BOARD OF DIRECTORS

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

OFFICERS

ADRIAN D. JOYCE, President
ROBERT H. HORSBURGH, Senior Vice-President
RICHARD W. LEVENHAGEN, Vice-President
WILLIAM J. O'BRIEN, Vice-President
DWIGHT P. JOYCE, Vice-President
PAUL E. SPRAGUE, Vice-President
HOWARD BEATTY, Vice-President
JOHN A. PETERS, Treasurer
CLIFTON M. KOLB, Secretary
WILLIAM W. CONANT, Assistant Secretary

Transfer Agent
THE NEW YORK TRUST COMPANY
New York City

Registrar
THE CHASE NATIONAL BANK
New York City

THE GLIDDEN COMPANY

CLEVELAND, OHIO

GLIDDEN

ANNUAL REPORT
Year Ended October 31, 1941

THE GLIDDEN COMPANY

CLEVELAND, OHIO

To the Shareholders of
The Glidden Company:

The annual report of your Company for the year ended October 31, 1941, is submitted herewith. The net profit for the year, after taxes and all charges, was $3,010,389.92, equal to $3.08 per share on the outstanding common stock. This compares with a net profit for 1940 of $1,727,828.99, equal to $1.55 per share.

The net sales for the year amounted to $68,901,706.48 as compared with sales of $50,169,733.04 for the previous year.

Only a comparatively small part of the largely increased business is represented by contracts between the Company and the Government. It is gratifying to note that the increases in volume are distributed throughout the various divisions of the Company.

As in prior years, much of the increase in earnings was the result of a widening use of Glidden products by consumers and in major industries. This expansion was made possible by the continued efforts of the technical, production, and sales organizations to develop existing and additional uses for Glidden products now commercially known, and to find new products of value in established or developing industries. The fact that all divisions of the Company, Paint, Chemical and Pigments, Metals Refining and Food Products, showed a profit, indicates the wisdom of our diversification program.

The Company controls many of the important raw materials entering into its manufacturing operations, and in pursuance of this policy, during the year has acquired the Yadkin Valley Ilmenite Company at Lenoir, North Carolina. This company has developed a source of ilmenite for use in the manufacture of titanium dioxide, and its acquisition will permit the Company to maintain its production of this important pigment, and to increase the production as soon as increased manufacturing facilities can be provided. Ilmenite was formerly imported from India but supplies were entirely cut off by the world war.

The shareholders are aware that our company has owned approximately forty-five per cent of the common stock of the American Zirconium Corporation, manufacturers of Titanium Dioxide, in addition to all the preferred stock of that corporation. During the year we have, through the exchange of our common stock held in the treasury, acquired sufficient stock to make our holdings approximately ninety per cent of the outstanding common capital. This will permit us to consolidate the operations of this company in our consolidated report, less the minority interest.

Attention is directed to the fact that our Company is in an unusually advantageous position so far as priorities are concerned, and the continued operation of our various manufacturing units. The Food Division is essential in wartime economy, as is the Soya Bean Division for the processing of Soya Beans and the production of Soya Flour, Soya Bean Oil, and Soya Proteins; the Vegetable Oil Division for the production of linseed oil and edible vegetable oils. The production of the Chemical and Pigment Division, including the refining of basic metals are all essential. The products of our Naval Stores Division and our Paint and Varnish Division are necessary not only in supplying the Government directly but in supplying various industries manufacturing material for war and defense purposes.

In handling the tremendous increase in sales, the Company is using every possible safeguard against inventory losses should there be an abrupt decline in market prices; this partly through hedging of all important commodities where it is possible to do so in the futures market.

Since November 1, 1940, your Company has applied the last in, first out method of inventory pricing to certain raw materials and goods in process. This has had the effect of reducing the total value of consolidated inventories on October 31, 1941, approximately $1,115,000 below what it would have been had the previous method of pricing been followed. The net profit shown, therefore, is approximately $455,000 less than it would have been under the method previously used.

During the closing months of our fiscal year, plans were worked out for the refunding of current indebtedness in the amount of $7,000,000. The transaction was completed in the first month of our new year and was carried out on a term basis.

Mutually satisfactory labor conditions exist throughout the whole organization. Your Officers and Directors acknowledge with sincere appreciation the intelligent and co-operative efforts of the entire staff.

By order of the Board of Directors.

ADRIAN D. JOYCE,
President.

December 30, 1941.

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CONSOLIDATED BALANCE SHEET

The Glidden Company and Consolidated Subsidiaries

October 31, 1941

ASSETS

CURRENT ASSETS			
Cash		$ 2,262,550.67	
Trade notes and acceptances receivable	$ 100,777.09		
Trade accounts receivable	7,230,243.72		
	$ 7,331,020.81		
Less reserves	151,505.60	7,179,515.21	
Inventories — Note A: Raw materials, in-process, finished goods, and supplies		15,521,122.55	
Other current accounts receivable and advances, less reserve		655,613.02	$25,618,801.45
INVESTMENTS IN SUBSIDIARY COMPANIES			
California mining companies, at less than cost — Note B:			
Capital stock (100% owned)		$ 15,000.00	
Bonds — principal amount $500,000.00		187,500.00	
Advances		927,425.84	1,129,925.84
OTHER ASSETS AND INVESTMENTS			
Cash surrender value of life insurance		$ 527,496.50	
Sundry investments		69,349.99	
Sundry notes and accounts, advances to salesmen, and claims against closed banks, less reserves		118,154.87	715,001.36
PROPERTY, PLANT, AND EQUIPMENT — Note C			
Land, at cost or less		$ 2,255,587.46	
Buildings, machinery, and equipment, at cost or less		23,580,357.37	
		$25,835,944.83	
Less reserves for depreciation and depletion		8,913,404.83	16,922,540.00
INTANGIBLES			
Patents and rights to manufacture, at cost less amortization			127,713.78
DEFERRED CHARGES			
Inventories of advertising stock and stationery, prepaid insurance, and expenses		$ 551,620.23	
Special new products development		95,807.27	647,427.50
			$45,161,409.93

LIABILITIES, CAPITAL STOCK AND SURPLUS

CURRENT LIABILITIES				
Notes payable to banks — Note D		$ 6,000,000.00		
Accounts payable		3,570,703.24		
Accrued taxes, royalties, interest, insurance, etc.		506,377.45		
Federal, state, and dominion taxes on income — estimated		1,239,588.10	$11,316,668.79	
LONG-TERM NOTES PAYABLE — Note D				
Bank loans — principal amounts maturing $500,000.00 annually July 1, 1943, to 1946, inclusive, interest at 1½% to 1¾%			2,000,000.00	
RESERVES				
For contingencies		$ 67,885.56		
For adjustment of purchase commitments		170,474.36	238,359.92	
MINORITY INTEREST IN SUBSIDIARY COMPANIES			209,880.25	
CAPITAL STOCK AND SURPLUS — Note D				
Capital stock:				
Convertible preferred, 4½% cumulative, par value $50.00 a share (redeemable at $52.50 per share, convertible into seven-tenths share of common stock):				
Authorized — 200,000 shares				
Converted — 60 shares				
Issued and outstanding, including treasury shares, 199,940 shares	$ 9,997,000.00			
Common, without par value:				
Authorized — 1,200,000 shares				
Outstanding, including treasury shares, 835,591 shares				
Reserved for conversion, 139,958 shares				
Stated capital	4,180,655.00	$14,177,655.00		
Surplus:				
Capital surplus	$ 8,374,036.92			
Earned surplus	8,942,329.15			
	$17,316,366.07			
Less capital stock in treasury, at cost: Common 5,048 shares, convertible preferred 300 shares	97,520.10	17,218,845.97	31,396,500.97	
			$45,161,409.93	

CONTINGENT LIABILITIES

Letters of credit outstanding . . . . $ 1,027,117.20

See notes on following page.

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NOTES TO CONSOLIDATED BALANCE SHEET

Note A — Inventories of principal raw materials are stated at cost (last-in, first-out method) which did not exceed market; the change from the methods used in preceding years in determining cost of such materials, to the last-in, first-out method had the effect of reducing the amounts stated for inventories by approximately $1,115,000.00. All other inventories are stated at the lower of cost (accumulated average) or market.

Note B — 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 $154,827.53 more than the aggregate net assets as shown by the books of those companies. Losses (aggregating $354,130.53 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, 1941, however, the losses for the past few years, since operations of properties were suspended, have represented principally expenses in maintaining the properties. Certain of the properties are located in areas that will be flooded as a result of the construction of Shasta Dam in the State of California by the United States Government, and the Company has filed a claim for damage in excess of written-down amounts included herein.

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

Note D — On October 2, 1941, The Board of Directors, subject to approval of holders of Convertible Preferred Stock, authorized the refunding of $2,000,000.00 long-term and $5,000,000.00 short-term notes payable by an issue of $3,000,000.00 of debentures bearing interest at the rate of 3% and maturing July 1, 1947, and $4,000,000.00 of notes payable bearing interest at the rate of 2% maturing $1,000,000.00 annually July 1, 1943, to 1946, inclusive. Holders of Convertible Preferred Stock approved the refunding in November, 1941, and the indebtedness was refunded as of November 24, 1941.

An indenture relating to the issue of the aforementioned debentures contains an agreement that so long as any of the debentures shall be outstanding the Company will not declare or pay any dividends (other than dividends payable in common stock) on any shares of its common stock except out of consolidated net earnings derived from operations of the Company and its subsidiaries subsequent to October 31, 1940; nor will the Company expend in excess of an aggregate of $200,000.00 in the purchase, redemption, or other retirement of any shares of any class except out of such consolidated net earnings.

Note E — As of October 1, 1941, the Company acquired an additional interest in common stock of American Zirconium Corporation in exchange for 22,700 shares of treasury stock having a cost of $316,492.51, thereby increasing the Company's investment in that corporation to approximately ninety per cent of the outstanding common stock, in addition to one hundred per cent of its preferred stock. The accounts of American Zirconium Corporation have been included in this balance sheet.

Note F — Net assets located in Canada consist of net current assets and sundry investments in the amount of $604,314.32 which have been included in this balance sheet at the Control Board rate of exchange, and property, plant, and equipment, and sundry other assets of $298,919.48 which have been included at amounts shown by the books of the Canadian subsidiary. Consolidated earned surplus includes the amount of $1,259,675.17 for the Canadian subsidiary.

CONSOLIDATED SURPLUS

The Glidden Company and Consolidated Subsidiaries

Year ended October 31, 1941

CAPITAL SURPLUS			
Balance November 1, 1940, and October 31, 1941			$ 8,374,036.92
EARNED SURPLUS			
Balance November 1, 1940			$ 7,452,735.86
Add:			
Net profit for the year		$ 3,010,389.92	
Adjustment of reserves for depreciation to reflect reduction in rates allowed by the Bureau of Internal Revenue in 1939 and 1940 income tax returns	$ 129,651.36		
Less additional income tax assessments for the years 1939 and 1940	27,330.45	102,320.91	3,112,710.83
			$10,565,446.69
Deduct:			
Excess of cost over market value of 800 shares of common treasury stock given in the payment of land purchased		$ 29,949.45	
Dividends paid:			
Convertible preferred — $2.25 a share	$ 449,380.09		
Common — $1.40 a share	1,143,788.00	1,593,168.09	1,623,117.54
BALANCE OCTOBER 31, 1941			$ 8,942,329.15

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 1941 inclusive, had been charged against earned surplus instead of capital surplus, the respective amounts of such surplus accounts would be $7,684,320.19 and $9,632,045.88 at October 31, 1941.

CONSOLIDATED PROFIT AND LOSS STATEMENT

The Glidden Company and Consolidated Subsidiaries

Year ended October 31, 1941

Net sales		$68,901,706.48
Cost of goods sold, selling, administrative, and general expenses (exclusive of depreciation) — Note A		63,776,676.84
PROFIT BEFORE INTEREST, DEPRECIATION, AND OTHER INCOME		$ 5,125,029.64
Other income		312,780.73
		$ 5,437,810.37
Other deductions:		
Interest on bank loans and serial notes	$ 73,899.20	
Sundry	335,864.08	409,763.28
PROFIT BEFORE DEPRECIATION, DEPLETION, AND TAXES ON INCOME		$ 5,028,047.09
Provision for depreciation and depletion — Note B		846,861.53
PROFIT BEFORE TAXES ON INCOME		$ 4,181,185.56
Taxes on income — estimated:		
Federal normal income tax	$ 990,000.00	
Federal excess profits tax	15,000.00	
Dominion and state taxes	150,000.00	1,155,000.00
NET PROFIT BEFORE MINORITY INTEREST		$ 3,026,185.56
Minority interest in profits of subsidiary companies		15,795.64
NET PROFIT		$ 3,010,389.92

Note A — At October 31, 1941, inventories of principal raw materials were priced on the basis of the last-in, first-out method instead of the methods previously used. This change in the method of pricing had the effect of increasing the cost of goods sold approximately $1,115,000.00 and reduced the net profit for the fiscal year approximately $455,000.00.

Note B — Depreciation claimed in the Company's federal income tax return for the year 1941 exceeded the amount included in this statement by approximately $67,000.00 due to depreciation claimed on costs written off or credited to revaluation reserve during 1932.

Note C — No provision has been made in the foregoing statement for losses of wholly owned, nonoperating California mining companies for the year, amounting to $39,786.39 including provision for depreciation in the amount of $27,927.33.

Note D — The net profit shown above includes $94,063.65 for the Canadian subsidiary, representing that subsidiary's net profit for the year after giving effect to adjustment of its net current assets and sundry investments to Control Board rate of exchange in effect at October 31, 1941.

ERNST & ERNST

CLEVELAND

UNION COMMERCE BUILDING

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

We have examined the consolidated balance sheet of The Glidden Company and consolidated subsidiaries (California mining companies excluded) as of October 31, 1941, and the consolidated statements of profit and loss and surplus for the fiscal year then ended, have reviewed the system of internal control and the accounting procedures of the companies and, without making a detailed audit of the transactions, have examined or tested accounting records of the companies and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary. Such procedures included test confirmation of trade receivables and observation of procedures employed by the companies in ascertaining inventory quantities at October 31, 1941, at locations selected by us.

Inventories of principal raw materials have been priced in accordance with the last-in, first-out method of determining cost instead of the methods previously used. Such change (which we consider proper) had the effect of reducing the amounts stated for inventories at October 31, 1941, by approximately $1,115,000.00, and reduced the net profit (after income and excess profits taxes) shown for the fiscal year by approximately $455,000.00.

In our opinion, the accompanying balance sheet and related statements of profit and loss and surplus, excluding the California mining companies, present fairly the consolidated position of The Glidden Company and its consolidated subsidiaries at October 31, 1941, and the consolidated results of their operations for the fiscal year, in conformity with generally accepted accounting principles which, except as stated in the preceding paragraph, have been applied on a basis consistent with that of the preceding year.

ERNST & ERNST,
Certified Public Accountants.

Cleveland, Ohio,
December 26, 1941.

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