Financial Highlights

(In thousands, except per share amounts)	Years ended June 30, 1974	1973	% Increase
Net sales	$1,202,248	$ 980,281	23
Income before income taxes	47,849	31,285	53
United States and foreign income taxes	20,203	12,986	56
Net income	27,646	18,299	51
Earnings per share:			
Net income	3.02	2.00	51
Net income assuming full dilution	2.81	1.91	47
Additions to property, plant and equipment	59,138	39,966	48
Depreciation	30,334	27,210	11
Cash dividend per share	.425	.10	325

(All dollars in thousands)	At year end		
Working capital	$ 231,967	$ 229,941	1
Property, plant and equipment, net	207,237	187,362	11
Total assets	646,683	552,707	17
Long-term debt	152,906	149,439	2
Shareholders' equity	266,068	242,314	10
Number of shareholders	47,800	47,700	—
Common shares outstanding	9,156,000	9,156,000	—
Number of employees	29,600	29,400	1

SCM Corporation is a diversified manufacturing company with 1974 sales of $1.2 billion. Our products are used in many sectors of the consumer, industrial and office markets in the United States and around the world.

Consumer products include Smith-Corona typewriters, Glidden paints, Proctor-Silex appliances and Durkee Foods.

Industrial products include chemical coatings, industrial and institutional foods, pigments and colors, metal powders, pulp and paper, organic chemicals, ceramic frits and industrial processing equipment.

Office products include SCM Copiers, typewriters, telecommunications equipment for military and commercial users, and business forms and stationery.

Our six major lines of business extend from Coatings and Resins, the largest, with sales of $312 million, to Chemicals, sixth largest, with sales of $116.7 million.

This report to shareholders and employees relates operating highlights for our major lines of business, and includes trends in sales, operating income and average assets for each of them over the last five years.

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To the Shareholders

Fiscal 1974 was a record year in profits, earnings per share and sales for your company. Earnings not only continued the improvement that began in fiscal 1971, but gained momentum in 1974. Net income rose 51 per cent to $27.6 million, or $3.02 per share, from $18.3 million, or $2.00 per share in fiscal 1973. For the past 14 consecutive quarters, sales and earnings have exceeded those of the same quarter of the previous year. We have been trying to build just such a record of consistent improvement in earnings, and our success is gratifying to all SCM management.

The improvement in operating earnings was substantially tempered by the decision to value certain inventories on a LIFO (last-in, first-out) basis. This revised method of accounting for inventory is more conservative as to earnings, which would have been $4.6 million, or 50 cents per share, higher under last year's methods. This amount was not added to earnings because it resulted from inflation in inventory value and not from operations.

Sales last year increased 23 per cent to $1.2 billion from $980 million in fiscal 1973. This was the first time that annual sales exceeded one billion dollars. The generally improved economic circumstances of the company enabled us to increase the quarterly cash dividend, from 10 cents to 12.5 cents per share in June, 1974.

Our company-wide margin of profit rose from 1.9 per cent in 1973 to 2.3 per cent in 1974, reflecting operating improvement in almost all of our businesses.

***Operational Highlights:** Four of our six major product areas had record profits in 1974: Paper, the largest contributor to profits in 1974, Coatings and Resins, Typewriters and Appliances, and Chemicals. Foods' results were about even with last year while the loss in Business Equipment was much higher.*

- *Coatings and Resins, SCM's largest business, had record sales and profits last year. This is the third consecutive record year for this business, and it was brought about despite shortages of raw materials, particularly petrochemicals, and price controls. The latter, during much of the year, delayed price increases needed to compensate for higher costs.*
- *Smith-Corona Typewriters again had record sales and profits last year. Smith-Corona is the world's leading maker of portable electric typewriters, and its strong brand image was consolidated during the year. Results for Proctor-Silex appliances were off from the prior year because higher materials and manufacturing costs could not be passed through promptly.*
- *Allied Paper had a record year and had the largest increase in profits of any of our operations, more than triple its 1973 performance. This resulted from generally good conditions in the industry but especially from efficiency in papermaking and business forms operations. We also benefited from higher margins on pulp, and on the increasingly sophisticated fine paper grades on which we are now concentrating. As a result, last year we substantially out-performed much-improved industry averages.*
- *Durkee Foods' overall operating performance improved last year, but it has yet to recover fully from its low point of two years ago. The second half of the fiscal year benefited from less chaotic raw material markets that severely penalized the first half. Sale of a West Coast pickle operation, closing an outmoded edible oils refinery and a long strike early in the year all held earnings down.*
- *Chemicals had record profits last year. Most of our chemical plants operated at capacity due to high worldwide levels of demand for our products. The constantly growing technology used in our chemical products was also a factor in improved margins.*
- *Business Equipment was our only product group that had a loss last year. In fact, the operating loss for this business was substantially higher than in 1973. Last year we spent more for research and development in copiers, and we continued our policy of heavy depreciation on copiers. We also had expenses, some of which will continue in the current year, in connection with our antitrust suit against Xerox and for introduction of our new plain-paper copier.*

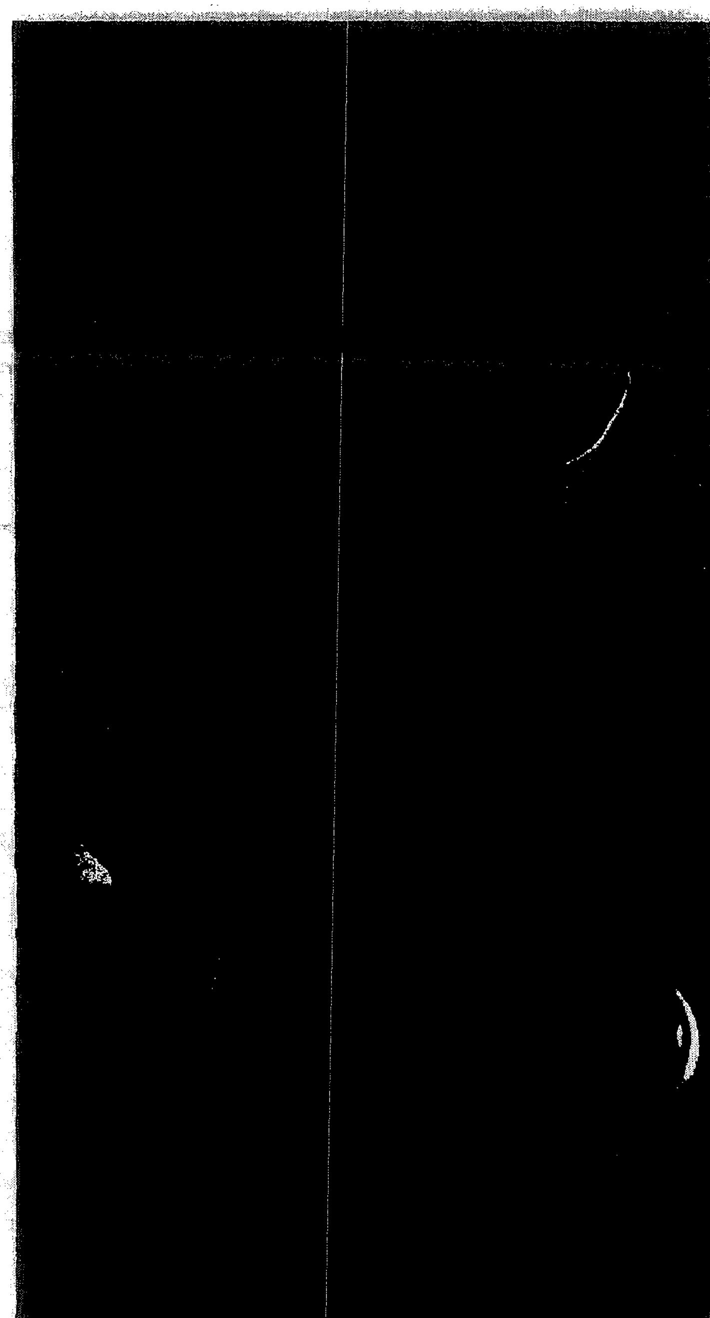
We did not attain minimum objectives in calculators and therefore decided to complete our withdrawal from the business. This decision added to the division operating loss, but losses from calculators have now been terminated.

Our Business Equipment Division is now concentrated almost wholly in copiers, domestic and international. This is the one major business where the profit result of improved management has yet to be realized, but it will come.

International: SCM's international sales have been [illegible] the last few years. For 1974, 18.1 percent of our sales were outside the U.S., compared to [illegible] percent in 1973. Despite the growth, however, this is [illegible] relatively small percentage for a company our size. [illegible] we multinationalism is a sound concept; the international market provides us with some of our best [illegible] areas. Therefore, the percentage of overseas sales [illegible] to expand.

The Economy: *In the letter to shareholders in last year's annual report, I remarked that "the economic expansion that began in 1971 continued and broadened on a worldwide basis." One result of this was that many of the world's major economies peaked simultaneously. The surge in demand, coupled with delay in construction of new plants in the face of environmental restrictions, as well as price controls, led to unprecedented shortages of a wide range of raw materials used in industry. Petroleum-based raw materials, in particular, often became unavailable at any price. The Government was forced to establish priorities in the petroleum industry in response to the Arab oil boycott and this added to the economic difficulties.*

While foreign economies were booming, U.S. economic policy went through a series of "phases" ending in our fourth quarter with the abolition of price and wage controls. Generally speaking, prior to April 30, 1974, only price increases that could be proved justified by cost increases were permitted, regardless of the value placed upon products by the marketplace. Inevitably, many products were withheld from the domestic market until price increases were approved. With the end of price controls, dislocations resulting from the experiment moderated. Exports, to which price controls did not apply and which were also aided by devaluation of the dollar, were at historic highs in fiscal 1974. Interest rates rose to record levels, and inflation was at its highest rate in more than 25 years.



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Despite specific economic problems, overall the economy was strong. The paper, chemicals and capital goods industries, for example, were very strong, and for us at least, the recession predicted by many economists did not materialize during fiscal 1974.

For many industrial companies, a large part of earnings improvement in 1973 and early 1974 came from gains in inventory value. The LIFO approach to inventory valuation minimized such "earnings" in our foods and paper businesses.

Managing the Company: SCM's record of the past few years shows that we have brought under control a large and diverse company. We have not hesitated to prune away businesses that have either been loss operations or whose progress was too slow. The most recent example is our withdrawal from the calculator business. In the same vein, we have made management changes whenever we felt this action would improve the operation of a specific business.

In the last year we outperformed many of the industries in which we participate. In doing so, we have demonstrated the ability to operate effectively in the kind of high inflation economy that will be with us for the forseeable future.

A major component of our long-term plan is to emphasize those of SCM's businesses with the best possibility of high margins, rapid growth and good market share. We have been and will continue to concentrate our resources in products or businesses that meet these criteria.

In the 1960's SCM's growth was largely a result of acquisitions. So far in the 1970's our growth has been a reflection of the growth of existing businesses, with acquisitions playing a more supplemental role. In the decade ahead we will continue our primary emphasis on the internal generation of new products and new technology.

The results of this strategy are already evident. Technology and new product development produced the Coronamatic cartridge typewriter, the Proctor-Silex "Super-Steam" iron, the first commercial dispersion-strengthened copper (GlidCop), vitamin intermediates in demand world-wide, the best and most widely used fine lightweight bible and book publishing paper, and other new products. Almost all of our major product groups have introduced one or more new products in the past year.

We spent a record $18 million on research, development and engineering last year, exceeding the previous record $16 million spent in 1973.

In last year's annual report I pointed out that one of our immediate tasks was to increase profits by increasing overall margins. Profit margins in 1974 increased to 2.3 per cent from 1.9 per cent in 1973 and 1.1 per cent in 1972. This is by way of a progress report; obviously, there is still room for considerable improvement.

Our earnings and cash position enabled us to share our improvement with the stockholders by increasing the cash dividend. A company's major reason for being is to provide an adequate and improving long-term return to its stockholders. A cash dividend is one means of accomplishing this; the other is improvement in the market value of the shares. Not the company's results, but worldwide economic uncertainty have denied you this second benefit. Unfortunately, we can't assure you that this general situation will be resolved soon. What we can do is run the company with continued and increasing effectiveness, and we intend to do this.

At the close of fiscal 1974 most of our major lines of business were in good condition with operations generally at a more profitable level than a year ago. We have every reason to expect the improvement of the last three years to be continued into fiscal 1975.

Paul H. Elicker

Paul H. Elicker
President

Net Sales, Operating Income and Average Assets by Product Group

(In millions)	Years ended June 30	1974	1973	1972	1971	1970
Net Sales						
	Coatings and Resins	$ 312.0	$259.1	$229.2	$207.8	$198.5
	Typewriters and Appliances	203.1	182.7	181.8	169.0	172.2
	Foods	289.2	215.5	211.4	205.0	183.8
	Business Equipment	124.6	106.0	110.4	112.3	113.5
	Chemicals	116.7	103.6	84.6	76.1	77.0
	Paper Products	141.1	102.5	86.1	86.1	88.5
	Other	30.6	24.8	26.5	29.1	30.8
		1,217.3	994.2	930.0	885.4	864.3
	Eliminations	(15.1)	(13.9)	(12.2)	(10.3)	(9.8)
	Total	$1,202.2	$980.3	$917.8	$875.1	$854.5
Operating Income						
	Coatings and Resins	22.9	18.3	17.2	13.8	9.1
	Typewriters and Appliances	16.8	16.5	12.1	8.2	7.9
	Foods	.4	.2	(2.9)	5.8	8.6
	Business Equipment	(14.3)	(4.2)	(3.3)	(3.9)	(4.1)
	Chemicals	10.8	5.5	3.1	3.6	6.4
	Paper Products	24.5	7.8	4.2	3.6	3.2
	Other	.8	(.2)	.4	(2.2)	(9.1)
	Total	$ 61.9	$ 43.9	$ 30.8	$ 28.9	$ 22.0
Average Assets						
	Coatings and Resins	174.2	144.4	121.6	116.0	109.7
	Typewriters and Appliances	109.4	107.0	104.8	118.8	123.0
	Foods	110.5	97.0	100.3	92.4	76.0
	Business Equipment	57.9	52.6	74.8	91.7	94.7
	Chemicals	81.4	78.9	73.0	73.0	68.6
	Paper Products	52.7	39.2	36.2	49.6	53.8
	Other	13.6	14.8	18.3	19.0	25.4
	Total	$ 599.7	$533.9	$529.0	$560.5	$551.2

SCM's results are broken down into seven lines of business. The table above shows the sales, operating income and average assets for each over five years.

Paper contributed the largest percentage of total operating income, 40 per cent, up from 18 per cent last year. Coatings and Resins contributed 37 per cent compared to 42 per cent in 1973. Typewriters and Appliances accounted for 27 per cent compared to 38 per cent in 1973. Chemicals accounted for 17 per cent of operating income, up from 13 per cent in 1973.

When totaled, contributions exceed 100 per cent because of the Business Equipment loss, a negative 23 per cent.

Several major lines of business had increases in average assets. The increase for Coatings and Resins was due in part to the new paint plant at Huron, Ohio. The increase for Paper reflects the investment in the new recovery boiler at our Jackson, Alabama, pulp and paper mill, and the increase for Foods was due primarily to the higher price for edible oils.

Each of the major lines of business is discussed in detail in a separate section of this annual report.

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Coatings and Resins

Glidden Coatings and Resins, SCM's largest business, had record sales and profits last year. Operating profit increased 25.1 per cent on a 20.5 per cent increase in sales. Operating profit margin was 7.3 per cent in 1974, 7.1 per cent in 1973. This group accounted for 37 per cent of SCM's overall operating profit on 29 per cent of the company's average assets during 1974. Comparable figures for 1973 were 41.7 per cent of the operating profit on 27 per cent of the average assets.

Raw material shortages hurt the otherwise solid performance of our paint business in 1974. Shortages resulted in higher raw material prices, forced changes in product mix and limited the number of new customers we could serve.

The Government's program of price controls, in effect for the first ten months of our fiscal year, prevented prompt recovery of most of the higher prices we had to pay for raw materials.

The overriding importance of raw material shortages and price controls can be seen in the following statistic: The average price of 24 key raw materials used by Coatings and Resins in North America increased 32 per cent during the year, while our prices rose 17 per cent. It is important, however, to keep these difficulties in perspective. Our coatings and resins business was able, through good management, to produce record profits—for the third consecutive year. In marketing, industry demand was good in 1974. Profits were at a high level by both historic and industry standards, and margins improved. Our technology is strong. We are among the industry leaders in water-based paints which will most easily meet stringent solvent vapor control regulations.

Trade Sales to consumers, painters, painting contractors and the do-it-yourself home painter is one of two broad segments of the paint market. Chemical coatings is the

(In millions)	1974	1973	1972	1971	1970
Net sales	$312.0	$259.1	$229.2	$207.8	$198.5
Operating income	$ 22.9	$ 18.3	$ 17.2	$ 13.8	$ 9.1
Return on net sales	7.3%	7.1%	7.5%	6.6%	4.6%
Average assets	$174.2	$144.4	$121.6	$116.0	$109.7
Return on average assets	13.1%	12.7%	14.1%	11.9%	8.3%

Research and development activities at Glidden Coatings and Resins center around improving existing products and developing new ones. Technology, which has always played an important role in the industry, has taken on even greater significance because of the growing amount of legislation based on safety and environmental requirements. Instruments such as the centrifuge, right, enable us to observe certain properties of coatings. The test begins when a small sample of paint is placed in the centrifuge. Spinning at very high speeds, the paint particles separate because of their varying densities. The size of particles affects how a paint goes on a surface and coalesces.

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other. Glidden, the fourth largest company in the U.S. paint industry, is a major factor in both fields but somewhat larger in trade sales than in chemical coatings.

Trade sales had a strong year and accounted for most of the sales and profit gain recorded by Coatings and Resins. Shortages were somewhat less of a problem in trade sales because this product line requires fewer of the raw materials in short supply last year. Coatings and Resins trade sales have some relationship to housing demand which has been sluggish.

Trade sales capacity was modernized when our new Huron paint plant began operation during the year. The 162,000 square-foot plant brings to 15 the number of Glidden paint facilities serving the U.S. consumer market. The new plant went on stream smoothly.

Chemical Coatings, the segment of the market which provides a wide variety of specialized coatings to industrial users, also had higher sales and profits last year, in spite of disruptions caused by shortages. These shortages restricted production to the degree that we were unable to serve some regular customers. Inventories were unbalanced because we had to buy raw materials when they were offered, and this was not always the time of our choosing.

Sales increased in three chemical coatings markets that are important to us: coatings for containers, wood finishes and materials for electrocoatings, and we improved our share of market in each.

International sales and profits increased substantially last year due to a strong showing by our Latin American operations which more than offset generally poor results of the European operations. Operations in Canada also were strong again last year.

Glidden operates 14 paint plants in 10 countries which account for 22.5 per cent of total group sales.

Leading the Latin American operations was Tintas Ypiranga, our Brazilian subsidiary acquired in 1973, which had a very strong year. This acquisition has worked out well. Our three European subsidiaries in Italy, Germany and France did not do as well. Our German subsidiary, for example, suffered because of lower automobile production levels of our largest European customer.

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A principal market for portable typewriters in the U.S. is the 18-to-24-year-old group. This segment of the population is expected to remain static over the next few years. Despite this, sales of electric portables, particularly models at the high end of the line, featuring the Coronamatic cartridge ribbons, are increasing. In response to this strong consumer demand, a large part of Smith-Corona's production in the U.S. was switched last year to cartridge models from manual and non-cartridge machines. Increased manufacture of cartridge models also required a major increase in the production of Coronamatic cartridges. Repeat sales of this item are going well, and we have decided to expand production. In the international market, low-cost manufacture is essential. A new typewriter aimed primarily at this market is the result of research and development carried out over several years at the Smith-Corona laboratory. This new model has undergone strenuous testing and evaluation to insure that it meets the rigid quality standards that consumers have come to expect from Smith-Corona. Various functions of the new typewriter are tested, left, using scientific equipment at the Smith-Corona laboratory in Cortland, New York.

Typewriters and Appliances

The Consumer Products Division, which consists of Smith-Corona typewriters and Proctor-Silex appliances, again had record sales and profits for the year. Operating profits increased 1.8 per cent on an 11.2 per cent increase in sales. This group accounted for 27.1 per cent of SCM's overall operating profit on 18.3 per cent of the company's average assets during 1974. Comparable figures for 1973 were 37.6 per cent of the operating profit on 20 per cent of the average assets.

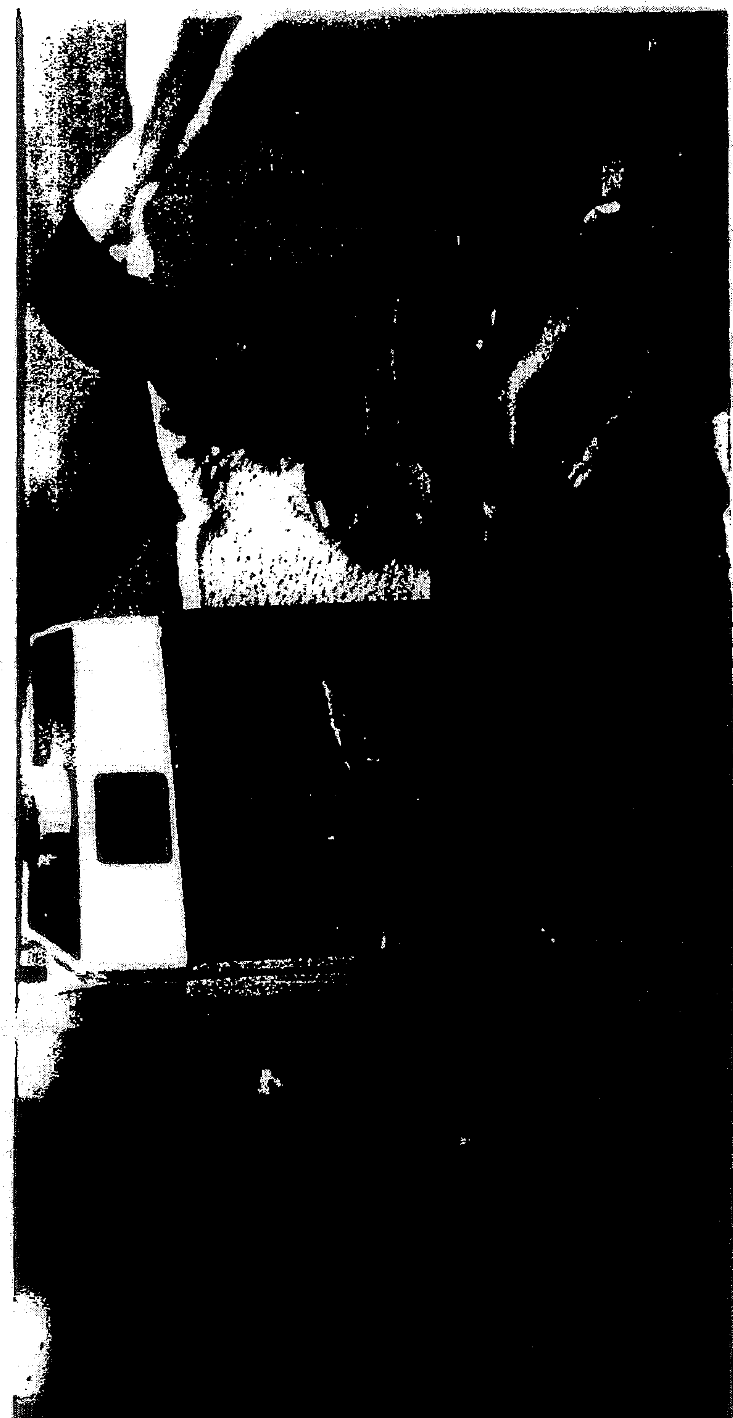
Smith-Corona Typewriters had record sales and profits last year. Last year's record was achieved in spite of substantially higher costs for advertising, research and engineering, new product introduction and new plant start-up. We continue to invest for future generations of Smith-Corona portables.

Our position in the portable typewriter market improved in 1974. Smith-Corona has consistently been the leader in developing new typewriter products that grow at a faster rate than the overall market. We do well in portable typewriters because of this and because of leadership in marketing and our efficient, high-volume manufacturing. We expect to create new capacity in 1975, and to raise production levels in 1976.

Smith-Corona compact electric office typewriters, designed for medium office use, have found a special place in the large electric office typewriter market. The newest addition to this line, the Coronamatic 7000 cartridge ribbon typewriter, has been well received since its introduction in January, 1973.

Proctor-Silex Appliances had increased sales last year but was only marginally profitable. Sales continued strong on the "Super-Steam" iron introduced in 1973, and we successfully introduced an improved toaster oven last year.

(In millions)	1974	1973	1972	1971	1970
Net sales	$203.1	$182.7	$181.8	$169.0	$172.2
Operating income	$ 16.8	$ 16.5	$ 12.1	$ 8.2	$ 7.9
Return on net sales	8.3%	9.0%	6.7%	4.9%	4.6%
Average assets	$109.4	$107.0	$104.8	$118.8	$123.0
Return on average assets	15.4%	15.4%	11.5%	6.9%	6.4%



Blenders and juicers, two of our motor-driven appliances, had higher sales, while sales of glass coffee percolators declined slightly. Consumer spending for appliances was generally good, with purchases trending toward higher priced models offering more features.

A new vice president-general manager was appointed during the year and a new position of vice president-marketing was created and filled. Both positions are currently held by executives with extensive experience in the appliance industry.

In the past, Proctor-Silex has concentrated its efforts on a volume-oriented, fairly narrow product line selling in the middle price range. Volume is important to us and we want to maintain it, but we also hope to increase profit margins by concentrating further on higher priced products.

***International** markets for typewriters are slightly larger and growing faster than in the U.S. Despite its leadership in the U.S. and Canada, Smith-Corona has only a modest, although growing, position in foreign markets where tariff barriers have tended to discriminate against U.S. typewriters in favor of domestic producers.*

Typewriter production in Canada was nearly doubled last year. Production of a new model typewriter designed in part for the international market will start in our recently completed plant in Singapore in the current year.

Currency value fluctuations of the past year and the appeal of our new products have made our U.S. typewriters more competitive overseas. As a result, we are now supplying the European market with small quantities of our Coronamatic 7000's and 2200's. Presently we provide both U.S. and some foreign markets with less expensive models made in our two plants in the United Kingdom. Increasingly, however, we will also supply the international markets with typewriters made in Singapore.

At present, Proctor-Silex is a small factor overseas. Its foreign markets, mostly in Western Europe, are supplied with products exported from our plants in the U.S. Proctor-Silex brand appliances are expected to appear for the first time in Japan in the current fiscal year.

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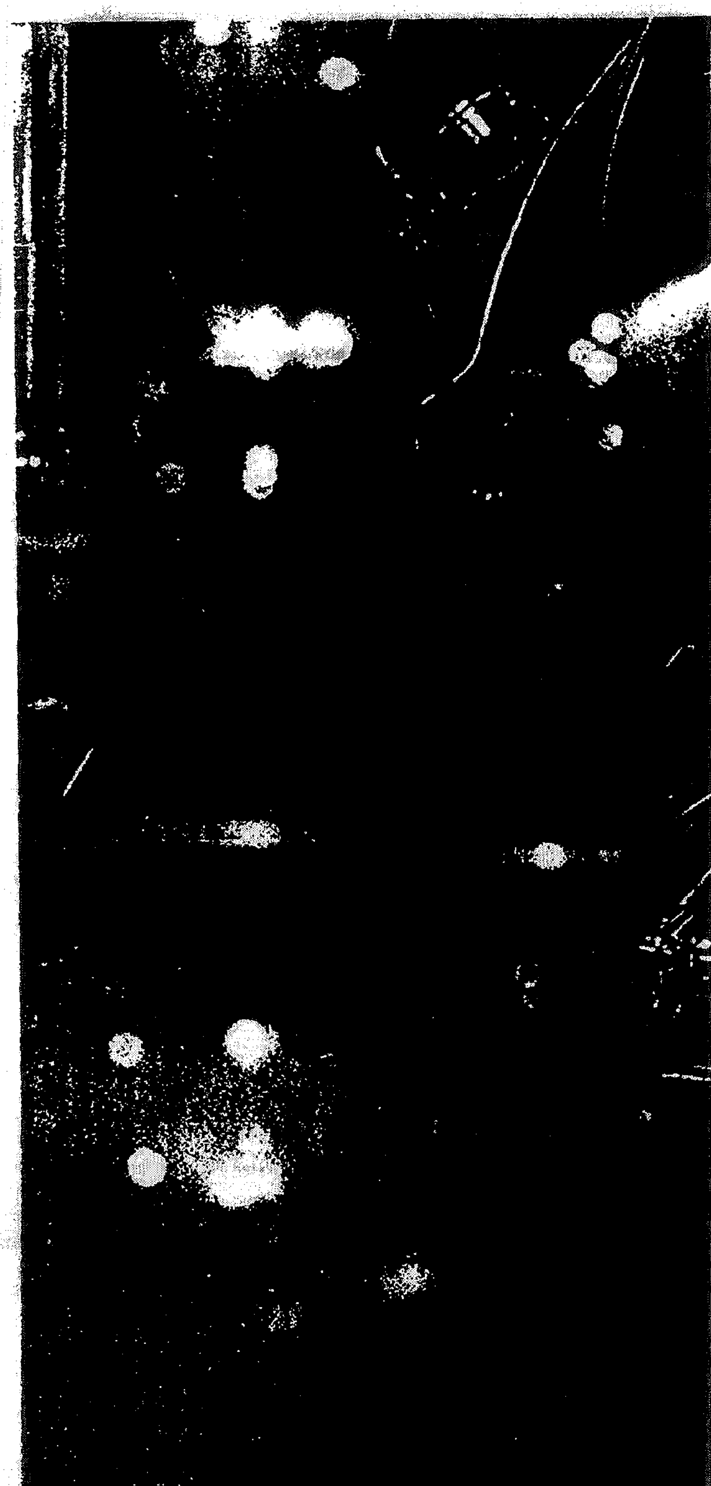

Foods

Durkee Foods, consisting of Industrial Foods, Food Service and Consumer Foods, had slightly improved operating performance last year with profits not yet satisfactory. This group accounted for 24.1 per cent of SCM's overall sales on 18.4 per cent of the company's average assets. Comparable figures for 1973 were 22.0 per cent of the sales on 18.2 per cent of the average assets.

Industrial Foods, which accounts for more than half of Durkee sales, had a difficult year. Unprecedented world demand for edible oils, the major product of this operation, pushed raw oil prices to record levels twice during 1974. Unfortunately, during the first part of the year, Government price control programs left raw agricultural products, such as crude soybean oil, free to rise with demand while prices of products made from them were frozen. This sometimes had the effect of forcing us to sell below cost, or not sell at all. At various times we followed both courses, incurring significant losses to protect the continuity of our business.

On the plus side, sales of our more sophisticated products increased last year. Our entire output of solvent fractionated products was sold out, for example. In general, Durkee Industrial Foods' strength has increasingly been in the more technologically complex, higher margin products.

Our Joliet refinery achieved an adequate volume for the first time around mid-year. This, plus the end to Government price control programs, caused the second half to be much improved over the first.

During the year we adopted a more conservative valuation procedure for our inventories of edible oils. The LIFO (last-in, first-out) approach to inventory valuation has the effect of eliminating what would have been a large addition to earnings in the form of inventory gains. (See Notes to Financial Statements, p. 38.)

(In millions)	1974	1973	1972	1971	1970
Net sales	$289.2	$215.5	$211.4	$205.0	$183.8
Operating income	$ .4	$ .2	$ (2.9)	$ 5.8	$ 8.6
Return on net sales	.1%	.1%	—	2.8%	4.7%
Average assets	$110.5	$ 97.0	$100.3	$ 92.4	$ 76.0
Return on average assets	.4%	.2%	—	6.3%	11.3%

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Shortly after the close of the year, we announced the anticipated closing of an outmoded refinery at Berkeley, California. The cost of this action is reflected in the year-end figures.

In 1975, Industrial Foods should benefit from recently established favorable operating trends. We look for continued strengths in domestic and worldwide markets for our products because of very high prices for such competing natural products as cocoa beans and dairy products.

Food Service, which accounts for about a quarter of Durkee sales, also had a difficult year. The group's problems were almost entirely due to the same high raw material prices experienced by Industrial Foods, its primary supplier. Food Service markets nationally a broad line of food products through a network of 1,200 independent food service distributors. Sales are to hotels, schools and other institutions and many fast food and away-from-home food operations.

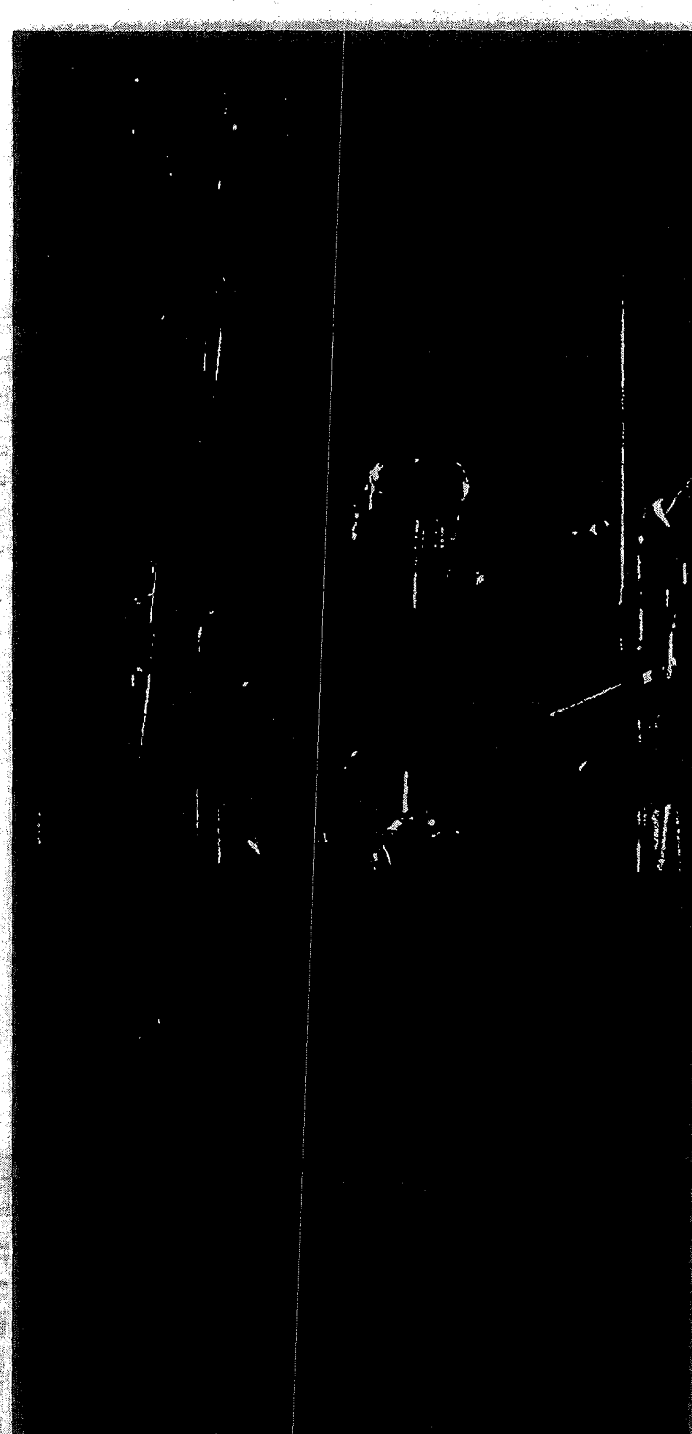
Frozen doughs is one of the fastest growing markets served by Food Service, and we believe we are the industry leader. During the year we opened a plant at Thorofare, New Jersey, to manufacture frozen doughs. Startup costs had an adverse effect on profits, but we expect this operation to make a contribution to earnings in fiscal 1975.

Consumer Foods, also about 25 per cent of Durkee sales, improved its performance even though the fiscal first quarter was affected by the aftermath of a strike at our Bethlehem, Pennsylvania, plant.

Also affecting the group's profit were raw material prices, especially on imported items, which rose to exceptionally high levels during the year. As was true in many of our businesses, these higher costs were not immediately recoverable in higher prices.

In our program of weeding out operations not contributing to profits or with limited prospects, we sold our West Coast pickle business during the year. It had not been a profitable operation as part of SCM.

Consumer Foods should be aided in 1975 by a better relationship between prices and raw material costs and the absence of two negatives: the strike and the West Coast pickle business.



Business Equipment

Business Equipment was the only major business group that operated at a loss last year, but its losses were severe —three times the 1973 level. This division accounted for 9.7 per cent of SCM's average assets last year compared to 9.9 per cent in 1973.

***Calculators** could not be made profitable during 1974 and, accordingly, at the end of the third quarter we announced our decision to withdraw completely from the business. This decision entailed inventory write-downs, liquidation of supply commitments and employee terminations. All of these costs were provided for during the year.*

Our withdrawal from calculators means that the Business Equipment Division is going to concentrate its efforts on copiers, that segment of the business equipment market where we think we have the best chance for success.

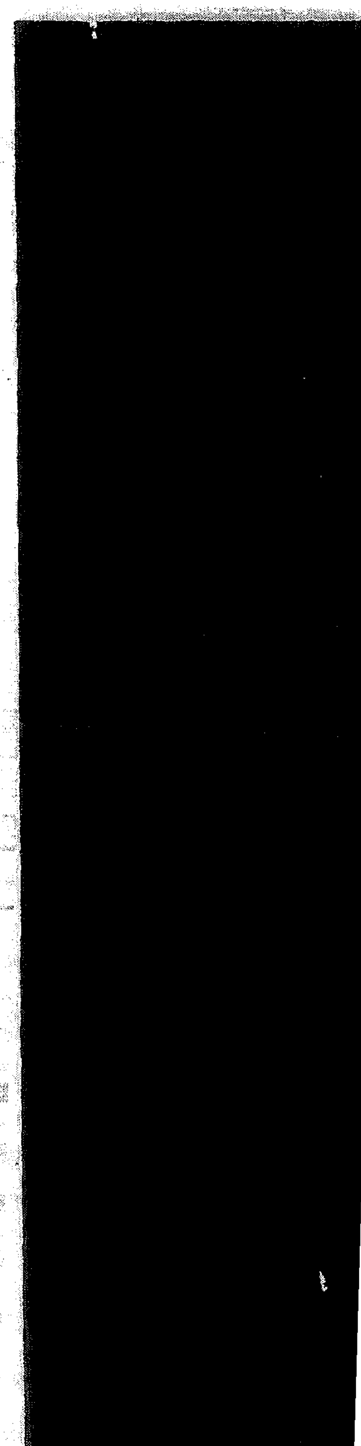
***Copier Products** offers a Copy Service program to customers through 81 offices in the U.S. and 80 offices in Western Europe, Latin America and Canada. Copy Service provides users with the copier, paper, supplies and service as a package on a cost-per-copy rental basis. It also operates significant wholesale business, selling equipment and supplies outright to dealers.*

Copier Products' losses last year were higher than 1973. Large increases in the cost of copier paper and the chemicals used in the copiers could not be passed along to users under Copy Service contracts, save in a few cases. Also contributing to the loss was a heavier schedule of new copier placements for which costs are absorbed immediately although revenues are accrued over time. Our continued policy of heavy depreciation of copiers placed with customers and expensing all refurbishment costs also affected the Group's performance.

During 1974 we proceeded with our suit against Xerox Corporation. Filed in Federal Court in July, 1973, the suit

(In millions)	*1974*	*1973*	*1972*	*1971*	*1970*
Net sales	*$124.6*	*$106.0*	*$110.4*	*$112.3*	*$113.5*
Operating income	*$(14.3)*	*$ (4.2)*	*$ (3.3)*	*$ (3.9)*	*$ (4.1)*
Return on net sales	—	—	—	—	—
Average assets	*$ 57.9*	*$ 52.6*	*$ 74.8*	*$ 91.7*	*$ 94.7*
Return on average assets	—	—		—	—

Research and new product development for the Business Equipment Division is carried out at Zurich, Switzerland, and Palo Alto, California. When the decision was made several years ago to develop a plain-paper copier, we elected to produce a machine that, when it came to market, would technologically be where copiers are going, not where they have been. Our research and development efforts in the plain-paper copier field have been towards this end. Part of the research process has involved developing a technique for applying the photo-conductive material used in the copier. An aspect of this process is shown at right.



charges Xerox with unlawful monopolization of the plain paper copying business. This litigation has imposed added heavy costs on the Division, but we think we are right and intend to pursue this matter to a conclusion.

International operations were subject to the same cost increases, and Copy Service growth has been hampered by the proliferation of competitive low-speed, plain paper copiers. Growth rates, current revenues and results for this business are acceptable, however, and we expect to continue to be a major factor in the European copier market.

Plain paper: Although the market for copiers requiring coated paper is expected to continue to grow, the future is clearly with plain paper copiers. Therefore, since 1972, we have been working with Minolta Camera Company to develop a plain paper copier. In April we announced that SCM would assume full responsibility for further development of this medium-speed machine which we hope to have ready for market introduction in 1975 or 1976.

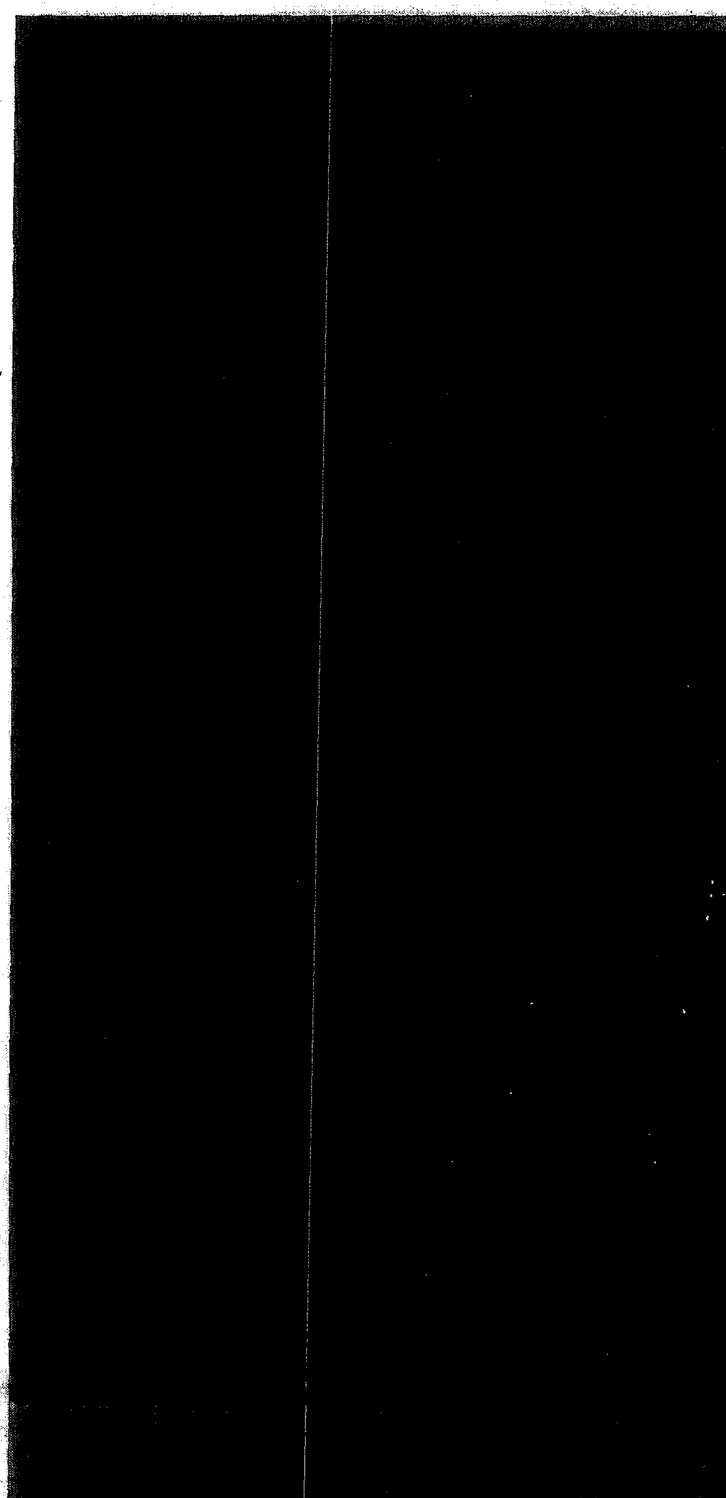
Costs of this development and of other new business equipment products were up significantly last year, and this is also reflected in the division's loss. During the year we stopped the expense of development work on some new products whose prospects did not look promising.

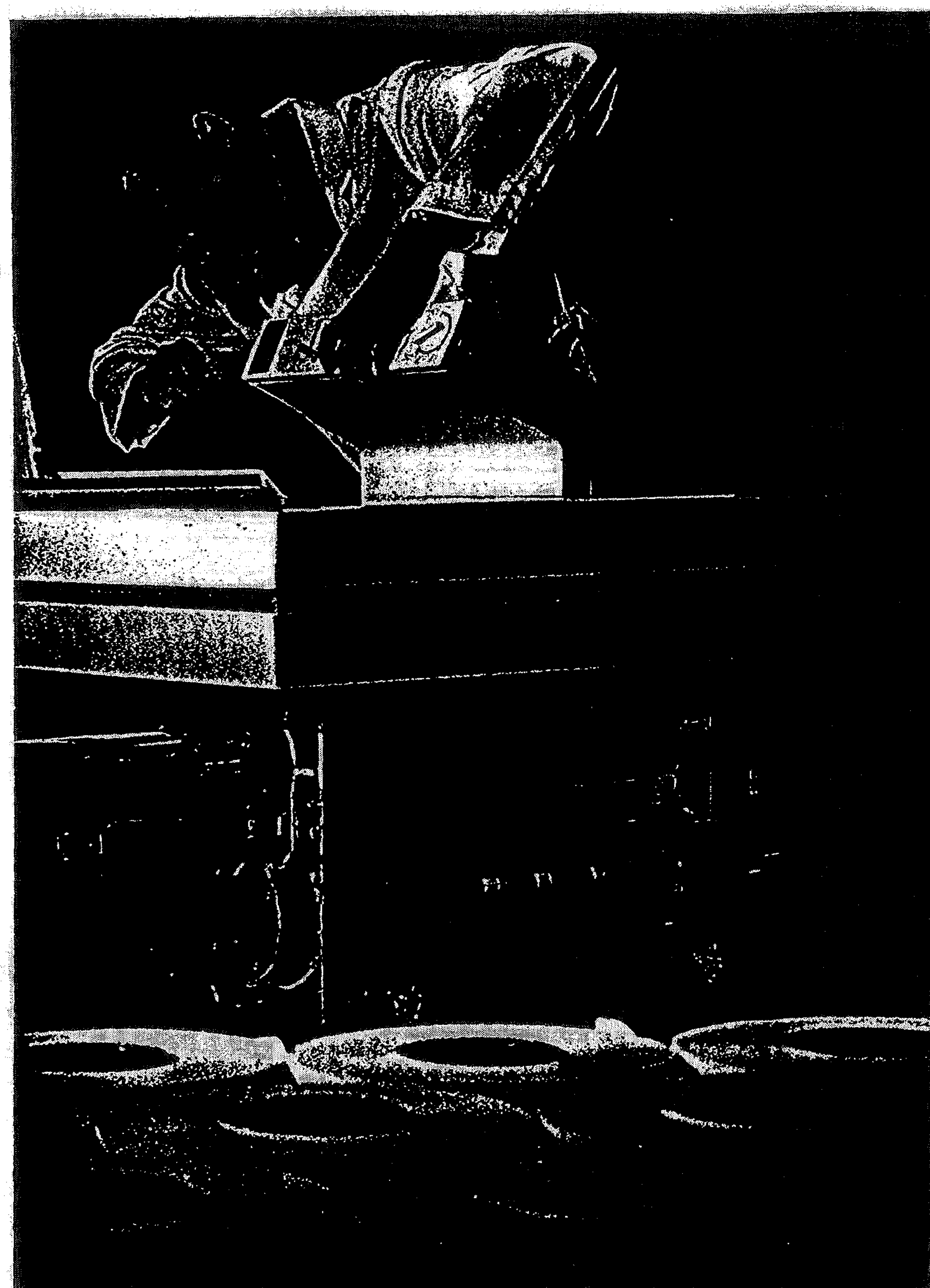
Last year we began marketing the SCM 6740, a high-speed plain paper copier made for us by another company. The 6740 is the most versatile plain paper copier available today. It can produce 67 copies per minute in 40 different sizes and exhibits superior quality, customer convenience and service capabilities.

We have agreed to purchase up to $42 million of 6740's and $2.4 million of collators to be used with the copiers. The contract can be reduced by SCM at our option until December, 1974.

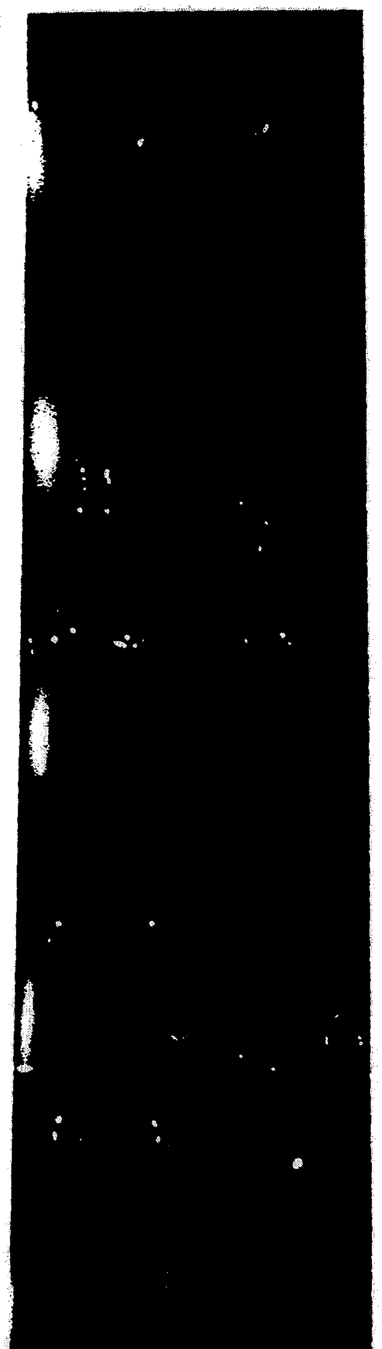
Start-up costs associated with the 6740 had an adverse effect on profits last year. Part of these costs were for training programs designed to acquaint our Service Group and salesmen with the new machine.

Business Equipment's performance will improve with calculator losses at an end and as our new copiers begin to impact the market. We believe SCM is capable of significant and profitable participation in the copier field, especially in plain paper copying. While we do not expect profitable operations in the current year, we do anticipate cutting last year's loss substantially in 1975.





Work on developing a plain-paper copier, left, is proceeding satisfactorily at our Palo Alto Research, Development and Engineering Center. In August our copier engineering staff moved into a new building at Sunnyvale, California, where we expect to produce the new machine. The market for plain-paper copiers exceeds $2 billion and is expected to grow at about 15 per cent annually. In addition to the SCM 6740 and the plain-paper copier being developed, we are also upgrading the speed and quality of our copiers that use specially coated paper. Copier Products operates a plant at Phoenixville, Pennsylvania, where paper is coated with zinc oxide for use in SCM copiers, as well as in those made by other companies. Toner for use in copiers is produced at our Hazelton, Pennsylvania, plant.



Glidden Organics produces basic turpentine-derived, or terpene, products, such as pine oil, camphene and fine chemicals, including perfume and flavor ingredients, vitamin intermediates and synthesized essential oils. We are the world's technological leaders in this terpene chemistry. Through synthesizing, we duplicate natural flavors such as lemon, spearmint and peppermint.
A part of our business of growing importance is the manufacture of intermediates used in the production of vitamins A and E, both of which are in continued heavy worldwide demand. There are only a limited number of methods of producing these products. One uses a turpentine-derived process, and relative costs and the availability of raw materials appear to have now established this one as perhaps the best route. SCM is the leader in both sales and technology of terpene vitamin intermediates.
Part of the expansion of Glidden Organics involves construction of a facility to synthesize l-menthol, used in foods and cigarettes. The technique that will be used to produce l-menthol was developed in our Jacksonville laboratories. Distillation tall is one step in the complex production process.

Chemicals

Glidden Chemicals had record sales and profits last year. Operating profit increased 96.4 per cent on a 12.6 per cent increase in sales. Profits were 9.3 per cent of sales in 1974 compared to 5.3 per cent in 1973. This group accounted for 17.5 per cent of SCM's overall operating profit on 13.6 per cent of the company's average assets. Comparable figures for 1973 were 12.5 per cent of operating profit on 14.8 per cent of the average assets.

Glidden Chemicals has four parts: Pigments and Colors, Organic Chemicals, Ceramics and Metal Powders.

Pigments and Colors' major product is titanium dioxide, a white pigment sold to the paint, plastic, paper and rubber industries and used as a whitener and opacifier. In common with the rest of the industry, this operation did well last year, selling out its entire output of 75,000 tons. These good results were achieved despite a strike in the first quarter. Production costs were high, especially for fuel and labor. However, we and the industry are operating at full capacity, and at the end of the year prices improved sharply.

Titanium dioxide is produced by either the sulfate method or the newer chloride process. Early this year we will increase our chloride capacity by 10,000 tons, and we expect to again operate at capacity in fiscal 1975. Prices are now approaching levels permitting an adequate return. This year we expect to benefit from a full year of such conditions and from the incremental profits of the increased capacity.

Organic Chemicals had record sales and profits last year. Located in Jacksonville and also across the Florida peninsula in Port St. Joe, Organic Chemicals is the country's largest refiner of crude sulfate turpentine and one of the larger refiners of crude tall oil. The Port St. Joe refinery, now a joint venture with St. Regis Paper Company, brought

(In millions)	1974	1973	1972	1971	1970
Net sales	$116.7	$103.6	$ 84.6	$ 76.1	$ 77.0
Operating income	$ 10.8	$ 5.5	$ 3.1	$ 3.6	$ 6.4
Return on net sales	9.3%	5.3%	3.7%	4.7%	8.3%
Average assets	$ 81.4	$ 78.9	$ 73.0	$ 73.0	$ 68.6
Return on average assets	13.3%	7.0%	4.3%	4.9%	9.3%

on stream in 1973, the world's largest single tall oil refining unit. This operation had an excellent year, selling its entire output. Refined tall oil is used in making plastic resins, paint resins and soap. A substantial portion of the production at both Jacksonville and Port St. Joe is exported.

During the year we announced a major expansion of our Jacksonville operation. Part of the new facilities will go into production in fiscal 1975, the remainder in fiscal 1976.

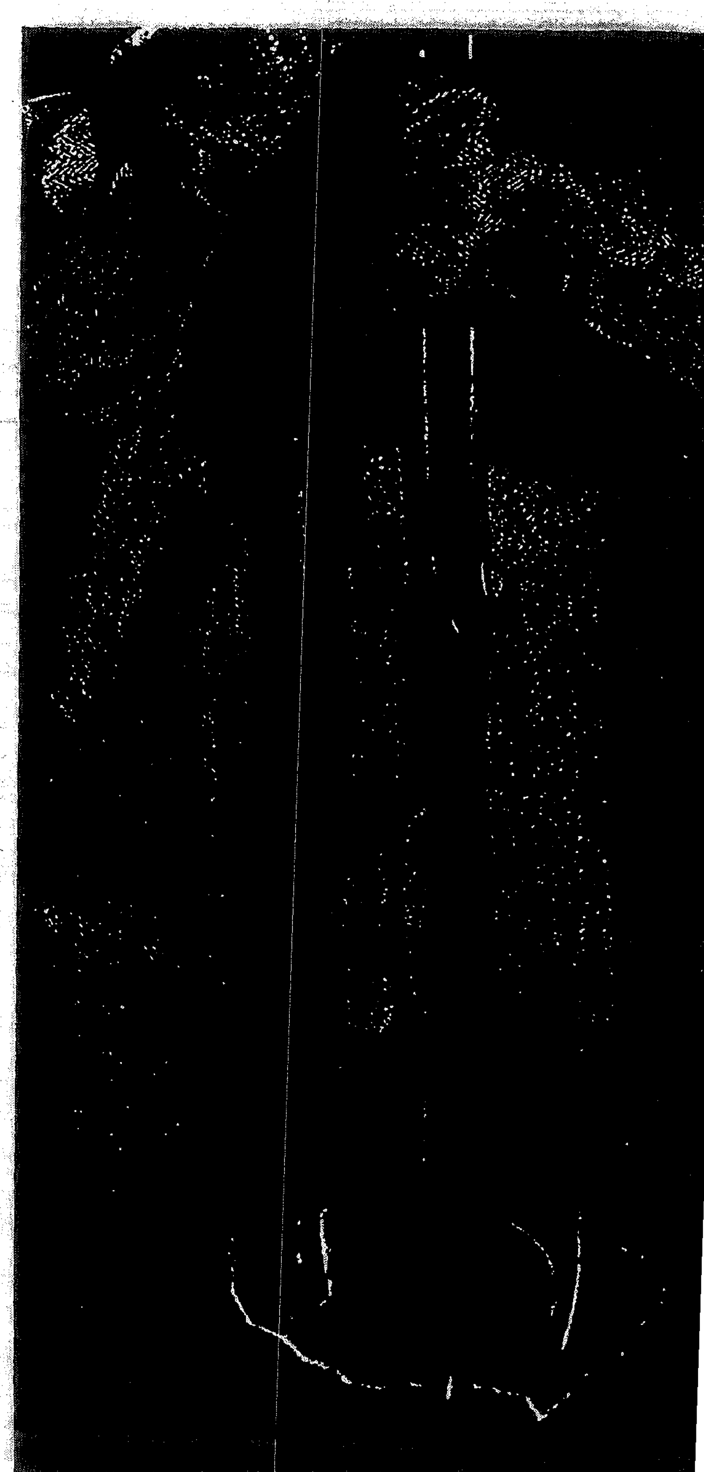
We expect our Organic Chemicals business to expand as major increases in the prices of natural flavors and fragrances and of petroleum-based alternate raw materials make synthesis from sulfate turpentine an economic alternative. More serious shortages of crude tall oil and crude sulfate turpentine, already in short supply worldwide, would hamper further growth, but we expect to be able to continue to obtain enough to operate at close to rated capacity.

Ceramics produces ceramic and porcelain frits used in the manufacture of household appliances, tiles, dinnerware and enamel-covered products. This operation had a modest decline in profits last year. The decline was due to higher cost of raw materials, chiefly imported chemicals, and to slowdowns in housing starts and sales of major appliances (two important markets for ceramic products). This business, however, still earns at a good rate.

Metals also had a record year in 1974, aided in part by strong automotive sales in the first half and by additions to capacity begun some time ago.

Despite a sharp decline in sales of automobiles in the second half and slowdowns in major household appliances, sales of copper, bronze and specialty alloy powders continued strong, enabling us to sell out our production last year.

During the year we began construction that will double our capacity to make new alloy powders at our Johnstown, Pennsylvania, plant. This new capacity should be in production at the end of the first half of fiscal 1975. We are the leader in this field and anticipate no difficulty in selling the expanded output.



Glidden Metals produces copper and bronze powder and a wide range of stainless steel and non-ferrous metal and metal oxide powders. Products with complex shapes such as gears, bushings and cog wheels, for example, are formed by compressing metal powders in a mold and then finishing them at very high temperatures. Powder metal parts are generally lighter, stronger and more durable than machined parts. Alloy powders is another business area that has been selected as having good growth potential and where we have the prime technology and market position. Glidden Metals research produced the first commercially available dispersioned strengthened copper, an alloy of copper and aluminum that combines the desirable qualities of both metals. The first step in the production of "GlidCop", left, is the transfer of the preheated metal to an atomizing tank, where it is turned into powder.

One of the projects under study at our research laboratory at Baltimore is improvement in present methods of producing titanium dioxide, an important product of Glidden Chemicals. A laboratory fluid test-bed reactor, right, is being used to study the high-temperature chlorination of titanium-bearing minerals.

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Paper Products

Allied Paper had record sales and profits last year and the largest percentage increase in operating income of any of our six major businesses. Operating profit increased 214 per cent on a 37.7 per cent increase in sales. Operating profit was 17.4 per cent of sales in 1974, and 7.6 per cent in 1973. The group accounted for 39.6 per cent of SCM's overall operating profit on 8.8 per cent of the company's assets. Figures for 1973 were 17.8 per cent of the operating profit on 7.3 per cent of the average assets.

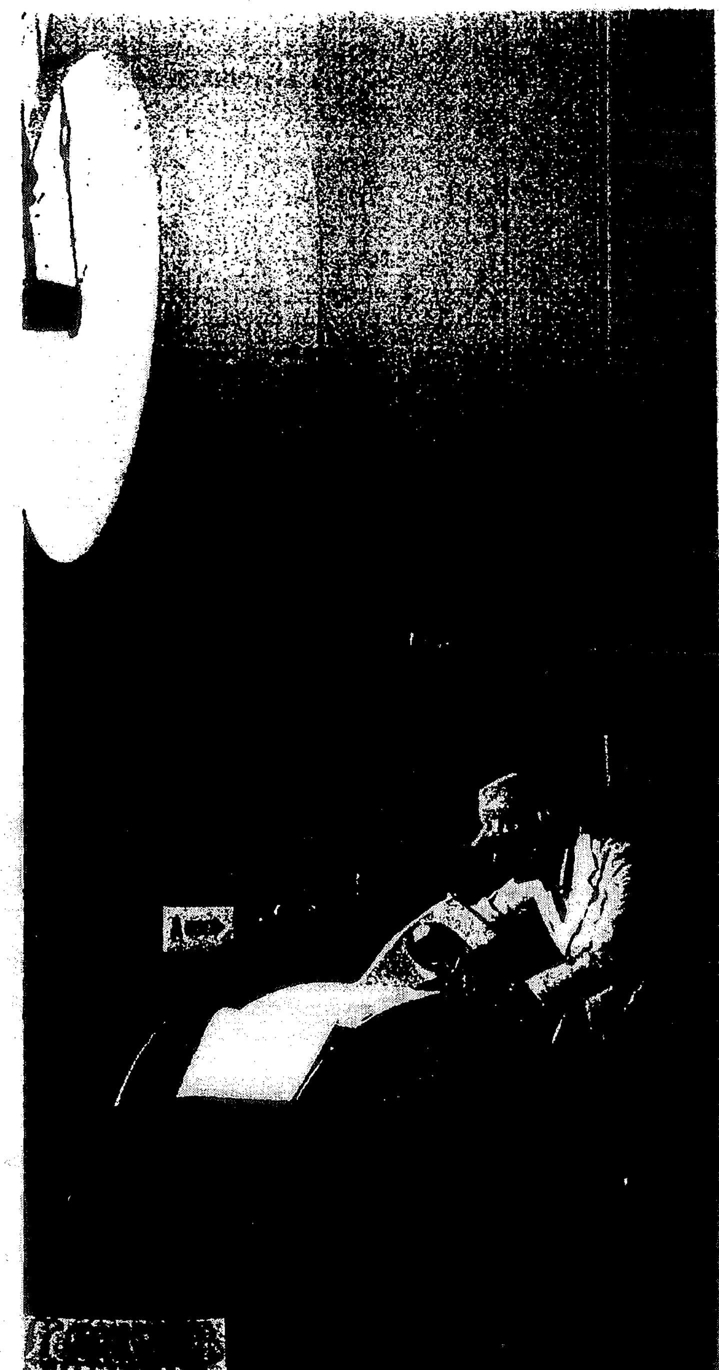
Allied operates in four areas: pulp, paper, business forms and office and school supplies; each had a record year. Pulp and paper were in worldwide short supply last year, and companies in the field generally operated at capacity throughout the year. The industry as a whole had its best year ever.

We were helped by this strong demand, of course, but it explains only part of Allied's record results last year because we outperformed the averages of industry leaders. We had improved profit margins, more efficient operations, a high degree of operating integration and continued our emphasis on specialty papers. These require a high degree of technology to produce. They have commanded higher margins and face less price competition than lower-margin commodity products which are sold in very competitive markets.

In recent years, Allied has become an industry leader in the manufacture of high quality lightweight papers used to print bibles, encyclopedias and other reference and general interest books. We increased our volume in this market in 1974.

Allied's distinctive approach to the marketplace has also played an important role in its success as a specialized paper company. Allied has emphasized working directly with bible and reference book publishers to develop

(In millions)	1974	1973	1972	1971	1970
Net sales	$141.1	$102.5	$ 86.1	$ 86.1	$ 88.5
Operating income	$ 24.5	$ 7.8	$ 4.2	$ 3.6	$ 3.2
Return on net sales	17.4%	7.6%	4.9%	4.2%	3.6%
Average assets	$ 52.7	$ 39.2	$ 36.2	$ 49.6	$ 53.8
Return on average assets	46.5%	19.9%	11.7%	7.3%	5.9%



lightweight papers for specific requirements. This effort has resulted in a closer relationship with large-volume customers and a unique opportunity to meet their growing needs.

Pulp operations were strong at our mill at Jackson, Alabama, even though production was at less than capacity during most of the year pending the installation of a new recovery boiler, a major and vital piece of equipment. The new boiler became operational with a smooth start-up at the end of fiscal 1974. It will enable us to meet applicable state and federal pollution control regulations while operating the mill at optimum levels, an important capability in these times of product shortage.

The Jackson mill can produce close to 175,000 tons of pulp a year. More than half of the pulp is converted into paper at our mills in Jackson and Kalamazoo. A significant part of the Jackson paper provides stock for our business forms; the balance is sold to other paper users.

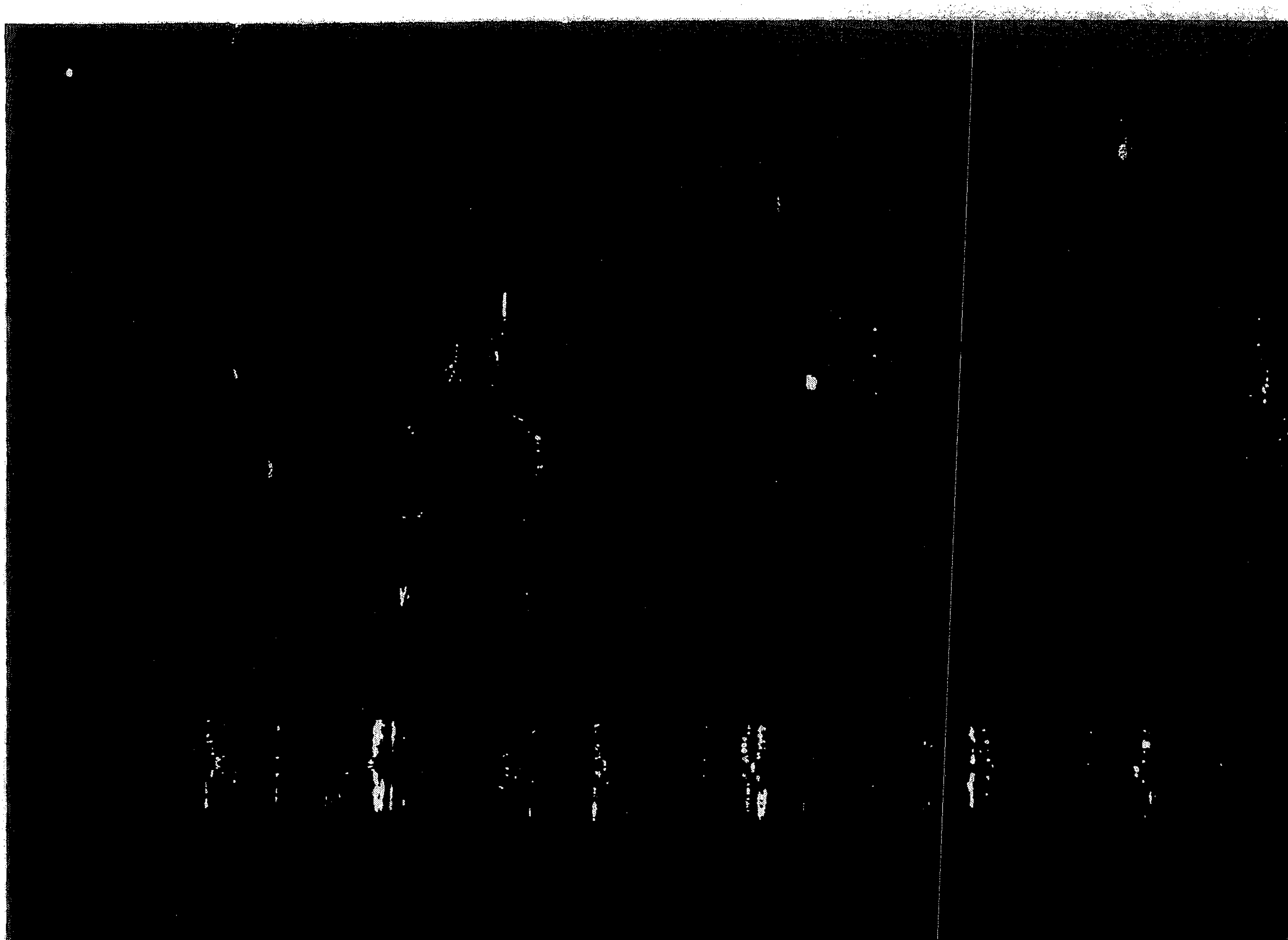
Office and School Supplies is the smallest part of our paper business. These cut-size, medium grade papers have been in high demand and are among those experiencing the most critical shortage conditions. Office supplies are sold under the "Gates" label, and school supplies are sold under the "Penrite" label. Headquarters for this operation are at Marion, Indiana.

Business Forms operations are made up of the Allied/Egry, Walton and Histacount groups. Allied/Egry is located in the east central part of the country, and its main strength is in its ability to produce very large quantities of stock or custom forms at relatively low cost.

During 1974 Allied/Egry continued to emphasize the sale of forms through direct sales channels. We also opened a new 50,000 square-foot plant at Gainesville, Georgia, designed to serve directly the rapidly growing Southeast market. Other plants are at Petersburg, West Virginia; Leipsic, Ohio; and Denison, Texas.

Walton Printing, located in Southern California, specializes in custom forms. It had another record year in 1974.

Histacount sells specialized forms, stationery and related items by catalog to the medical and other professions. Histacount, located on Long Island, has been a growing and profitable operation, and 1974 was another good year.



It is the responsibility of the manufacturing group to ensure that properties of new paper grades are reproduced consistently in the manufacturing process. Quality assurance is an important part of this process. For example, we must "balance" the equilibrium relative humidity of a paper with that expected in a customer's press room to make sure the paper does not change size or curl during printing. Rolls of paper are tested for equilibrium relative humidity level, left, prior to shipment. Another manufacturing process quality control involves microbiological analysis of water from paper machine systems. This test, above, keeps check on the bacteria content of the water to avoid formation of substances that could cause operating difficulties.

Other

Other products include those of Proctor & Schwartz and Kleinschmidt and is the smallest part of SCM. Operating profits were $800,000 in 1974 compared to a loss of $200,000 in 1973. Sales improved by 23.4 per cent. These operations accounted for 1.3 per cent of SCM's overall operating profit on 2.2 per cent of the company's average assets in 1974. This compares with 2.8 per cent of the assets and a loss in 1973.

(In millions)	1974	1973	1972	1971	1970
Net sales	$ 30.6	$ 24.8	$ 26.5	$ 29.1	$ 30.8
Operating income	$ .8	$ (.2)	$ .4	$ (2.2)	$ (9.1)
Return on net sales	2.6%	—	1.5%	—	—
Average assets	$ 13.6	$ 14.8	$ 18.3	$ 19.0	$ 25.4
Return on average assets	5.9%	—	2.0%	—	—

Proctor & Schwartz manufactures and sells large industrial drying machines used in the food, chemical and tobacco industries and machines used to process fibers prior to weaving. The company has plants at Lexington, North Carolina, and Philadelphia. International operations are handled by Proctor-Dalglish, which has a plant and headquarters in Glasgow, Scotland.

Proctor & Schwartz had record sales and profits in 1974, a good year for the capital goods industry. The markets we serve, both in the U.S. and overseas ,were particularly strong. In meeting its budget, Proctor-Dalglish surmounted problems in the United Kingdom, including the shortage of energy and the mandatory three-day work week.

The capital goods industry is expected to remain strong, and Proctor & Schwartz's backlog of orders is good.

Kleinschmidt designs and manufactures telecommunications equipment for the military and, increasingly, for commercial markets, at its plant in Deerfield, Illinois.

Kleinschmidt was not profitable last year, but the loss, less than expected, was half the previous year's figure. Work continued through the year on the new generation high-speed military telecommunications system. In August, 1974, we were awaiting Defense Department budget clearance for the signing of a large contract to start production of these machines. The contract would be performed over a four-year period.

In addition to its military work, Kleinschmidt has been developing products with commercial applications. In 1974 Kleinschmidt introduced several new products designed for the commercial market. Initial sales have been encouraging.

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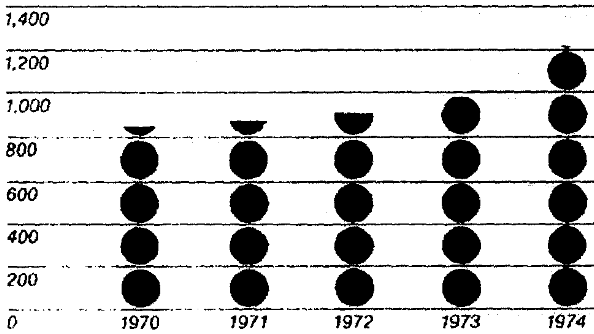
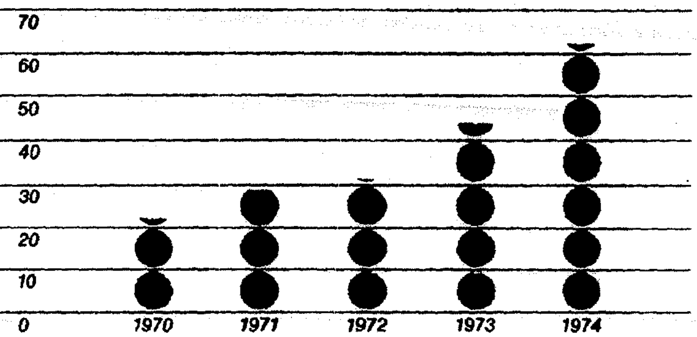
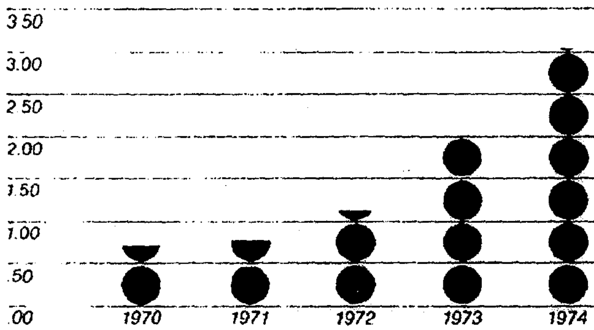
Sales (in millions)



Operating Income (in millions)

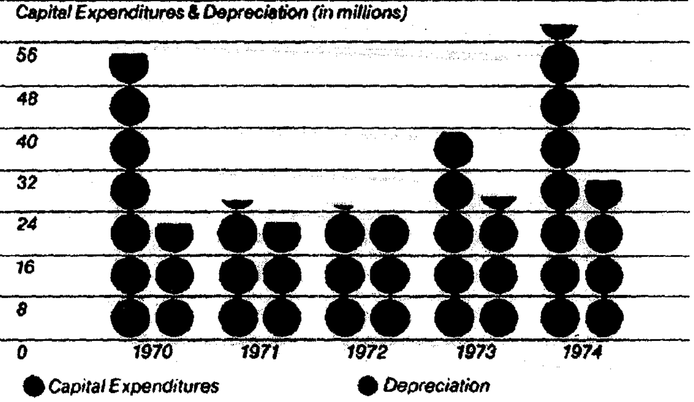


Earnings Per Share* (in dollars)

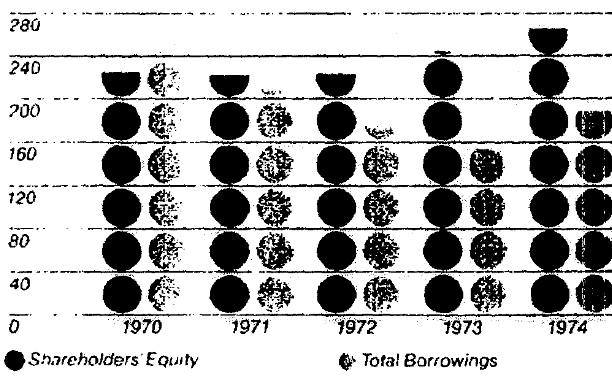


*Before extraordinary items

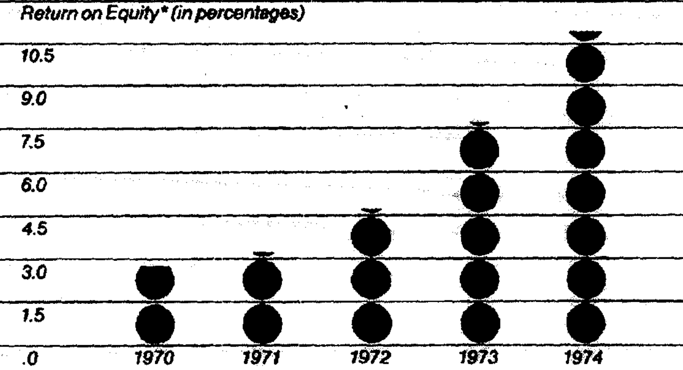
Capital Expenditures & Depreciation (in millions)



Shareholders' Equity & Total Borrowings (in millions)



Return on Equity* (in percentages)



*After tax and before extraordinary items

Financial Review

Sales and Earnings Net sales for 1974 were $1.2 billion, up 23 per cent over 1973's $980 million. Income from operations was $61.9 million, up 41 per cent over the prior year's $43.9 million and was 5.1 per cent of sales in 1974 compared to 4.5 per cent in 1973. Operating income, as a return on assets employed, increased to 10.3 per cent, the fifth consecutive annual increase.

Net income of $27.6 million, or $3.02 per share, was up 51 per cent from $18.3 million, or $2.00 per share, in 1973. In 1974 the LIFO (last-in, first-out) method of valuing inventories was adopted for the raw material content of all pulp, paper and edible oil inventories. Costs of raw material for these products had risen dramatically during fiscal 1974, and therefore this change in inventory method resulted in a reduction in net income of $4.6 million, or $.50 per share. Since part of these inventories had been valued on LIFO and base stock methods in prior years, the effect of this change on net income is substantially less than it would have been had they previously all been valued on the FIFO (first-in, first-out) method.

Quarterly sales, net income and net income per share for the last two fiscal years are summarized in the table below. Since it is impracticable to restate earnings for the effect of the LIFO change on prior periods, the full effect has been included in the fourth quarter of 1974.

(In millions)	Sales		Net Income		Per Share	
Quarter	1974	1973	1974	1973	1974	1973
First	$ 266.2	$227.7	$ 3.5	$ 3.3	$ .39	$ .36
Second	291.2	241.2	7.9	5.8	.86	.63
Third	308.6	246.7	7.6	3.5	.82	.38
Fourth	336.2	264.7	8.6	5.7	.95	.63
	$1,202.2	$980.3	$27.6	$18.3	$3.02	$2.00

Income Taxes U.S. and foreign income taxes were $20.2 million in 1974, compared to $13.0 million in 1973. The 1974 provision was reduced by $2.3 million of investment tax credit compared to $.8 million in 1973. The effective United States and foreign tax rate was 42.2 per cent in 1974, compared to 41.5 per cent in 1973. Without the investment tax credit, this rate would have been 47.1 per cent in 1974 and 44.1 per cent in 1973.

During 1974, the company settled with the Internal Revenue Service all issues for the years 1967 through 1969. These settlements had no effect on earnings. Federal income tax returns for the years 1970 and 1971 are currently being examined. In the opinion of management, adequate provision has been made for all tax liabilities.

Debt During fiscal 1974 long-term debt increased $5.1 million to $156.1 million as a result of capitalization of a $10 million long-term lease obligation and repayment of $4.9 million of debt. Short-term borrowings increased $27.5 million during the year to $35.2 million.

At June 30, 1974 total debt, short-term and long-term, was 41.8 per cent of total debt plus equity compared to 39.6 per cent at June 30, 1973.

Capital Expenditures Total capital expenditures, including those for copier equipment for lease to customers, were $59 million in 1974 compared to $40 million in 1973. Property, plant and equipment expenditures were principally for new products and capacity expansion for Smith-Corona typewriters and Glidden chemicals and a new recovery boiler for the Allied pulp mill. There were also capacity expansions of a more continuing nature in each of our other lines of business. Expenditures for copier equipment were for increased placements of zinc oxide equipment and especially for our new 6740 plain paper copier.

Depreciation in 1974 was $30.3 million compared to $27.2 million in 1973. In addition to normal increases we continued our policy of heavy depreciation of zinc oxide copier equipment.

Dividends In June, one year after reinstating the cash dividend, the Board of Directors increased the quarterly dividend from 10 cents to 12.5 cents per share.

Market Data Common stock price ranges and resulting price earnings ratios during the five years ending June 30, 1974 are as follows:

	Common Stock Price		Price Earnings Ratio	
Calendar Year	High	Low	High	Low
1974	13¼	8¾	4	3
1973	18⅞	8⅜	9	4
1972	22⅛	14½	25	13
1971	23⅜	13¼	30	17
1970	24¾	11⅛	35	16

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Statement of Consolidated Income

(In thousands, except per share amounts) Years ended June 30	1974	1973
Net sales	$1,202,248	$980,281
Cost of sales	876,106	708,946
Gross profit	326,142	271,335
Selling, administrative and research expenses	264,270	227,481
Operating income	61,872	43,854
Interest expense, net	13,021	11,993
Other expense, net	1,002	576
Income before income taxes	47,849	31,285
United States and foreign income taxes	20,203	12,986
Net income	$ 27,646	$ 18,299
Earnings per share:		
Net income	$ 3.02	$ 2.00
Net income assuming full dilution	$ 2.81	$ 1.91

Statement of Consolidated Retained Earnings

(In thousands, except per share amounts) Years ended June 30	1974	1973
Balance, beginning of year	$ 85,183	$ 67,799
Net income	27,646	18,299
Cash dividends (per share—$.425, 1974; $.10, 1973)	(3,892)	(915)
Balance, end of year	$ 108,937	$ 85,183

See accompanying notes to financial statements.

Statement of Changes in Consolidated Financial Position

(in thousands)	Years ended June 30	1974	1973
Sources:	Operations:		
	Net income	$ 27,646	$ 18,299
	Add expenses not requiring working capital:		
	Depreciation	30,334	27,210
	Deferred pension expense	(60)	2,410
	Amortization of deferred charges	1,862	361
	Deferred income taxes—non-current	(575)	3,701
	Working capital provided by operations	59,207	51,981
	Long-term lease obligations	10,000	—
	Disposal of property, plant and equipment	8,929	2,232
	Sale of common stock	—	57
	Total	$ 78,136	$ 54,270
Applications:	Additions to property, plant and equipment	$ 59,138	$ 39,966
	Reduction of long-term debt	6,533	12,585
	Cash dividends	3,892	915
	Other changes in non-current items	6,547	(4,840)
	Increase in working capital	2,026	5,644
	Total	$ 78,136	$ 54,270
Changes in Working Capital:	Current assets:		
	Cash and marketable securities	$ (2,751)	$ (7,773)
	Accounts receivable, net	36,093	18,616
	Inventories	35,378	17,389
	Deferred income taxes and prepaid expenses	628	(2)
	Total	69,348	28,230
	Current liabilities:		
	Loans payable	(27,545)	(4,297)
	Long-term debt payments due within one year	(1,673)	10,312
	Accounts payable and accrued liabilities	(34,608)	(21,185)
	United States and foreign income taxes	(3,205)	(7,512)
	Deferred revenue	(291)	96
	Total	(67,322)	(22,586)
	Increase in working capital	$ 2,026	$ 5,644

See accompanying notes to financial statements.

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Consolidated Balance Sheet

Assets (In thousands)		June 30	1974	1973
Current assets:				
	Cash		$ 6,387	$ 6,168
	Marketable securities (at cost which approximates market value)		253	3,223
	Accounts receivable		194,944	157,537
	Less allowance for doubtful accounts		5,920	4,606
			189,024	152,931
	Inventories:			
	Raw materials and work in process		110,735	85,996
	Finished goods		102,618	91,979
			213,353	177,975
	Deferred income taxes and prepaid expenses		16,891	16,263
	Total current assets		425,908	356,560
Property, plant and equipment, at cost:				
	Land and buildings		122,937	110,805
	Machinery and other equipment		310,775	289,389
			433,712	400,194
	Less accumulated depreciation		226,475	212,832
			207,237	187,362
Other assets			13,538	8,785
	Total		$646,683	$552,707

See accompanying notes to financial statements.

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Liabilities and Shareholders' Equity (In thousands)	June 30	1974	1973
Current liabilities:			
Loans payable		$ 35,243	$ 7,698
Accounts payable and accrued liabilities		135,671	101,063
United States and foreign income taxes		12,579	9,374
Deferred revenue		7,243	6,952
Long-term debt payments due within one year		3,205	1,532
Total current liabilities		193,941	126,619
Long-term debt		152,906	149,439
Deferred income taxes		16,583	17,158
Other liabilities		17,185	17,177
		186,674	183,774
Shareholders' equity:			
Common stock		45,782	45,782
Additional paid-in capital		111,349	111,349
Retained earnings		108,937	85,183
		266,068	242,314
Total		$646,683	$552,707

See accompanying notes to financial statements.

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Notes to Financial Statements

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 are adjusted to recognize SCM's share of their income or losses. Differences between cost and net asset value of businesses acquired are amortized over a maximum of forty years.

Translation of Foreign Currencies Assets and liabilities of foreign subsidiaries and affiliates are stated in United States dollars at rates of exchange prevailing at the end of the period, except net property, plant and equipment which is stated at rates prevailing at date of acquisition. Foreign operating results, except depreciation, are stated at average rates of exchange. Net unrealized gains resulting from currency fluctuations are credited to a reserve which is available to absorb future foreign exchange losses.

Inventories Inventories of pulp and paper, and edible oils are priced on the last-in, first-out (LIFO) method. Other inventories are stated at the lower of average cost or market (see note on Inventories).

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.

Product Development Cost Costs associated with the development of new products and changes to existing products are charged to operations as incurred.

Income Taxes Income taxes are provided 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. 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, was approximately $12,500,000 for the year ended June 30, 1974 and $10,000,000 for the year ended June 30, 1973. The increase in pension expense was due principally to plan amendments which provided improved benefits to participants. At June 30, 1974, unfunded prior service liabilities approximated $54,000,000. Trust fund assets, together with the liability accrued in the Consolidated Balance Sheet, were approximately equal to the actuarially computed value of vested benefits.

Inventories: During 1974, the Company changed its method of pricing certain of its pulp and paper and all of its edible oils inventories to the last-in, first-out (LIFO) method. This change resulted in a decrease in 1974 after tax earnings of approximately $4.6 million or $.50 per share ($.44 per share assuming full dilution). Previously, such inventories were valued at the lower of average cost or market, except that portion of the edible oils inventory which, effective in 1973, was valued at approximately the lowest price experienced during that year. The 1973 change resulted in a decrease in after tax earnings of approximately $1.4 million or $.15 per share. These changes were adopted in recognition of a volatile market in order to more directly associate the cost of sales with the related sales.

The effect of these changes in method on any one prior period is impracticable to determine since retroactive application requires assumptions that may furnish results different from what they would have been had the newly adopted principle been used in prior periods. Had all inventories currently on LIFO been valued on a FIFO basis, inventories would have been approximately $23,000,000 higher in 1974 and $5,000,000 higher in 1973.

Income Taxes: *(in thousands)*

Years ended June 30	1974	1973
United States and foreign income taxes consists of:		
Current		
United States	$20,292	$ 7,752
Foreign	3,292	2,424
Investment credit	(2,300)	(800)
Total Current	21,284	9,376
Deferred		
United States	(1,237)	3,380
Foreign	156	230
Total Deferred	(1,081)	3,610
Total Income Tax Expense	$20,203	$12,986
Reconciliation of effective tax rate:		
Statutory tax rate	48.0%	48.0%
Investment credit	(4.8)	(2.6)
Difference between U.S. & foreign tax rates	.3	(2.9)
Other, net	(1.3)	(1.0)
Effective Tax Rate	42.2%	41.5%
Deferred taxes result from:		
Business realignment cost	$ (491)	$ 5,472
Inventory valuations	1,460	(1,760)
Excess of tax over book depreciation	99	561
Pension	405	(562)
Other, net	(2,554)	(101)
Total Deferred Taxes	$ (1,081)	$ 3,610

State income taxes, included in selling, administrative and research expenses, were $1,300,000 for the year ended June 30, 1974 and $900,000 for the year ended June 30, 1973.

At June 30, 1974, provision for income taxes has not been made on $29,600,000 of undistributed earnings of foreign subsidiaries since these earnings are considered to be permanently invested.

Compensating Balances: Compensating balances, related to certain credit line loans, are generally based on 10% of the unused credit lines and 20% of borrowings. The average compensating balance requirement during fiscal 1974 was approximately $3,000,000, all of which was satisfied by float.

Interest rates on bank loans are at prime, and maturities range from 60 to 180 days. The average interest rate at June 30, 1974, for short-term borrowings, without giving effect to compensating balances, is 12.21%. The use of credit lines is allocated among several banks and the unused portion at June 30, 1974 is $17,250,000.

The June 30, 1974 balance represented the maximum amount of bank borrowings at any month end during the year. The average short-term borrowings outstanding during the fiscal year was $17,600,000, and the applicable average interest rate was 11.06%, calculated by dividing total interest by the average amount outstanding.

Long-Term Debt: (in thousands)

June 30	1974	1973
5½ % sinking fund debentures due 1979-1983	$ 11,891	$ 13,255
5¾ % sinking fund debentures due 1976-1987	15,149	16,174
7¼ % sinking fund debentures due 1976-1988	16,283	17,508
9¼ % sinking fund debentures due 1975-1990	33,250	35,000
Other loans—interest at rates from 5% to 8¾ %	9,849	11,018
5½ % convertible subordinated debentures due 1978-1988	41,484	41,484
5¼ % convertible subordinated debentures due 1979-1989	15,000	15,000
Lease obligations (6% Environmental Improvement Revenue Bonds, due 1984-1993)	10,000	—
Total Long-Term Debt	$152,906	$149,439

During the next five years, approximate long-term debt maturities will be: 1975—$3,200,000, 1976—$3,400,000, 1977—$6,400,000, 1978—$9,200,000, 1979—$9,500,000. Under the most restrictive provisions of the indentures related to long-term debt, Retained Earnings of $27,800,000 was available at June 30, 1974 for declaration of cash dividends.

Foreign Exchange: Other liabilities include a reserve for future foreign exchange losses of $1,078,000 and $883,000 at June 30, 1974 and 1973, respectively. Foreign exchange gains and losses included in the determination of net income were not material.

Capital Stock: The authorized stock of the Company consists of 500,000 shares of preferred stock, par value $50 each and 15,000,000 shares of common stock, par value $5 each. At June 30, 1974 and 1973, 9,156,000 shares of common stock were outstanding; 458,000 shares were reserved for issuance under the Company's stock option plans; 892,000 shares were reserved for issuance upon conversion of the 5½% subordinated debentures due 1978-1988; and 322,000 shares were reserved for issuance upon conversion of the 5¼% subordinated debentures due 1979-1989.

Under SCM's stock option plans, shares of common stock have been made available to certain employees at the fair market value at the date the options were granted, except that certain options ("tandem options") have been granted at the lower of the market price on the date of the tandem grant or the exercise price of the basic option to which they are related. Tandem options are "non-qualified" options exercisable at the same time as, or after the expiration of the basic "qualified" options.

During 1974 options to purchase 19,000 shares of common stock were granted; options for 18,667 shares expired; and no options were exercised. Options exercised during 1973 contributed $29,000 to Common Stock and $28,000 to Additional Paid-in Capital. At June 30, 1974, options for 385,508 shares were outstanding.

Leases: The Company's annual rental expense, reduced by related income of $1,445,000 and $799,000, amounted to $20,184,000 and $18,802,000 ($7,163,000 and $6,351,000 related to financing leases) for the years ended June 30, 1974 and 1973, respectively.

Future minimum rental commitments at June 30, 1974 under all non-cancellable leases reduced by related sublease income of $6,917,000 are as follows:

(In thousands)

Year	Financing Leases: Real Property	Financing Leases: Personal Property	Non-Financing Leases
1975	$2,400	$3,000	$ 6,700
1976	2,200	2,400	6,000
1977	2,000	1,900	5,500
1978	1,400	1,700	5,300
1979	1,600	1,600	4,700
1980-1984	6,500	5,700	14,500
1985-1989	4,900	3,800	8,300
1990-1994	2,100	600	7,800
Remainder	4,300	2,900	35,000

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

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

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Auditors' Opinion

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

To the Shareholders
SCM Corporation:

We have examined the consolidated balance sheet of SCM Corporation and subsidiary companies as of June 30, 1974 and 1973 and the related statements of income, retained earnings, and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such consolidated financial statements present fairly the financial position of the companies at June 30, 1974 and 1973 and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis, except for the change in 1974, with which we concur, in the method of pricing certain inventories as described in the Inventories note to the financial statements.

Haskins & Sells
August 15, 1974

Ten-Year Statistical Summary

		1974	1973	1972
Income				
	Net sales	$1,202,248	$980,281	$917,817
	Income before income taxes	47,849	31,285	17,591
	U.S. and foreign income taxes	20,203	12,986	7,264
	Income before extraordinary items	27,646	18,299	10,327
	Extraordinary items, net of tax	—	—	(10,176)
	Net income (loss)	27,646	18,299	151
	Dividends	3,892	915	—
	Income reinvested	23,754	17,384	151
	Depreciation	30,334	27,210	23,769
Per Common Share				
	Income before extraordinary items	$ 3.02	$ 2.00	$ 1.13
	Net income (loss)	3.02	2.00	.02
	Cash dividends	.425	.10	—
	Stock dividends	—	—	—
	Book value	29.06	26.47	24.57
Financial Position				
	Working capital	$ 231,967	$229,941	$224,297
	Property, plant and equipment, net	207,237	187,362	176,838
	Total assets	646,683	552,707	515,149
Other Statistics				
	Additions to property, plant and equipment	$ 59,138	$ 39,966	$ 25,228
	Income before extraordinary items:			
	Return on average equity	10.9%	7.8%	4.6%
	Return on net sales	2.3%	1.9%	1.1%
	Current ratio	2.20	2.82	3.16
	Number of employees	29,600	29,400	28,300
	Number of shareholders	47,800	47,700	49,600
	Average common shares outstanding	9,156,000	9,154,000	9,149,000

All dollars in thousands, except figures given on a per share basis.

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1971	1970	1969	1968	1967	1966	1965
$875,138	$854,511	$807,648	$744,758	$705,160	$644,787	$558,393
13,073	7,884	39,391	30,820	43,626	40,408	29,431
6,012	1,446	18,752	13,061	18,550	18,956	14,070
7,061	6,438	20,639	17,759	25,076	21,452	15,361
(9,252)	(4,542)	—	(4,700)	—	1,207	403
(2,191)	1,896	20,639	13,059	25,076	22,659	15,764
—	5,421	5,136	4,763	8,479	7,666	5,547
(2,191)	(3,525)	15,503	8,296	16,294	14,474	8,934
22,439	21,832	19,372	17,807	15,384	12,835	11,821
$ .77	$ .71	$ 2.37	$ 2.13	$ 2.90	$ 2.56	$ 1.96
(.24)	.21	2.37	1.58	2.90	2.72	2.02
—	.60	.60	.60	.40	.30	—
—	2%	2%	3%	3%	2.5%	5%
24.56	24.81	25.54	24.24	22.24	25.57	24.83
$230,712	$233,976	$231,785	$221,718	$207,068	$165,245	$143,484
184,122	197,112	168,310	148,152	138,141	108,680	107,727
542,881	578,107	524,232	470,009	451,402	382,329	331,223
$ 25,543	$ 54,527	$ 40,764	$ 32,188	$ 36,116	$ 22,435	$ 14,701
3.1%	2.8%	9.5%	9.2%	12.8%	10.6%	8.5%
.8%	.8%	2.6%	2.4%	3.6%	3.3%	2.8%
2.97	2.72	3.08	3.50	3.10	2.84	3.03
28,600	31,100	33,500	33,200	33,100	31,300	29,900
53,400	53,500	50,000	47,500	45,600	47,000	42,500
9,146,000	9,014,000	8,716,000	8,616,000	8,158,000	7,756,000	6,649,000

Operating Businesses

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

- *Smith-Corona Group*
  Paul J. Uebbing, Vice President-General Manager
- *Proctor-Silex Group (Philadelphia, Pennsylvania)*
  Harry Hill, Vice President-General Manager

Business Equipment Division
299 Park Avenue, New York, New York 10017
George S. Warner, President

- *Copier Products Group*
  John J. Reilly, Vice President-General Manager
- *International Group*
  Francis D. De Maio, Vice President-General Manager
- *Histacount, Inc. (Melville, New York)*
  Joseph Gebbia, President

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

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

- *Coatings and Resins Group*
  William D. Kinsell, Jr., Vice President
  Robert E. Dorfmeyer, Vice President and Assistant to the President
- *Industrial Foods Group,*
  Adrian J. Lathe, Vice President
- *Food Service Group,*
  W. A. Hagen, Vice President
- *Metals Group,*
  W. E. Jones, Vice President
- *Organic Chemicals Group (Jacksonville, Florida)*
  R. P. T. Young, Vice President
  John H. Lathe, Jr., Vice President and Assistant to the President
- *Consumer Foods Group,*
  William A. Miller, Vice President
  William L. Rodich (Baltimore, Maryland) Vice President
- *Pigments and Color Group (Baltimore, Maryland)*
  L. C. Byrne, Vice President
- *Ceramics Group (Baltimore, Maryland)*
  William A. Hubbard, Vice President
- *Proctor & Schwartz (Philadelphia, Pennsylvania)*
  J. R. Johnson, Vice President

Allied Paper Division
1608 Lake Street, Kalamazoo, Michigan 49003
Ernest J. Klimczak, President

- *Kalamazoo Paper Mill Group*
  E. J. Gilman, Vice President-Manufacturing;
  John Nisbet, Vice President-Sales
- *Southern Mill Group (Jackson, Alabama)*
  Ralph V. Zepp, Vice President-Resident Manager
- *Allied/Egry Group (Dayton, Ohio)*
  G. W. Underwood, President
- *Walton Printing Group (Los Angeles, California)*
  R. L. Walton, President
- *Office and School Supplies Group (Marion, Indiana)*
  W. R. Gates, President

Corporate Data

Directors and Principal Occupation

Richard C. Bond, President, Board of Trustees, John Wanamaker, Philadelphia, Inc.*

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

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, Vice Chairman of the Board, Evans Products Company

William W. Quinn, President, Quinn Associates management consultants

E. Everett Smith, Senior Director, McKinsey & Company

George S. Warner, Vice President of SCM; President, Business Equipment Division

**Member of Executive Committee*

Directors Emeritus

James M. Symes, Chairman of the Board—retired, Pennsylvania Railroad Company

William I. Myers, Dean of the College of Agriculture—retired, Cornell University

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

Richard Sexton, Vice President and General Counsel

Gerard F. Stoddard, Vice President

George S. Warner, Vice President; President Business Equipment Division

Transfer Agents

Marine Midland Bank-New York, 140 Broadway, New York, New York 10015

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

Registrars

Manufacturers Hanover Trust Company, 4 New York Plaza, New York, New York 10004

United California Bank, 95 Hawthorne Street, San Francisco, California

Corporate Headquarters

299 Park Avenue, New York, New York 10017, Telephone: (212) 752-2700

Annual Meeting

The Annual Meeting of shareholders will be held at 10:30 a.m. on October 31, 1974 at the Manufacturers Hanover Trust Co., 4 New York Plaza, New York, New York 10004

Form 10-K

The Form 10-K Annual Report to the Securities and Exchange Commission provides certain additional information and will be available in October. A copy of this report may be obtained upon request to the Corporate Communications Department.

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SCM Corporation
299 Park Avenue
New York, New York 10017

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