THE GLIDDEN COMPANY

CLEVELAND, OHIO

GLIDDEN
Everywhere on Everything

ANNUAL REPORT
Year ended October 31, 1938

THE GLIDDEN COMPANY

CLEVELAND, OHIO

December 30, 1938

To the Shareholders of
THE GLIDDEN COMPANY:

On behalf of the Board of Directors the certified annual report of The Glidden Company for the year ending October 31, 1938, is herewith submitted.

Our fiscal year closed with a loss in sales of 18½% as compared with the previous year. The aggregate of net sales was $44,049,022.51. The continued decline in commodity markets, coupled with declines in price of many volume lines of manufactured products, made it extremely difficult to make a profit. The report shows a final net profit after taxes, depreciation and all charges, of $205,597.25.

Inventories at the end of the year were priced at the lower of cost or market. All of the properties of the company have been maintained in splendid physical condition and the regular schedule of depreciation has been followed. The total depreciation charges for the past year amounted to $698,147.96. The annual report will indicate that the company is in good financial condition, the relation of current assets to current liabilities being better than ten to one.

As predicted in our last annual report, our Food Division made an excellent record, the net profits showing an increase of 75% as compared with the previous year. The Paint and Varnish Division showed a loss of 23% in sales. This loss in sales was largely in the automobile, industrial, railroad and marine sales divisions. The Chemical and Pigment Division, depending largely on sales to the rubber, linoleum, and paint and varnish industries, contributed to the net loss. The Nelio-Resin Division suffered a serious inventory loss due to abnormal conditions in the Naval Stores Industry. The result was a final operating loss but inventories are now on a favorable basis.

Prospects for the new fiscal year are encouraging. The results of operations for the month of November show a fine improvement over November of last year. With expenses well in hand and inventories on a satisfactory basis, any improvement in the business situation should be quickly reflected in monthly profits.

During the year no reduction was made in the wage rates paid to our factory employees. Your Directors are gratified with the mutually satisfactory labor conditions existing throughout the organization. The good work of the executives and employees in meeting the unusual conditions that have prevailed is greatly appreciated, and the Directors take this opportunity of expressing their gratitude for this hearty cooperation.

By order of the Board of Directors.

ADRIAN D. JOYCE,
President.

CONSOLIDATED
The Glidden Company an
October

ASSETS

CURRENT ASSETS			
Cash		$ 1,467,296.54	
Trade notes and acceptances receivable	$ 98,127.50		
Trade accounts receivable	3,982,526.14		
	$4,080,653.64		
Less reserves	117,919.78	3,962,733.86	
Inventories—at lower of cost or market:			
Raw materials, in process, finished goods and supplies		11,449,791.35	
Other current accounts receivable		165,663.13	$17,045,484.88
INVESTMENTS IN SUBSIDIARY AND AFFILIATED COMPANIES			
California mining companies—at less than cost—Note A:			
Capital stock (wholly owned)	$ 15,000.00		
Bonds—principal amount $500,000.00	187,500.00		
Advances	877,715.67	$ 1,080,215.67	
Affiliated company—at cost—Note B:			
Capital stock		690,001.00	1,770,216.67
OTHER ASSETS AND INVESTMENTS			
Cash surrender value of life insurance		$ 432,043.00	
Sundry investments		72,535.47	
Miscellaneous notes and accounts, advances to salesmen and claims against closed banks, less reserves		81,395.24	585,973.71
PROPERTY, PLANT AND EQUIPMENT			
Land—at cost or less		$ 2,128,172.00	
Buildings, machinery and equipment—at cost or less		18,957,620.76	
		$21,085,792.76	
Less reserves for depreciation and depletion		6,852,828.07	14,232,964.69
INTANGIBLES			
Patents and rights to manufacture—at cost, less amortization			92,871.14
DEFERRED CHARGES			
Inventories of advertising stock and stationery, prepaid insurance and expenses		$ 442,586.77	
Special new products development		115,916.91	558,503.68
			$34,286,014.77

See notes on following page.

BALANCE SHEET

d Consolidated Subsidiaries

31, 1938

LIABILITIES, CAPITAL STOCK AND SURPLUS

CURRENT LIABILITIES			
Accounts payable		$ 1,306,687.33	
Accrued taxes, royalties, interest, insurance, etc.		308,936.72	
Federal, state and dominion taxes on income—estimated		40,241.71	$ 1,655,865.76
LONG TERM NOTES PAYABLE			
Bank loans—$250,000.00 principal amount maturing January 2, 1940, July 1, 1940, and January 2, 1941—interest at 2%, 2½% and 3% respectively		$ 750,000.00	
Serial notes—principal amounts maturing $250,000.00 on July 1, 1941; $500,000.00 annually on July 1, 1942, July 1, 1943, July 1, 1944, and $2,000,000.00 on July 1, 1945—interest at 3% to 3¾%		3,750,000.00	4,500,000.00
RESERVE			
For contingencies			67,885.56
CAPITAL STOCK AND SURPLUS			
Capital stock:			
Convertible preferred, 4½% cumulative, par value $50.00 a share (redeemable at $53.75 per share through July 1, 1940, and $52.50 per share thereafter—each share convertible through March 1, 1939, into nine-tenths share of common stock and thereafter at rates specified in articles):			
Authorized 200,000 shares			
Converted 60 shares			
Issued and outstanding 199,940 shares	$9,997,000.00		
Common, without par value:			
Authorized 1,200,000 shares			
Outstanding, including treasury shares 835,591 shares			
Reserved for conversion 179,946 shares			
Stated capital	4,180,655.00	$14,177,655.00	
Surplus:			
Capital surplus	$8,374,605.02		
Earned surplus	5,675,282.64	14,049,887.66	
		$28,227,542.66	
Less treasury shares—at cost: 5,602 shares—common		165,279.21	28,062,263.45
			$34,286,014.77
CONTINGENT LIABILITIES			
Letters of credit outstanding		$ 286,066.00	
Guarantor of trade notes issued by or for accounts of customers—maximum liability		2,039.51	

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NOTES TO CONSOLIDATED BALANCE SHEET

Note A—Investments in California mining companies, whose assets consist almost entirely of properties not being operated, are stated herein at less than cost, which carrying amount on the basis of unaudited balance sheets, was $19,128.47 more than the aggregate net assets as shown by the books of those companies. Losses (aggregating $275,848.01 in excess of provisions or other credits of The Glidden Company applicable thereagainst) have been experienced by these companies from date of acquisition to October 31, 1938, however, the losses for the past few years, since operations of properties were suspended, have represented principally expenses in maintaining the properties. The value of investments in these companies is indeterminable at this time.

Note B—Investment in affiliated company represents one hundred per cent interest in 7% preferred stock of the American Zirconium Corporation, having a par value of $600,000.00, the dividends on which have been paid to October 1, 1938, and a forty-five per cent interest in the common stock of the same company; the unaudited statement of the company shows accumulated undistributed earnings of $53,902.32 at October 31, 1938, of which $26,159.70 is applicable to The Glidden Company's investment therein.

CONSOLIDATED SURPLUS ACCOUNTS

The Glidden Company and Consolidated Subsidiaries

Year ended October 31, 1938

CAPITAL SURPLUS		
Balance November 1, 1937		$ 7,520,063.39
ADDITION		
Excess of amount of $30.00 a share, as determined by the board of directors for 34,697 shares of common stock issued for assets of Southern Pine Chemical Company, over amount of $5.00 a share allocated to stated capital	$ 867,425.00	
Excess of selling price of $30.00 a share for 93 shares of common stock sold, over amount of $5.00 a share allocated to stated capital	2,325.00	
	$ 869,750.00	
Less:		
Expenses in connection with issue of above shares	15,208.37	854,541.63
BALANCE OCTOBER 31, 1938		$ 8,374,605.02
EARNED SURPLUS		
Balance November 1, 1937		$ 6,319,469.21
Add, net profit for the fiscal year ended October 31, 1938		205,597.25
		$ 6,525,066.46
Less dividends paid:		
Convertible preferred—$2.25 a share	$ 449,886.82	
Common—$.50 a share	399,897.00	849,783.82
BALANCE OCTOBER 31, 1938		$ 5,675,282.64

Note—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 years 1932 to 1937 inclusive, had been charged against earned surplus instead of capital surplus, the respective amounts of such surplus accounts would be $4,766,290.55 and $9,283,597.11 as at October 31, 1938. The Company's federal income tax return for the year 1938 was not completed at the date of this statement but depreciation to be claimed therein will exceed provisions charged to profit and loss for the year ended October 31, 1938.

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CONSOLIDATED PROFIT AND LOSS STATEMENT
The Glidden Company and Consolidated Subsidiaries
Year ended October 31, 1938

Net sales		$44,049,022.51
Cost of goods sold, selling, administrative and general expenses (exclusive of depreciation)—Note A		43,194,840.79
PROFIT BEFORE INTEREST, DEPRECIATION AND OTHER INCOME		$ 854,181.72
Other income		336,356.77
		$ 1,190,538.49
Other deductions:		
Interest on bank loans and serial notes	$ 118,438.57	
Sundry	186,978.64	305,417.21
PROFIT BEFORE PROVIDING FOR DEPRECIATION AND TAXES ON INCOME		$ 885,121.28
Provision for depreciation and depletion		698,147.96
PROFIT BEFORE TAXES ON INCOME		$ 186,973.32
Credit arising from excess provision for federal, dominion and state taxes on income in prior years	$ 34,032.61	
Less estimated provision for dominion and state taxes on income for current year	15,408.68	18,623.93
NET PROFIT		$ 205,597.25

Note A—Inventories at October 31, 1937, included certain raw materials priced at cost which exceeded market price at that date by approximately $95,000.00. Inventories at October 31, 1938, are stated at the lower of cost or market.

Note B—No provision has been made in the foregoing statement for loss on wholly owned, non-operating California mining companies for the year, amounting to $48,108.56 including provision for depreciation in the amount of $27,798.99.

Note C—The Company's federal income tax return for the year 1938 was not completed at the date of this statement but depreciation to be claimed therein will exceed provision in this statement due to depreciation claimed on costs written off or credited to revaluation reserve during 1932.

ERNST & ERNST
ACCOUNTANTS AND AUDITORS
SYSTEM SERVICE
CLEVELAND
Union Commerce Building

The Glidden Company,
Cleveland, Ohio.

We have made an examination of the consolidated balance sheet of THE GLIDDEN COMPANY and its wholly owned subsidiaries (California mining companies excluded) as at October 31, 1938, and of the consolidated statements of profit and loss and surplus for the year ended at that date. In connection therewith we examined or tested accounting records of the Companies and other supporting evidence, and obtained information and explanations from officers and employees of the Companies; we also made a general review of the accounting methods and of the operating and income accounts for the year, but we did not make a detailed audit of the transactions.

Inventories are stated on the basis of the lower of cost or market prices. 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.

During the year the parent Company issued 34,697 shares of its common stock to Southern Pine Chemical Company in exchange for the assets of that company. Assets acquired were recorded on the books of the Company at the aggregate amount of $1,040,910.00 which included property, plant and equipment at net sound values as shown by independent appraisal and other assets principally at amounts shown by statements of predecessor company at February 28, 1938. The amount of $173,485.00, representing $5.00 per share for the stock issued was allocated to stated capital and the remainder ($25.00 a share) was allocated to capital surplus in accordance with authorization of the Company's board of directors.

Officers of the Companies have expressed the opinion that pending lawsuits are of minor importance and that no material losses will result therefrom.

In our opinion, based upon our examination and excluding the California mining companies, the accompanying balance sheet and related statements of profit and loss and surplus fairly present the consolidated position of the Company and its wholly owned subsidiaries at October 31, 1938, and the consolidated results of their operations for the year ended at that date. Further, it is our opinion that the statements have been prepared in accordance with accepted principles of accounting and, except that inventories of certain raw materials at October 31, 1937, were included at cost which exceeded market prices at that date, as stated in Note A to the profit and loss statement, on a basis consistent with the preceding year.

ERNST & ERNST
Certified Public Accountants

Cleveland, Ohio
December 22, 1938

GLD002905

BOARD OF DIRECTORS

ADRIAN D. JOYCE	DWIGHT P. JOYCE
R. H. HORSBURGH	P. E. SPRAGUE
R. W. LEVENHAGEN	HOWARD BEATTY
W. J. O'BRIEN	CLIFTON M. KOLB

OFFICERS

ADRIAN D. JOYCE, President
R. H. HORSBURGH, Senior Vice President
R. W. LEVENHAGEN, Vice President
W. J. O'BRIEN, Vice President
DWIGHT P. JOYCE, Vice President
P. E. SPRAGUE, Vice President
HOWARD BEATTY, Vice President
J. A. PETERS, Treasurer
CLIFTON M. KOLB, Secretary

Transfer Agent

THE NEW YORK TRUST COMPANY
New York City

Registrar

THE CHASE NATIONAL BANK
New York City