THE GLIDDEN COMPANY

CLEVELAND, OHIO

GLIDDEN

Everywhere on Everything

ANNUAL REPORT

Year Ended October 31, 1944

GLD002849

THE GLIDDEN COMPANY
CLEVELAND, OHIO

Cleveland, Ohio,
December 30, 1944.

To the Shareholders of
The Glidden Company.

Gentlemen:

In the following pages will be found the Consolidated Balance Sheet as of October 31, 1944, and the Consolidated Profit and Loss and Surplus Accounts for that year.

The net sales for the fiscal year amounted to $111,897,814.51 as compared to sales for the last year of $97,144,616.31, or an increase of $14,753,197.70. The net earnings for the year after all charges, including Income and Excess Profits Taxes, amounted to $2,117,-288.63, which, after Preferred dividends, is equivalent to $2.02 per share on the Common Stock, as compared to $1.87 per share for the previous year.

In recognition of continued exceptional production results, the Army-Navy "E" Flag was awarded to each of two plants of the Company and their employees.

Renegotiation for the period ending October 31, 1943, resulted in no assessment and inasmuch as the general policy of the Company did not change during 1944, we do not expect there will be any assessment against 1944 profits when and as renegotiations are completed.

During the year the Company acquired the outstanding minority interest in the American Zirconium Corporation, and now having taken over the assets of that Company it will hereafter be operated as a division of The Glidden Company. The operations of this plant have been hampered by the difficulty in getting adequate and necessary equipment, but this equipment is now being installed and prospects for profitable operations in 1945 are encouraging.

The Company's policy of using the last-in, first-out method of inventory pricing on raw materials has resulted in our inventories being carried on the books of the Company as of October 31, 1944, at a valuation of $3,302,139.95 less than the replacement cost as of that date. This with our contracts with various government agencies and our firm contract sales gives us a large measure of protection against loss through market declines.

The acquisition of the minority interest in the American Zirconium Corporation, together with a tax adjustment relative to the investment in and advances to The

California Zinc Company previously charged off, has resulted in the Company making a saving in Income and Excess Profits Taxes of which $1,200,000 has been set up as a reserve for contingencies.

The Company's plants have been maintained in the best possible condition and large sums have been expended in maintaining these properties and installing the most efficient methods of production. Inasmuch as there have been no plant additions added specifically for Government or war business, the Company has no reconversion problem.

Our Production and Research Departments are continuing their efforts in the development of our Soya Products Division. Substantial progress has been made in developing Soya Proteins, Soya Flour and commercial livestock and poultry feeds. The Research Department has made a splendid contribution in the development of sterols and hormones from soybeans, and these products are now being regularly produced. Additional laboratory facilities and additional research workers have been provided, so that scientifically sound development of our various lines will be continued.

The number of shareholders reported on the latest available list is 10,554 Common shareholders and 3,435 Preferred shareholders.

Of our employees, 1,521 are now in the Armed Services.

Early in our fiscal year the Company refinanced its deferred loan not only by increasing it from $6,000,000 to $10,000,000 but by arranging for longer maturities. Not only does this improve the working capital of the Company, but there was considerable improvement through tax adjustment, net earnings over dividends, etc. We thought it wise to increase the deferred loan in order that the Company could more easily finance the larger inventories made necessary because of the tremendous increase in the Company's sales.

The Company is continuing its policy of national advertising, giving publicity to its diversified products.

The Company's long range plans insure steady progress, and while changes of great importance will result from current domestic and international developments, it is believed that in our field of unlimited scope, the Company can look forward confidently to continued progress.

On behalf of the Board of Directors, I wish to acknowledge and express appreciation for the loyal and effective service rendered by the officers and employees of the Company.

Yours very truly,

ADRIAN D. JOYCE,
President.

GLD002851

CONSOLIDATED
The Glidden Compa
October

ASSETS

CURRENT ASSETS		
Cash		$ 4,124,279.87
Dominion of Canada Victory Loan bonds		119,369.37
Trade notes receivable	$ 15,018.16	
Trade accounts receivable	6,683,142.98	
	$ 6,698,161.14	
Less reserves	246,838.02	6,451,323.12
Inventories — raw materials, in process, finished goods — Note A		24,257,189.62
Other current accounts receivable and advances, less reserve of $52,906.30		306,517.65
TOTAL CURRENT ASSETS		$35,258,679.63
OTHER ASSETS AND INVESTMENTS		
Cash surrender value of life insurance	$ 616,624.75	
Miscellaneous notes and accounts receivable and advances, less reserve of $13,042.79	107,406.69	
Estimated postwar refund of excess profits taxes	593,400.00	
Other investments	35,892.47	1,353,323.91
PROPERTY, PLANT, AND EQUIPMENT		
Land — Note B	$ 2,319,565.47	
Buildings, machinery, and equipment — Note B	26,210,170.56	
	$28,529,736.03	
Less reserves for depreciation, depletion, and amortization	11,874,212.39	16,655,523.64
DEFERRED CHARGES		
Prepaid insurance and expenses		284,846.52
		$53,552,373.70

GLD002852

BALANCE SHEET
ny and Subsidiaries
31, 1944

LIABILITIES, CAPITAL STOCK, AND SURPLUS

CURRENT LIABILITIES			
Accounts payable			$ 6,497,886.10
Accrued taxes, royalties, interest, and insurance			621,766.24
Federal, state, and dominion taxes on income — estimated			2,670,300.28
TOTAL CURRENT LIABILITIES			$ 9,789,952.62
LONG-TERM DEBT			
Note payable due July 1, 1952, interest at 3¼%		$ 4,000,000.00	
Serial notes payable, maturing $1,000,000.00 annually from July 1, 1946, interest 2% to 2¼%		6,000,000.00	10,000,000.00
RESERVE			
For contingencies			1,200,000.00
MINORITY INTEREST			
In capital stock and surplus of subsidiary company			213,497.85
CAPITAL STOCK AND SURPLUS			
Capital stock:			
Convertible preferred, 4½% cumulative, par value $50.00 a share, redeemable at $52.50 a share, convertible into seven-tenths share of common stock:			
Authorized 200,000 shares			
Issued and outstanding, including treasury shares, 199,940 shares		$ 9,997,000.00	
Common, without par value:			
Authorized 1,200,000 shares			
Outstanding, including treasury shares, 835,531 shares			
Reserved for conversion 139,958 shares			
Stated capital		4,177,655.00	
		$14,174,655.00	
Surplus — Notes C, D, E, and F:			
Capital surplus	$ 8,444,162.99		
Earned surplus	9,906,670.17		
	$18,350,833.16		
Less capital stock in treasury, at cost:			
Common 10,088 shares, convertible preferred 400 shares	176,564.93	18,174,268.23	32,348,923.23
			$53,552,373.70

See notes to financial statements on second following page.

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CONSOLIDATED PROFIT AND LOSS AND SURPLUS

The Glidden Company and Subsidiaries

Fiscal year ended October 31, 1944

PROFIT AND LOSS STATEMENT

Net Sales		$111,897,814.51
Cost of goods sold, selling, administrative, and general expenses, including provision of $1,344,230.06 for depreciation, depletion and amortization — Note G		106,058,600.90
		$ 5,839,213.61
Other income		361,397.95
		$ 6,200,611.56
Other deductions:		
Interest on long-term debt	$ 199,763.20	
Other interest	69,022.53	
Provision for contingencies	150,000.00	
Miscellaneous — Note H	319,283.81	738,069.54
PROFIT BEFORE TAXES ON INCOME AND SPECIAL CHARGE		$ 5,462,542.02
Estimated taxes on income and special charge:		
Federal normal income tax and surtax	$ 890,000.00	
Federal excess profits tax (after deducting $167,800.00 postwar refund for 1944 and prior years)	1,255,000.00	
Dominion and state taxes (after deducting $17,300.00 for postwar refund)	140,000.00	
Charge equal to reduction in taxes due to deduction for certain claims provided for in prior years (credited to reserve for contingencies)	1,050,000.00	3,335,000.00
NET PROFIT		$ 2,127,542.02
Portion of net profit of subsidiary company applicable to minority interest		10,253.39
CONSOLIDATED NET PROFIT TO SURPLUS		$ 2,117,288.63

SURPLUS

CAPITAL SURPLUS			
Balance at November 1, 1943, and October 31, 1944			$ 8,444,162.99
EARNED SURPLUS			
Balance at November 1, 1943		$ 8,961,567.02	
Add:			
Net profit for the fiscal year	$ 2,117,288.63		
Recovery on investment charged off in prior year	19,700.00	2,136,988.63	
		$11,098,555.65	
Deduct:			
Cash dividends paid:			
Convertible preferred — $2.25 per share	$ 448,986.78		
Common — $ .90 per share	742,898.70	1,191,885.48	
Balance at October 31, 1944			9,906,670.17
TOTAL SURPLUS AT OCTOBER 31, 1944			$18,350,833.16

See notes on following page.

NOTES TO FINANCIAL STATEMENTS

The Glidden Company and Subsidiaries

October 31, 1944

Note A — Inventories of principal raw materials are stated at cost (last-in, first-out method) which did not exceed replacement market; other inventories are stated at the lower of cost (accumulated average) or replacement market.

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

Note C — The agreement relating to long-term notes payable provides that the Company will not declare or pay dividends (other than dividends payable in common stock) on any shares of its common stock if in the aggregate such dividends would exceed an amount equal to the consolidated net earnings accumulated subsequent to the fiscal year ended October 31, 1942, nor expend in excess of an aggregate of $200,000.00 in the acquisition or retirement of outstanding stock of any class except out of such consolidated net earnings so accumulated. Consolidated net earnings (as defined in the agreement) since October 31, 1942, less dividends paid, amount to $1,730,637.73.

Note D — Net assets of Canadian subsidiary included herein comprise net current assets, $663,479.26, included at the Control Board rate of exchange, and property, plant, and equipment and other assets, $329,203.05, included at amounts shown by the books of that subsidiary. Consolidated net profit includes $101,622.60 for the Canadian subsidiary, representing that subsidiary's net profit for the year after giving effect to adjustment of its net current assets to Control Board rate of exchange in effect at October 31, 1944. Consolidated earned surplus includes $1,543,846.63 of surplus of the Canadian subsidiary.

Note E — Profits of the companies include those from transactions subject to the provisions of the Renegotiation Act providing for the recapture of any profits found as a result of renegotiation to be excessive. In renegotiation proceedings for the year ended October 31, 1943, it was determined that profits realized from such transactions were not excessive, and it is believed that the effect, if any, that renegotiation proceedings may have upon the financial statements of the companies for the year ended October 31, 1944, will not be material.

Note F — In prior years certain items of discount and expense, provision for contingencies, and losses on dismantlements have been charged to capital surplus. If such items together with additional depreciation claimed for federal income tax purposes for the year 1932 to 1944 inclusive, had been charged against earned surplus instead of capital surplus, the respective amounts of such surplus accounts would be $8,446,250.09 and $9,904,583.07 at October 31, 1944.

Note G — Depreciation claimed in the Company's federal income tax return for the year 1944 exceeded the amount included in this statement by $68,962.08 due to depreciation claimed on costs written off or credited to revaluation reserve during 1932.

Note H — Includes $98,649.34 *write-off of unamortized cost of patents, rights to manufacture, and special new products development.*

ERNST & ERNST
CLEVELAND
UNION COMMERCE BUILDING

Board of Directors,
The Glidden Company,
Cleveland, Ohio.

We have examined the consolidated balance sheet of The Glidden Company and subsidiaries as of October 31, 1944, and the consolidated statements of profit and loss and surplus for the fiscal year then ended, have reviewed the system of internal control and the accounting procedures of the companies and, without making a detailed audit of the transactions, have examined or tested accounting records of the companies and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary. Such procedures included test confirmation of trade receivables and observation of procedures employed by the companies in ascertaining inventory quantities at locations selected by us.

In our opinion, the accompanying balance sheet and related statements of profit and loss and surplus present fairly the consolidated position of The Glidden Company and its subsidiaries at October 31, 1944, and the consolidated results of their operations for the fiscal year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ERNST & ERNST
Certified Public Accountants.

Cleveland, Ohio,
December 20, 1944.

BOARD OF DIRECTORS

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

OFFICERS

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ROBERT H. HORSBURGH, Executive Vice-President
RICHARD W. LEVENHAGEN, Vice-President
WILLIAM J. O'BRIEN, Vice-President
DWIGHT P. JOYCE, Vice-President
PAUL E. SPRAGUE, Vice-President
JOHN A. PETERS, Treasurer
CLIFTON M. KOLB, Secretary
WILLIAM W. CONANT, Assistant Secretary
CLARENCE L. COLE, Controller

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THE NEW YORK TRUST COMPANY
New York City

Registrar
THE CHASE NATIONAL BANK
New York City