THE GLIDDEN COMPANY

CLEVELAND, OHIO

GLIDDEN
Everywhere on Everything

ANNUAL REPORT
Year Ended October 31, 1940

THE GLIDDEN COMPANY

CLEVELAND, OHIO

To the Shareholders of
The Glidden Company:

The annual report of your Company for the year ended October 31, 1940, is submitted herewith. The net profit for the year, after all charges including special reserves, was $1,727,828.99. This compares with a final net profit for the previous year of $1,853,549.12. The sales for the year totaled $50,169,733.04 as compared with $47,824,047.45 for the previous year.

While all the Divisions of the Company — Paint, Chemical and Pigment, Metals Refining and Food Products — showed a profit, the profits in the Chemical and Pigment Division were considerably curtailed by reason of heavy expenses incurred in connection with the research work in soya bean by-product manufacturing, and with the development of our new and exclusive process of manufacturing Iron Powder in the Metals Refining Division. Fortunately, the work in the Metals Refining Division has permitted us to go into commercial production of Iron Powder and our Company is now benefiting from this work. In the Soya Bean Division the production of hormones and sterols has resulted in constantly increasing sales which should add materially to our profits in the ensuing year.

In the Food Division, the effect of the war on this industry made it necessary to change our processes in our plants at Berkeley, California, and at Elmhurst, Long Island, in order to efficiently handle a wider range of materials. These changes entailed large expenditures which will be non-recurring to a great extent.

The Company is in a favorable position as to inventories and the total of the inventories is in the proper relation to the volume of sales.

It will be of interest to our shareholders to know that for the addition to plant facilities and the modernization of equipment, over the past five years the Company has expended $8,127,000. These changes and additions have kept us fully abreast of the times and have placed us in an unusually advantageous position to meet competition in the future and to maintain our position in the field. With the return of anything resembling normal conditions, our profits should show a marked increase over the results for the past two or three years.

To illustrate the difficulty of making a profit under present tax laws, attention is called to the fact that taxes paid or accrued by your Company and its subsidiaries, to the various taxing authorities in the United States, including excise taxes on products sold and in turn passed on to the consumer, totaled $2,091,230.52. These tax expenses are divided as follows:

Real, Personal, State Franchise and State Income Taxes	$ 337,390.59
Federal Capital Stock Tax	40,899.10
Social Security Taxes	270,896.83
Provision for Federal Income Tax	292,000.00
Excise and Processing Taxes	1,150,044.00
TOTAL	$2,091,230.52

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If the excise and processing taxes are left out of consideration, the total is $941,186.52, equivalent to $1.13 per share on our outstanding common stock compared to our net earnings of $1.55 per share.

During the period under review the Company has succeeded in refinancing long term loans at lower interest rates, which will mean an approximate saving for the period of $160,000.

Attention is called to the strong financial position of the Company, the relation of Current Assets to Current Liabilities being better than seven to one.

The profits of the American Zirconium Corporation, in which the Company has a substantial interest, were affected adversely during the year owing to the high freight rates and war risk insurance in bringing raw material (ilmenite) from Travancore, India. However, improvements in production methods together with increased volume production, should overcome this handicap in the near future.

In "Note A" appended to the Balance Sheet, reference is made to our investment in California mining companies. It should be explained that these companies were not operated for some years due to the low prices of zinc and other ores, and the mines were held as a reserve supply for the Company's Chemical and Pigment Division. During the last year there has been a very decided advance in the price of zinc, cadmium, and other metals and these properties could be operated profitably at the present time were it not for the fact that the United States Government, in building the Shasta Dam, is flooding the area in which the mines are located so that it will not be possible to operate them. Your Company has filed a claim with the United States Government for damages to these properties in the sum of $1,853,000.

While business conditions at the present time are confusing, and while it is very difficult to predict the future, yet based on the diversified character of our business, and the fact that our manufacturing and distribution facilities are at the peak of efficiency, your Company should make a satisfactory profit in the new year.

Your Directors are pleased with the mutually satisfactory labor conditions existing throughout the organization, and take pleasure in expressing their appreciation of the good work of all the executives and employees whose loyal efforts have contributed to our progress.

By order of the Board of Directors.

ADRIAN D. JOYCE,
President.

December 28, 1940.

CONSOLIDATED

The Glidden Company and

October

ASSETS

CURRENT ASSETS			
Cash		$ 2,126,192.28	
Trade notes and acceptances receivable	$ 72,141.11		
Trade accounts receivable	4,653,814.48		
	$ 4,725,955.59		
Less reserves	135,083.21	4,590,872.38	
Inventories — at lower of cost or market:			
Raw materials, in process, finished goods and supplies		10,612,030.66	
Other current accounts receivable and advances — less reserve		523,245.90	$17,852,341.22
INVESTMENTS IN SUBSIDIARY AND AFFILIATED COMPANIES			
California mining companies — at less than cost — Note A:			
Capital stock (100% owned)	$ 15,000.00		
Bonds — principal amount $500,000.00	187,500.00		
Advances	915,062.71	$ 1,117,562.71	
Affiliated company — at cost — Note B:			
Capital stock		690,001.00	1,807,563.71
OTHER ASSETS AND INVESTMENTS			
Cash surrender value of life insurance		$ 496,369.70	
Sundry investments		48,480.47	
Sundry notes and accounts, advances to salesmen and claims against closed banks, less reserves		79,045.62	623,895.79
PROPERTY, PLANT AND EQUIPMENT			
Land — at cost or less		$ 2,151,397.84	
Buildings, machinery and equipment at cost or less		20,794,708.46	
		$22,946,106.30	
Less reserves for depreciation and depletion		7,902,685.57	15,043,420.73
INTANGIBLES			
Patents and rights to manufacture — at cost, less amortization			86,859.33
DEFERRED CHARGES			
Inventories of advertising stock and stationery, prepaid insurance and expenses		$ 386,652.02	
Special new products development		109,916.91	496,568.93
			$35,910,649.71

ALANCE SHEET
Consolidated Subsidiaries
31, 1940

LIABILITIES, CAPITAL STOCK AND SURPLUS

CURRENT LIABILITIES				
Accounts payable			$ 1,793,778.46	
Accrued taxes, royalties, interest, insurance, etc.			346,062.92	
Federal, state and dominion taxes on income — estimated			340,102.21	$ 2,479,943.59
LONG TERM NOTES PAYABLE				
Bank loans — principal amounts maturing $500,000.00 annually on July 1, 1942, July 1, 1943, and July 1, 1944 — interest at 2¼%			$ 1,500,000.00	
Serial note — maturing July 1, 1945 — interest at 3%			2,000,000.00	3,500,000.00
RESERVES				
For adjustments of open contracts to market			$ 50,000.00	
For contingencies			67,885.56	117,885.56
MINORITY INTEREST IN SUBSIDIARY COMPANY				100,552.49
CAPITAL STOCK AND SURPLUS				
Capital stock:				
Convertible preferred, 4½% cumulative, par value $50.00 a share (redeemable at $52.50 per share, convertible through March 1, 1941, into eight-tenths share of common stock and thereafter into seven-tenths share of common stock):				
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 159,952 shares				
Stated capital		4,180,655.00	$14,177,655.00	
Surplus — Note C:				
Capital surplus	$ 8,374,036.92			
Earned surplus	7,452,735.86	$15,826,772.78		
Less capital stock in treasury at cost:				
Common — 16,671 shares		292,159.71	15,534,613.07	29,712,268.07
				$35,910,649.71
CONTINGENT LIABILITIES				
Letters of credit outstanding		$ 380,139.50		

See notes on following page.

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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 $115,041.14 more than the aggregate net assets as shown by the books of those companies. Losses (aggregating $333,441.32 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, 1940, 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 damages in excess of the written-down amounts included herein.

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 July 1, 1940, and a forty-five per cent interest in the common stock of the same company.

Note C — The indenture, dated July 1, 1938, relating to serial notes of the Company contains an agreement that so long as any of the notes shall be outstanding the Company will not declare or pay any dividends, other than stock dividends, on any shares of its common stock (subject to modification that the Company may use not exceeding $200,000.00 in the purchase or retirement of its common stock) or make any distribution in respect thereto, except out of consolidated net earnings, as defined in the indenture, subsequent to October 31, 1937.

Note D — Net assets located in Canada consist of net current assets of $455,674.74 which have been included herein at the Control Board rate of exchange, and property, plant and equipment and sundry deferred items of $141,706.70 which have been included at amounts shown on the books of the Canadian subsidiary. Consolidated earned surplus includes the amount of $1,165,611.52 for the Canadian subsidiary.

CONSOLIDATED SURPLUS

The Glidden Company and Consolidated Subsidiaries

Year ended October 31, 1940

CAPITAL SURPLUS		
Balance November 1, 1939, and October 31, 1940		$ 8,374,036.92
EARNED SURPLUS		
Balance November 1, 1939		$ 7,078,945.34
Add net profit for year ended October 31, 1940		1,727,828.99
		$ 8,806,774.33
Deduct dividends paid:		
Convertible preferred — $2.25 a share	$ 449,886.47	
Common — $1.10 a share	904,152.00	1,354,038.47
BALANCE OCTOBER 31, 1940		$ 7,452,735.86

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 1939 inclusive, had been charged against earned surplus instead of capital surplus, the respective amounts of such surplus accounts would be $6,331,164.36 and $9,495,608.42 as at October 31, 1940. The Company's federal income tax return for the year 1940 was not completed at the date of issuing this statement but depreciation to be claimed therein will exceed provisions charged to profit and loss for the year ended October 31, 1940.

CONSOLIDATED PROFIT AND LOSS STATEMENT

The Glidden Company and Consolidated Subsidiaries

Year ended October 31, 1940

Net sales		$50,169,733.04
Cost of goods sold, selling, administrative and general expenses (exclusive of depreciation)		47,322,882.32
PROFIT BEFORE INTEREST, DEPRECIATION AND OTHER INCOME		$ 2,846,850.72
Other income		421,177.21
		$ 3,268,027.93
Other deductions:		
Interest on bank loans and serial notes	$ 111,352.43	
Sundry	245,231.35	356,583.78
PROFIT BEFORE DEPRECIATION AND TAXES ON INCOME		$ 2,911,444.15
Provision for depreciation and depletion		835,753.99
PROFIT BEFORE TAXES ON INCOME		$ 2,075,690.16
Taxes on income — estimated:		
Provision for federal income tax	$ 292,000.00	
Provision for dominion and state taxes on income	55,308.68	347,308.68
NET PROFIT		$ 1,728,381.48
Minority interest in profit of subsidiary company		552.49
NET PROFIT TO SURPLUS		$ 1,727,828.99

Note A — No provision has been made in the foregoing statement for losses of wholly owned, non-operating California mining companies for the year, amounting to $47,483.76 including provision for depreciation in the amount of $28,021.08.

Note B — The Company's federal income tax return for the year 1940 was not completed at the date of issuing this statement but depreciation to be claimed therein will exceed the amount included in this statement due to depreciation claimed on costs written off or credited to revaluation reserve during 1932.

Note C — The net profit shown above includes $65,594.07 for the Canadian subsidiary, representing that subsidiary's net profit for the year after giving effect to adjustment of its net current assets to Control Board rate of exchange in effect at October 31, 1940.

ERNST & ERNST

ACCOUNTANTS AND AUDITORS
SYSTEM SERVICE

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, 1940, 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.

We tested trade receivables by communication with debtors, and we observed procedures followed by the companies in ascertaining quantities at October 31, 1940, at locations selected by us. We also tested the basis of pricing the inventories and the computations.

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.

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 consolidated subsidiaries at October 31, 1940, and the results of their operations for the fiscal year in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ERNST & ERNST,
Certified Public Accountants.

Cleveland, Ohio,
December 23, 1940.

BOARD OF DIRECTORS

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

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WILLIAM J. O'BRIEN, Vice-President
DWIGHT P. JOYCE, Vice-President
PAUL E. SPRAGUE, Vice-President
HOWARD BEATTY, Vice-President
JOHN A. PETERS, Treasurer
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