.75	
Claims Against Closed Banks, Less Reserve		77,875.62	
Miscellaneous Notes and Accounts, Salesmen's Advances, Sundry Investments, etc.		124,632.61	1,243,898.83
Investments in Subsidiary and Affiliated Companies			
(At less than cost)			
California Mining Companies (Note A)			
Capital Stock (fully owned)	$ 15,000.00		
Bonds (principal amount $500,000.00)	187,500.00		
Advances	826,901.97	$ 1,029,401.97	
Other Affiliated Companies: (Note A)			
Capital Stock	$ 483,200.00		
Advances	545,920.79	1,029,120.79	2,058,522.76
Permanent			
Land		$ 1,831,136.00	
Buildings, Machinery, Equipment, etc. on basis of Cost or Appraisal Value, Less Special Write-down		14,319,073.11	
		$ 16,150,209.11	
Less: Reserve for Depreciation and Depletion		5,254,088.54	$ 10,896,120.57
Intangibles			
Good Will		$ 2,492,007.93	
Patents and Trade Marks		233,173.18	
Rights to Manufacture, Secret Processes, Formulas, etc.		70,327.98	2,795,509.09
Deferred			
Inventory of Advertising Stock, Stationery, Unexpired Insurance Premiums, Prepaid Taxes, etc.		$ 383,618.11	
Special New Products Development		95,570.71	
Reorganization Expenses, Including Commissions on Sale of Preferred Stock		365,921.09	
Unamortized Note Issue Expense		10,368.81	855,478.72
			$ 32,237,344.72

The Glidden Company,
Cleveland.

December 24, 1935

We have made an examination of the consolidated balance sheet of THE GLIDDEN COMPANY—CLEVELAND and its fully owned subsidiaries (exclusive of California mining companies) as at October 31, 1935 and of the statement of income and surplus for the year ended at that date. In connection therewith we examined or tested accounting records of the Companies and other supporting evidence, and obtained information and explanations from officers and employees of the Company; we also made a general review of the accounting methods and of the operating and income accounts for the year, but we did not make a detailed audit of the transactions.

Our tests of inventories indicated that they are stated on the basis of the lower of cost or market values and that estimated inter-company profits have been eliminated.

The fixed assets are stated on the basis of cost or appraised values less reserves provided for revaluation, depreciation and depletion. The remaining portion of unrealized appreciation included in the gross value of these assets is offset by a portion of the revaluation reserve and that reserve was also provided to reduce the cost value of certain assets to estimated basis of values prevailing during the year 1932 as determined by the Board of Directors. The cost of fixed assets principally consists of cash expenditures, although certain properties were acquired partly for stock. The net value of the fixed assets is not intended to represent the present value of the properties.

Good will, patents, trade marks and other items classified as intangibles are stated at values assigned thereto as of dates of acquisition for cash or capital stock of the Company, less small amounts amortized. Of the items repre-

ALANCE SHEET

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LIABILITIES, CAPITAL and SURPLUS

Current				
Notes Payable for Money Borrowed from Banks			$ 1,000,000.00	
Accounts Payable for Purchases, Pay Rolls, etc.			1,279,798.76	
Accrued Taxes, Interest, Insurance, Royalties, etc. (including federal income tax)			754,374.38	
Five Year 5½% Gold Notes—Due June 1, 1935 Called August 1, 1934 and Not Presented			3,000.00	
First Mortgage 6% Gold Bonds of Subsidiary Company due April 15, 1936			33,000.00	$ 3,070,173.14
Long Term Debt (exclusive of amounts shown as current)				
Five Year 5½% Gold Notes due June 1, 1939			$ 3,259,000.00	
First Mortgage 6% Gold Bonds of Subsidiary Companies, Less Held in Treasury			64,200.00	3,323,200.00
Deferred Credit				
Unapplied Portion of Insurance Settlement				210,349.00
Reserve				
For Contingencies (including amount of $67,912.46 provided from capital surplus in 1932)				135,798.02
Capital and Surplus				
Capital Stock				
Prior Preference—7% Cumulative				
Authorized	75,000 shares	$ 7,500,000.00		
Less: Unissued and Redeemed	10,000 shares	1,000,000.00	$ 6,500,000.00	
Common—Without Par Value				
Authorized	800,000 shares			
Outstanding	753,881 shares			
Reserved:				
For Sale to Officers and Key Employees	46,000 shares			
For Sale to Others	119 shares			
Stated Capital at $5.00 a share			3,769,405.00	
Surplus				
Capital		$ 9,870,176.72		
Profit and Loss		5,358,242.84	15,228,419.56	25,497,824.56
				$ 32,237,344.72

(Note A) Investments in California Mining Companies, whose assets consist almost entirely of properties not being operated, are stated herein at less than cost, which carrying value on the basis of unaudited balance sheets, was $115,609.70 less than the book value of the net assets of those companies. Losses have been experienced by these companies from date of acquisition to October 31, 1935, however, the losses for the last few years, since operations of properties were suspended, have represented principally expenses in maintaining the properties. The value of investments in these companies is indeterminable at this time. Securities of other affiliated companies represent a 50% interest in common stock and 100% interest in preferred stock of a company, the unaudited statement of which shows an accumulated deficit of $81,730.63 at October 31, 1935;and approximately 54% of common stock of a company, at cost, which was $31,638.75 in excess of the equity in that company's net assets at October 31, 1935.

(Note B) The Company was reported as having letters of credit outstanding in the amount of $976,957.48 and it was contingently liable for subscriptions to capital stock of other corporations in the amount of $199,600.00.

(Note C) This balance sheet is subject to the comments submitted herewith.

sented under this classification the amount of $97,193.35 is being amortized. No amortization has been provided against reorganization expenses and commissions on sale of preferred stock, classified as deferred.

Officials of the Company have expressed the opinion that pending lawsuits are of minor importance and that the Companies will have no material losses in connection therewith..

During the year the Company entered into an underwriting agreement for the sale of 104,000 shares of its common stock, of which 103,881 shares were sold, principally to shareholders, at $22.00 each and the remaining 119 shares have been reserved for issuance. Of the proceeds realized, the amount of $5.00 a share was credited to stated capital and the remainder to capital surplus, after deducting therefrom underwriting fees and commissions and expenses in connection with the issue. The corporate minutes record an authorization for the issuance of 46,000 additional common shares to officers and key employees at a price of $22.00 a share. No allocation of these shares had been made at October 31, 1935.

In our opinion, based upon our examination, the accompanying consolidated balance sheet and related statement of Income and surplus fairly present the consolidated position of the Company and its subsidiaries, excepting California mining companies, at October 31, 1935 and the results from operations for the year ended at that date. Subject to the foregoing comments and to the footnotes on the accompanying statements, it is our opinion that the statements have been prepared in accordance with accepted accounting principles and on a basis consistent with the preceding year.

Ernst & Ernst,
Certified Public Accountants.

GLD002941

CONDENSED OPERATING STATEMENT

THE GLIDDEN COMPANY AND CONSOLIDATED SUBSIDIARIES

For the Fiscal Year Ended October 31, 1935

Net Sales (Excluding inter-company and sudsidiary sales and transfers)		$39,528,738.84
Profit Before Interest, Depreciation and Other Income		$ 3,750,355.16
Other Income—Net		59,542.61
		$ 3,809,897.77
Interest on Funded Debt	$ 185,926.45	
Other Interest Expense	58,509.76	244,436.21
Profit Before Providing for Depreciation and Federal Income Tax		$ 3,565,461.56
Provision for Depreciation and Depletion		527,871.39
Profit Before Federal Income Tax		$ 3,037,590.17
Provision for Federal Income Tax		392,000.00
	Net Profit	$ 2,645,590.17

(Note A) No provision has been made in the foregoing statement for (1) loss of fully owned non-operated California mining companies for the year, amounting to $45,714.71, including provision for depreciation in the amount of $34,362.88 and (2) portion of loss amounting to $54,522.29, applicable to the Company's investment in common stock of other affiliated companies.

(Note B) Discount and expense on notes and bonds of the companies were charged to capital surplus as of November 1, 1931 as authorized by the Board of Directors. If these items had been amortized on the basis of money in use, the amount of $11,814.48 would have been charged against income for the year ended October 31, 1935.

(Note C) Depreciation or amortization on patents and rights is included in the above statement in the amount of $7,207.60 on a gross value of $106,325.40. No amortization has been provided for other intangibles or for reorganization expenses and commissions on sale of preferred stock.

(Note D) Depreciation claimed for federal income tax purposes during the past several years exceeded the provisions charged against income on the Company's records, such excess being due to depreciation claimed on costs written off or credited to revaluation reserve during 1932. The federal income tax return for the year 1935 has not, as yet, been prepared, but it is anticipated that depreciation provided therein will exceed that charged on the records of the Company.

(Note E) Special new products development, aggregating $61,535.06 for the fiscal year 1935, deferred in accompanying balance sheet, was treated as expense for the purpose of computing estimated federal income tax liability for the year.

SURPLUS ACCOUNTS

Capital Surplus			
Balance October 31, 1934			$ 8,240,951.64
Addition			
Excess of Selling Price Over Stated Value of 103,881 Shares of Common Stock		$ 1,765,977.00	
Less:			
Underwriting Fees and Commissions	$ 108,500.00		
Other Expenses in Connection with Above Issue	28,251.92	136,751.92	1,629,225.08
	Balance October 31, 1935		$ 9,870,176.72
Profit and Loss—Surplus			
Balance October 31, 1934			$ 4,249,179.07
Addition			
Net Profit from Operations for the Fiscal Year Ended October 31, 1935		$ 2,645,590.17	
Deductions			
Dividends Paid:			
Prior Preference—7%	$ 455,000.00		
Common—$1.60 a Share	1,081,526.40	1,536,526.40	1,109,063.77
	Balance October 31, 1935		$ 5,358,242.84

(Note A) Discount and expense in the amount of $130,052.90 on long term debt were charged to capital surplus as of November 1, 1931, as authorized by the Board of Directors. If the items of discount and expense, portion of reserve for contingencies provided from capital surplus in prior years and additional depreciation claimed for federal income tax purposes had been charged against earned surplus, instead of capital surplus, the respective amounts of such surplus accounts would be $4,876,717.24 and $10,351,702.32 as of October 31, 1935.