SCM Corporation is a diversified manufacturing company. While technical leadership is the key to success in many of our businesses, skilled marketing is crucial in many others.

Our 1973 sales of $980 million were divided among three broad segments of the economy: industrial, consumer and office products. Industrial products (coatings, industrial and institutional foods, pigments and colors, metal powders, chemicals, pulp and paper and industrial processing equipment) accounted for approximately 44 per cent of the total, or $437 million. Consumer products (paints, typewriters and appliances and foods) accounted for an additional 39 per cent of the total or $379 million. Office products (copiers, calculators, business forms and telecommunications equipment) provided the balance of 17 per cent or $164 million.

Twenty-one SCM business units serve customers in these three broad market areas. They range in size from Coatings and Resins, the largest, to Walton Printing, the smallest self-contained business unit in terms of sales.

For purposes of this report, we have grouped our 21 separate operating units into six major lines of business. The sales, operating income and average assets for these seven groups over the past five years are reported on page 5, and the year's results are reviewed in detail in the following pages.

This annual report is for the 47,700 SCM shareholders, 29,400 employees and tens of thousands of distributors and dealers around the world.

Financial Highlights

(In thousands, except per share figures) Years ended June 30,	1973	1972
Net sales	$980,281	$917,817
Income before income taxes	31,285	17,591
United States and foreign income taxes	12,986	7,264
Income before extraordinary loss	18,299	10,327
Extraordinary loss	—	10,176
Net income	18,299	151
Earnings per share:		
Income before extraordinary loss	2.00	1.13
Extraordinary loss	—	1.11
Net income	2.00	.02
Fully diluted net income	1.91	.02
Additions to property, plant and equipment	39,966	25,228
Depreciation	27,210	23,769
Cash dividend per share	.10	—
(All dollars in thousands) At year end		
Working capital	$229,941	$224,297
Property, plant and equipment, net	187,362	176,838
Long-term debt	149,439	162,024
Shareholders' equity	242,314	224,873
Number of shareholders	47,700	49,600
Number of employees	29,400	28,300

GLD30779

To the Shareholders

In the year ended June 30, 1973 we continued the improvement in earnings that began in fiscal 1971. Net income for 1973 increased 77 per cent to $18.3 million, or $2.00 per share, from income before extraordinary charges of $10.3 million, or $1.13 per share in fiscal 1972.

Sales in 1973 increased 6.8 per cent to $980.3 million, from $917.8 million in 1972.

We have now had ten successive year-to-year quarters of earnings improvement and net income for 1973 was the highest since 1969. Cash flow continued high and we kept tight control over working capital. In short, SCM has been restored to an acceptable level of profitability.

Improvement in both our net income and cash position made it possible for us to resume a cash dividend. On June 21, 1973 the Board of Directors declared a 10 cent per share quarterly dividend, the first dividend on our common stock since June 1970.

The Economy: Improvements of the past year were accomplished in an economic climate that was good for business. During the year, the economic expansion that began in 1971 continued and broadened on a world-wide basis. Markets in the industrial sector strengthened and operating rates improved as surplus capacity installed in the mid-1960's began to be used up.

GL D30780

Consumer markets were strong during the year, influenced by high disposable income levels and high consumer confidence. Studies indicated a rapid falling off in consumer buying plans toward the close of our fiscal year. As a result, most consumer goods sold well during the year but some were not so strong toward year end.

Operating Highlights: The operations review section of this report discusses SCM operations in six major business categories: coatings and resins, typewriters and appliances, foods, business equipment, chemicals and paper products.

Coatings and resins and typewriters and appliances provided the largest part of the company's profits. These profits are expected to increase but other operations will provide a greater share of total profits in the future.

Allied Paper experienced the strong demand typical of the paper industry last year and had record sales and profits in all segments of its business.

Our chemicals business showed considerable improvement over last year, with all operations now in the black.

Our food operations also improved substantially. Those food products sold to consumers and to the away-from-home eating market had a good year; our processing and sale of edible vegetable oil for industrial customers was also much improved. Assuming we can successfully cope with the Phase IV economic controls over food prices, we look for further improvement in fiscal 1974.

Only the business equipment line had a less than successful year. While losses in calculators were much reduced from a year ago, supplier shortages and continuing downward pressure on calculator prices have kept us from operating profitably. The loss in copier products was worse in 1973, although international copier operations continued profitable. The upgrading of copiers now in the field and heavy expenditure for development of plain paper copiers represent investments that will be major sources of future revenues.

Detailed discussions of each of these businesses are contained in the review of operations.

Outlook: We have now, at least to a modest degree, achieved our first corporate priority—to pay a cash dividend. One of the principal objectives of any company is to increase profits. Over the next several years our primary means of accomplishing this will be by improving profit margins. Profit margins increased from 1.1 per cent in 1972 to 1.9 per cent in 1973. This is a good improvement but not enough. One source of improved margins in the recent past has been disposal or radical alteration of several of our low margin businesses. This process is now about over.

We will continue to examine and re-examine our various businesses to determine the areas with the greatest possibility of higher margins, rapid growth and a good market share. Our search is for market segments growing faster than others. Where we have the capabilities to do well in such segments, we will concentrate our activities.

Acquisitions have been an important strategy for SCM but one that will be supplementary in the future. Our policy is to fit relatively small acquisitions to the strategic objectives of our present businesses. We do not contemplate making the sizeable acquisitions that characterized our company in the late 1960's.

International markets are another area where we see good growth potential. In 1973, 10 per cent of our revenues came from outside the United States and Canada. This is still a relatively modest amount, but it is the highest we have ever attained. We are encouraged by the fact that growth opportunities for several of our businesses are better overseas than they are in the United States.

Over the next several years our primary source of profit growth and improved margins will be internally generated. To this end we are stepping up marketing expenditures and manufacturing capacity in areas where our present products are well established, and we are especially increasing research and development funds for new products. Last year we spent $16.6 million on research and development. This amount, as a percentage of sales, and the resulting flow of new products were, by design, at record levels, and this emphasis will continue.

Like most large companies, we are diverse. Ours is a well-balanced diversity and, properly looked at, represents a portfolio of opportunity that we expect to maximize for steadily improving results in the years immediately ahead.

Paul H. Elicker,
President

The table on the opposite page contains the sales, operating income and average assets of each of our major lines of business for the past five years, showing the contribution each has made during this period to overall sales and profits.

The increases in revenues and average assets for Coatings and Resins are due in large part to the acquisition of a paint company in Brazil.

Paper products and chemicals both enjoyed a strong year in 1973, as each almost doubled the previous year's operating income.

Last year interdivision sales made by the chemicals group were eliminated against the group's total sales. This year interdivision sales are included in group totals and eliminated against the total sales for all groups.

Foods also improved sharply to a small profit in 1973 from its red figure of 1972. (See the Note to financial statement, "Inventories," page 41.)

Sales, operating income and assets of typewriters sold outside the United States were previously included with the Business Equipment group in line with how we are organized. Because of the increasing size and importance of this business, it is now shown as a Typewriters and Appliances product.

In the following pages each of the major product groupings is reported on separately. The tables at the beginning of each section also show the return on sales and the return on average assets.

Net Sales, Operating Income and Average Assets by Product Group

(In millions) Years ended June 30	1973	1972	1971	1970	1969
Net Sales					
Coatings and Resins	$259.1	$229.2	$207.8	$198.5	$175.8
Typewriters and Appliances	182.7	181.8	169.0	172.2	167.5
Foods	215.5	211.4	205.0	183.8	169.6
Business Equipment	106.0	110.4	112.3	113.5	117.4
Chemicals	103.6	84.6	76.1	77.0	75.2
Paper Products	102.5	86.1	86.1	88.5	77.5
Other Products	24.8	26.5	29.1	30.8	33.5
	994.2	930.0	885.4	864.3	816.5
Eliminations	(13.9)	(12.2)	(10.3)	(9.8)	(8.9)
Total	$980.3	$917.8	$875.1	$854.5	$807.6
Operating Income					
Coatings and Resins	18.3	17.2	13.8	9.1	13.7
Typewriters and Appliances	16.5	12.1	8.2	7.9	14.5
Foods	.2	(2.9)	5.8	8.6	8.3
Business Equipment	(4.2)	(3.3)	(3.9)	(4.1)	3.8
Chemicals	5.5	3.1	3.6	6.4	9.4
Paper Products	7.8	4.2	3.6	3.2	1.9
Other Products	(.2)	.4	(2.2)	(9.1)	(1.3)
Total	$43.9	$30.8	$28.9	$22.0	$50.3
Average Assets					
Coatings and Resins	144.4	121.6	116.0	109.7	95.2
Typewriters and Appliances	107.0	104.8	118.8	123.0	111.0
Foods	97.0	100.3	92.4	76.0	67.5
Business Equipment	52.6	74.8	91.7	94.7	93.4
Chemicals	78.9	73.0	73.0	68.6	57.1
Paper Products	39.2	36.2	49.6	53.8	47.7
Other Products	14.8	18.3	19.0	25.4	25.2
Total	$533.9	$529.0	$560.5	$551.2	$497.1

Coatings and Resins

(In millions)	1973	1972	1971	1970	1969
Net sales	$259.1	$229.2	$207.8	$198.5	$175.8
Operating income	$ 18.3	$ 17.2	$ 13.8	$ 9.1	$ 13.7
Return on net sales	7.1%	7.5%	6.6%	4.6%	7.8%
Average assets	$144.4	$121.6	$116.0	$109.7	$ 95.2
Return on average assets	12.7%	14.1%	11.9%	8.3%	14.4%

Glidden Coatings and Resins is SCM's largest business. The group produced 41.7 per cent of SCM's overall operating profit on 27.0 per cent of the company's average assets during the year. Comparable figures for 1972 were 55.8 per cent of the operating profit on 23.0 per cent of the average assets.

Paints: Glidden is one of a few large paint companies in an industry that, after years of consolidation, still has 1500 or so members. Industry sales consist of trade or consumer sales to painters, painting contractors and the do-it-yourself home painter and sales of specialized coatings and resins for industrial uses. Glidden is a major factor in both fields but is somewhat larger in trade than in industrial sales.

Coatings and resins had record sales and profits last year. Operating income increased 6.4 per cent on a 13.0 per cent increase in sales. Both trade and industrial sales showed good gains, reflecting the continued strong economy in which we operated last year, although unfavorable weather, including the bad floods over a year ago, had an impact on trade sales.

Glidden has 18 plants in the U.S. and Canada. Under construction is a new paint plant that is scheduled to begin turning out trade products this year. Research for all coatings takes place at Glidden's research center at Strongsville, Ohio. This facility is outside Cleveland, headquarters for Glidden.

Automotive finishes are one of Glidden's major industrial products. Research and development for this and other products is carried out at Glidden's research center at Strongsville, near Cleveland. Part of the work of developing automotive finishes involves spraying *samples of paint on metal strips (left).* These strips are then tested to determine how the finish stands up to sun, water, abrasion and other detrimental influences.

GL030785

Trade Sales: *Glidden "Spred", our* principal line of consumer paints, is a well known, established brand. Effective distribution is at the heart of our trade sales paint business. We have an extensive network of retail outlets including more than 13,000 dealers, 142 company-operated retail stores and 144 leased departments in large stores located primarily in suburban shopping centers. In addition, trade sales paints are manufactured for sale under private labels.

Industrial Sales: Industrial coatings are sold in a large number of segmented markets, since most products are tailored to the specific needs of a customer. Major product lines include finishes for *the automotive, appliance, steel container* wood and general metal industries.

Because of the wide variety of products for numerous industries, no single company is dominant in more than one or two industrial products. Glidden has particular strength in electrocoating (a process of applying a positively charged coating to a negatively charged object); can coatings (including the clear finish applied to the inside of cans to prevent food products from coming in contact with the metal container, as well as a variety of exterior finishes); coil coatings (materials for coating rolls of metal from which prepainted parts can be stamped without chipping or marring the finish) and mill applied wood finishes.

If distribution is one of the keys to success in trade sales, then technical service has the same role in the industrial market. Glidden has 22 technical service representatives who work with customers to find or develop a product that meets their needs.

International: Coatings and Resins directs the operation of five wholly-owned subsidiaries and five majority-owned subsidiaries in Latin America and Europe accounting for 20 per cent of total sales.

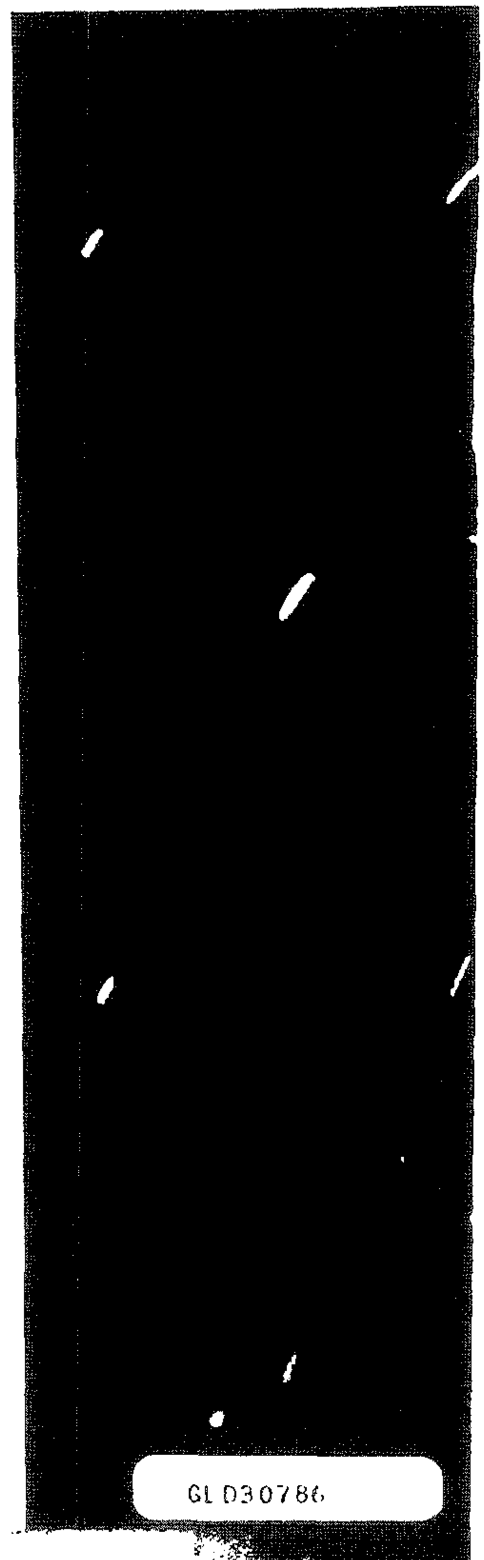
The three European subsidiaries, in Germany, France and Italy, manufacture and market industrial coatings for the automotive, metal decorating, wood, appliance and polyester resin markets.

Glidden, the fourth of six large paint manufacturers in the U.S., is an important supplier for the do-it-yourself home painter. The growth of this market has been helped by water-thinned latex paints, originally developed by Glidden. Because these paints are quick-drying, odor-free, and allow easy clean-up after application, they have been popular with the painter who wants to do a single room or an entire home. These paints are also widely used by painting contractors.

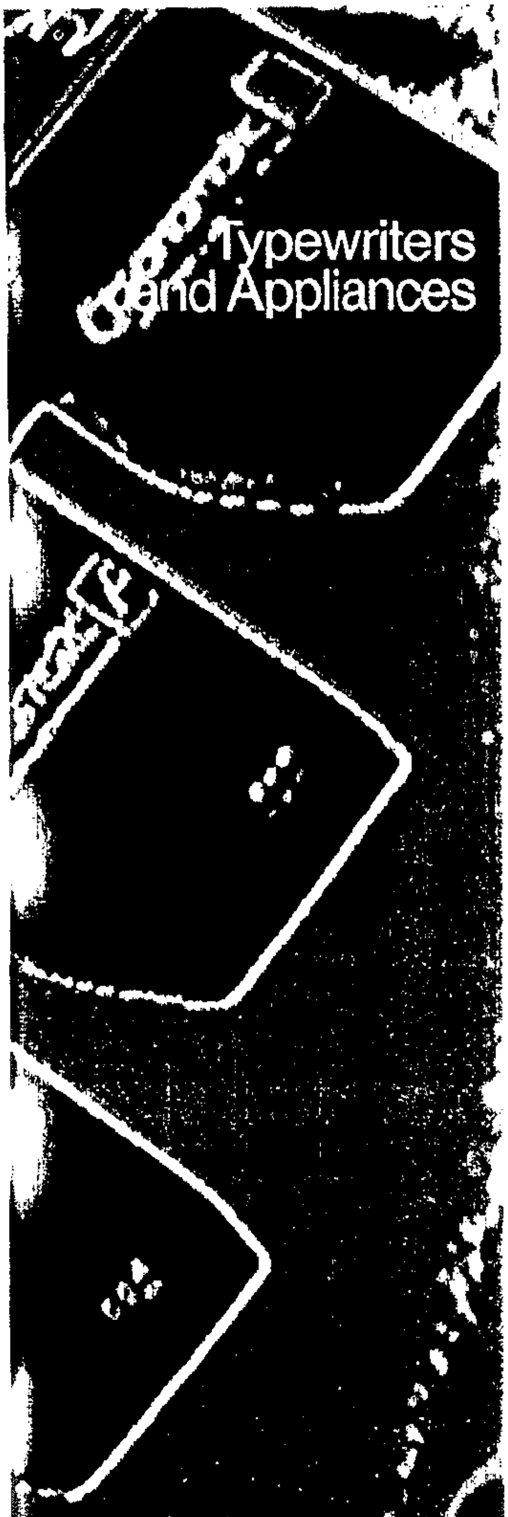
Our Puerto Rico operation markets coatings manufactured in the U.S. Subsidiaries in Mexico, Ecuador, Brazil, Costa Rica and Guatemala manufacture and market trade and industrial products. Other operations in Central America fabricate reinforced fiberglass sanitary fixtures and tanks and market galvanized sheet steel.

During the year we purchased for cash majority control of our industrially oriented French licensee and the stock of Tintas Ypiranga, primarily a consumer paint company, the second largest in Brazil. The latter was our largest acquisition during the year and we have announced plans to construct a plant to produce industrial coatings at a location near Sao Paulo.

The market for coatings and resins is growing faster overseas than domestically, offering us some of our better *growth opportunities.*



GL 030786



Typewriters and Appliances

(In millions)	1973	1972	1971	1970	1969
Net sales	$182.7	$181.8	$169.0	$172.2	$167.5
Operating income	$ 16.5	$ 12.1	$ 8.2	$ 7.9	$ 14.5
Return on net sales	9.0%	6.7%	4.9%	4.6%	8.7%
Average assets	$107.0	$104.8	$118.8	$123.0	$111.0
Return on average assets	15.4%	11.5%	6.9%	6.4%	13.1%

Smith-Corona is the only maker of portable typewriters in the U.S. and produces more typewriters than any other manufacturer. We have gained and held this position despite the increasing competition from typewriters imported from low-wage-rate areas through marketing ability, constant product innovation and strict attention to quality control. Smith-Corona introduced the first portable electric typewriter in 1957 followed by the automatic carriage return and the battery powered portable. Our latest innovation is the Coronamatic cartridge-contained ribbon- for the first time ribbons can be changed in three seconds without touching the ribbon's inked surface.

The typewriters and appliances grouping had record sales and profits last year and produced 37.6 per cent of SCM's overall operating profit on 20.0 per cent of average assets in the year. Comparable figures a year ago were 39.3 per cent and 19.8 per cent. This group is responsible for the manufacture and sale of Smith-Corona typewriters and Proctor-Silex appliances. These major businesses benefitted from continued consumer spending, the introduction of several new products and continued emphasis on higher-margin products.

Typewriters: Smith-Corona typewriters continued to contribute the largest part of sales and profit of this SCM line of business.

The youth market in the United States (the 14 to 24 bracket), long the principal outlet for portable typewriters, will show only slight growth for the near term and the projected year-to-year increase in the number of high school seniors is small. Despite this, sales of electric portables, particularly full featured models

Proctor-Silex is a leading manufacturer in the billion dollar electric housewares industry. Most homes in this country have an iron, toaster and coffee maker; about half have blenders, electric fry pans and can openers. The top selling appliances are irons, coffee makers and toasters. Proctor-Silex's production is geared to high volume. Irons, like the new "Super Steam" (left), are produced at our plant at Southern Pines, N.C. This single product-line plant has the capacity to make 10,000 irons a day.

at the high end of the product line, are still expanding at very satisfactory rates. This is an area pioneered and still led by Smith-Corona.

Smith-Corona accounted for the largest share of the total U.S. market of slightly over two million units last year, even though competitive typewriters are all imported from low-wage areas and sell at lower prices.

We do well in portable typewriters because we have consistently been the leader in developing new products that grow more rapidly than the market as a whole.

For example, in January we introduced a new typewriter with a cartridge-contained ribbon. This is the first system that makes it possible to change ribbons in three seconds, as often as desired; to change colors, or to replace a ribbon instantly without touching the ribbon's inked surface. This important innovation was introduced on a compact office typewriter. Later in the year the concept was extended to electric portables.

Although the market for large electric office typewriters is dominated by IBM, Smith-Corona compact office electric typewriters, designed for medium office use, have found a special place in the market and have been profitable each year since their introduction in 1960.

Smith-Corona continues to manufacture most models in Cortland, New York. Over the years, skilled marketing and continuing programs of product improvement, automation and manufacturing efficiency have enabled us to stay competitive.

International: Except in Canada, where our position is similar to that in the U.S., we have only a modest position in foreign markets where tariff barriers tend to discriminate against U.S. typewriters in favor of protected home producers. Currently we supply both U.S. and some foreign markets with less expensive models from two plants in England.

Outside the U.S., again excepting Canada, portable typewriter sales are mostly of low-end, non-electric portables and low-cost manufacturing is essential to

GL 030791

compete in these markets. We believe tastes will change and that larger models will become more popular here, too.

We view these foreign markets, in the aggregate slightly larger than the U.S. market, as a good prospect for growth. To compete in this market we are building a plant in Singapore where we will produce a new model Smith-Corona portable aimed at international markets. This plant will employ about 600 people and should begin production during calendar 1974.

Appliances: Proctor-Silex had a good increase in profits last year. A part of this gain came from motor-driven appliances: ice cream freezers, blenders and juicers. All three are usually discretionary purchases and the increase in sales of these items reflects a high level of discretionary spending and changing tastes.

Toasters and irons are our two major product lines and continued to provide the major part of our appliance profits in 1973.

The phaseout of our Shetland floorcare business, announced in 1972, proceeded in an orderly manner last year. There were no "distress" sales of Shetland products and warranty service was at a satisfactory level as a result of carefully planning the phaseout.

Proctor-Silex has concentrated its efforts on a relatively small range of household electric appliances. It has the largest share of the toaster market, a good market position in electric irons and a moderate but growing share of the blender business. Our share of the toaster oven market is small but growing and we are the largest maker of glass coffee percolators, which account for about 15 per cent of the total electric coffee maker market. On a smaller scale, Proctor-Silex also has large shares of the ice cream freezer, electric juicer and ironing table markets.

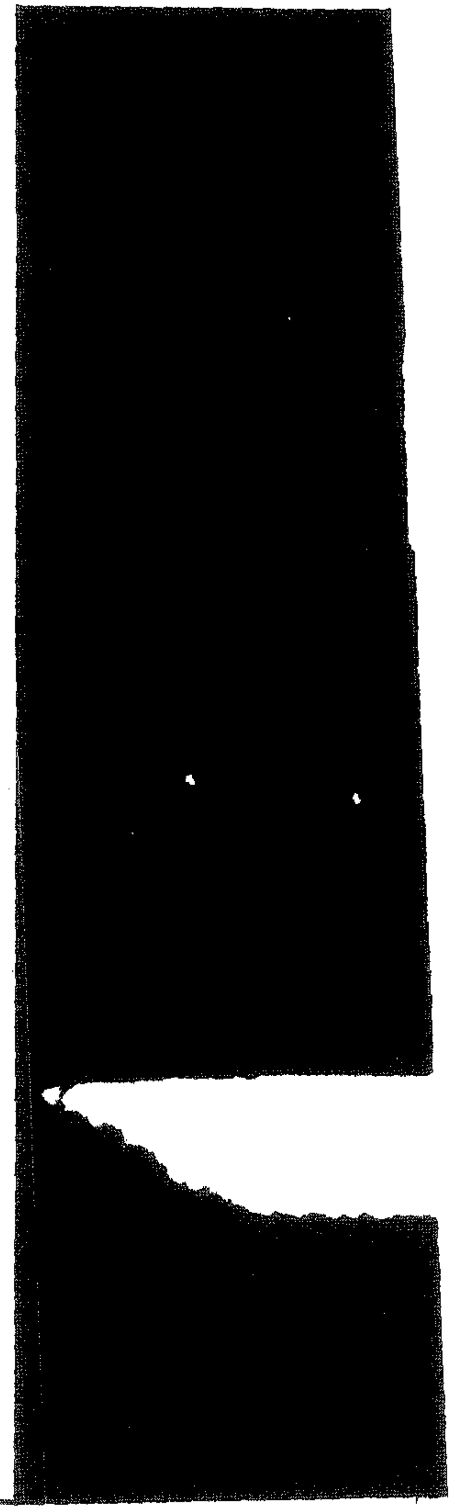
Proctor-Silex products are nationally advertised and are found in most chain and discount stores under the Proctor-Silex or one of several private brands. Sales are largely made through wholesalers or distributors, but increasingly, direct to retailers, including catalog showrooms.

In Canada appliances are sold by Proctor-Lewyt, our Canadian operation, to that nation's leading chain stores and mass merchandisers.

Proctor-Silex has long concentrated on a volume-oriented, fairly narrow product line selling in the middle price range. As a result, our reputation among consumers is one of good value for the dollar. Volume is important to us and we want to maintain it, but we also hope to increase profit margins by concentrating further in higher priced products.

Some of the higher end products will be extensions of existing products such as the "Super Steam" iron and "poly" rim glass percolator introduced last year. But the majority will be new products. We have increased development expenses substantially to accelerate their introduction.

The market for office typewriters is dominated by one company. Rather than trying to compete head on, Smith-Corona designed the intermediate office model in 1960 and in doing so carved a new niche in the market. Our intermediate office model is aimed at the more than three million small businesses in the country. With few exceptions, our office model can handle all typing assignments of the larger, more expensive models. In January we introduced the Coronamatic 7000, featuring the first cartridge ribbon changing system.




coronamatic

Foods

(In millions)	1973	1972	1971	1970	1969
Net sales	$215.5	$211.4	$205.0	$183.8	$169.6
Operating income	$ .2	$ (2.9)	$ 5.8	$ 8.6	$ 8.3
Return on net sales	.1%	-	2.8%	4.7%	4.9%
Average assets	$ 97.0	$100.3	$ 92.4	$ 76.0	$ 67.5
Return on average assets	.2%	-	6.3%	11.3%	12.4%

Durkee Foods includes three units: Consumer Foods, Industrial Foods and Food Service. Food operations were in the black last year after losing money in 1972 due to problems in the Industrial Foods and Food Service areas. Foods provided .5 per cent of SCM profit on 18.2 per cent of total average assets.

Consumer Foods: Consumer Foods, which accounts for about 30 per cent of Durkee sales,was on its way to a record year when our Bethlehem, Pennsylvania plant was closed by an 11 week strike that began May 1. Despite the work stoppage, this operation had a good year. Major Durkee product lines include spices (we are one of three major processors competing in the U.S.), extracts, sauces and gravy mixes, canned and dry packed potato sticks and french fried onions, pickles, olives, coconut and frozen hors d'oeuvres. Spices, especially pepper, sauces and gravy mixes and coconut, account for the largest part of this group's sales.

Our products are marketed directly to retailers by company-employed sales-

GLD30795

men and food brokers. They are distributed nationally, but with varying degrees of coverage.

Industrial Foods: This group, accounting for more than half of Durkee sales, refines and processes edible fats and oils for the food industry.

Our product lines are shortenings, salad and margarine oils, hard butters, fractionated products, emulsifiers, coconut and commercial spices, flavorings, and seasoning blends. These products are sold to food manufacturers who make margarine, salad oil, bread, biscuits and crackers, confectioneries, cake mixes, coffee whiteners, vegetable dairy products, salad dressings and potato chips and other snacks.

An important part of our Industrial Foods business is procuring adequate quantities of raw oils at competitive prices on commodities markets. Our trading operation has over the years minimized the impact of commodity price fluctuations on our edible oils business. However in 1973 with almost complete chaos in commodities markets over the summer months, with demand far exceeding supply, and with the added problem of price controls, it is difficult to predict what will be the effects of these factors on this group's operations in fiscal 1974.

We use soybean, corn and cottonseed oils as well as a variety of other lesser known oils,many of which are imported. Some oils, such as those used for salad oil and margarine, undergo relatively simple refining. These oils account for the bulk of Industrial Foods' volume and sell at modest markups. In the case of other oils, we use various methods to alter their basic characteristics so they suit the individual needs of specific customers. A maker of frozen baked goods, for example, may need an oil that reacts well to freezing. These oils are, of course, sold in smaller volume, require more sophisticated processing, but sell at considerably higher margins. These products are used as shortenings, ingredient extenders and as baking catalysts. Although there are three larger companies with captive markets, we are the largest independent seller of oils in the industry. Manufacturing is at refineries at Louisville, Kentucky; Joliet, Illinois and Berkeley, California.

We incurred additional expense last year closing our refinery in Chicago. This older facility was in need of modernizing and it was decided that shutting it down was advisable.

Food Service: Food Service had record sales and profits last year. Good gains were shown by Dolphin Seafood and our lines of frozen doughs and frozen hors d'oeuvres.

This group, accounting for about a quarter of our food sales, markets nationally a broad line of food products through a network of 1200 independent food service distributors. Sales are to hotels, schools and other institutions and many fast food and away-from-home food operations.

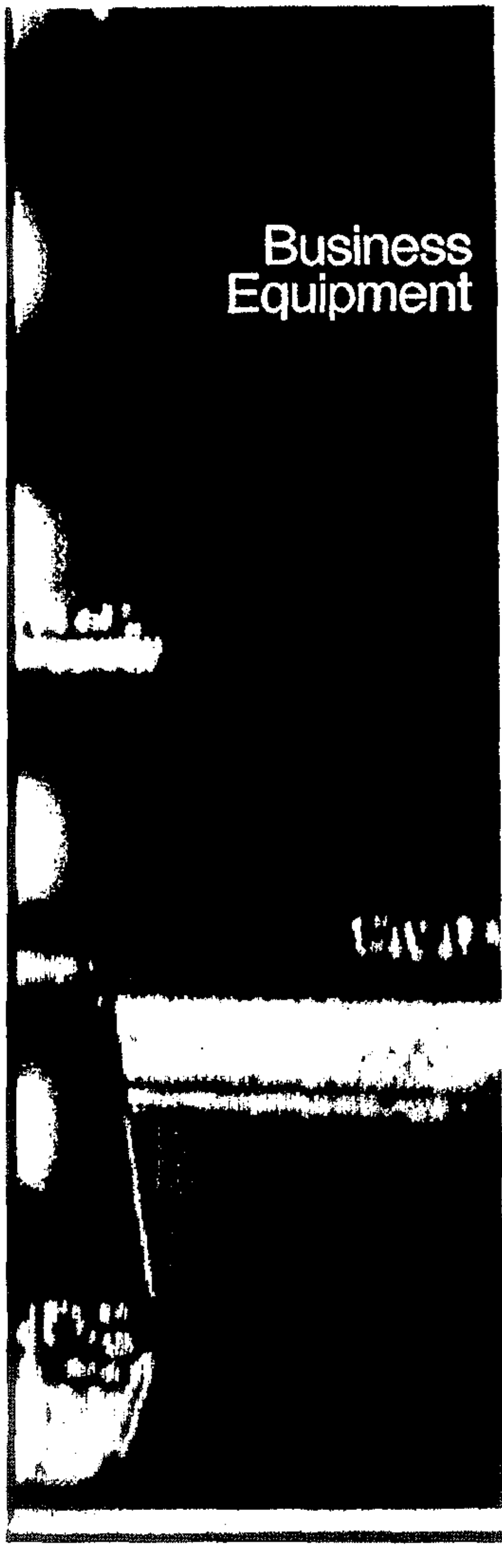
In addition to supplying the trade with fats and oils and the other food products discussed above, Food Service supplies a line of frozen doughs, specialty dough products and institutional frozen hors d'oeuvres and canapes; pre-portioned frozen fish and seafood products and pre-portioned seafood entrees; and frozen pre-plated meals and other specialty frozen and canned products.

The markets served by Food Service continue to require new labor-saving products. We are placing emphasis, for example, on items that will allow Food Service customers to feature pre-prepared "party foods" such as salads, canapes, hors d'oeuvres and cakes.

Coconut is one of Durkee Consumer Foods' best selling products. In addition to seeking out new products, Durkee also looks for extensions of existing products. Last year we introduced such a brand extension, coconut in various colors and flavors. Coconut is automatically packaged and hermetically sealed (right) in our plant at Bethlehem, Pa. In addition to this facility, food manufacturing and processing is carried out in four other plants in this country and one in Spain.

CL030796

Business Equipment



(In millions)	1973	1972	1971	1970	1969
Net sales	$106.0	$110.4	$112.3	$113.5	$117.4
Operating income	$ (4.2)	$ (3.3)	$ (3.9)	$ (4.1)	$ 3.8
Return on net sales	-	-	-	-	3.2%
Average assets	$ 52.6	$ 74.8	$ 91.7	$ 94.7	$ 93.4
Return on average assets	-		-	-	4.1%

Business equipment was the only one of SCM's six major lines of business that operated at a loss last year. This grouping includes Marchant Calculators and SCM Copier Products. Despite a substantial improvement in calculators the loss for the entire group was higher than last year's due principally to increased expenditures for future products, both in copiers and in other new product areas. Business equipment assets amount to 9.9 per cent of total SCM assets.

Calculators: As a result of a decision made in 1972, Marchant Calculators has undergone a major realignment. Currently, calculators of our design are manufactured by other companies and sold under the Marchant name by more than 400 dealers. Prior to the realignment Marchant manufactured calculators sold through company-owned branches.

The major problem at Marchant in fiscal 1973 was the failure by companies with which we had contracted to deliver sufficient numbers of calculators on schedule. Marchant's inability to get

SCM's Copier Products group sells directly through some 70 branches and an additional 17 sales offices throughout the U.S. In addition, two categories of dealers handle the SCM copier line: "full line" dealers handle all SCM Copier products in those market areas not covered by the existing direct sales organization and "specialty products" dealers sell SCM desk-top copiers and roll-fed paper for competitive machines. The latter are in cities where there are SCM direct branches as well as in other cities.

GLP30799

delivery of the quantities of calculators required by its dealers reflects the rapid growth in demand for components, many of which are used in other electronic products.

During the year Marchant introduced several new calculator models, most relatively high-priced machines retailing from $259 to $1,495. Most Marchant calculators are complex machines designed for business, scientific or technical uses. Some of them are pre-programmed to simplify a specific function.

Marchant does not sell inexpensive calculators designed for consumer use, a business still marked by intense price cutting.

Our profitable service organization, unchanged by the realignment, continues to provide prompt service for Marchant and Copier products from its nearly 300 customer service centers across the U.S.

Copier Products: Copier Products operated at a loss last year despite an increase in revenues. The loss is due to increased depreciation taken on copiers and a sizable increase in our research and development budget. A large part of the latter went toward development of a plain paper copier. We are working with the Minolta Camera Company of Osaka, Japan to develop a plain paper copier that should be on the market before mid-1975.

On July 31, 1973 SCM filed an anti-trust suit against Xerox Corporation in federal court, charging Xerox with unlawful monopolization and restraint of trade. The lawsuit seeks to open the plain paper copying business to full and fair competition and justify a substantial investment by SCM in that business.

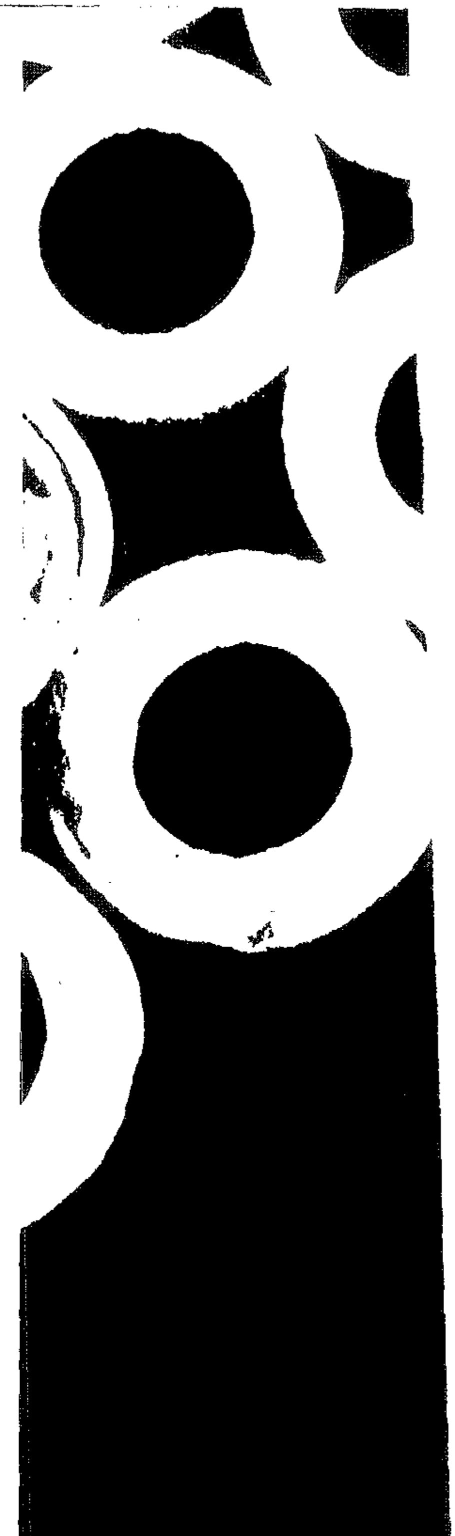
Coated paper copiers are expected to continue to grow at about 10 per cent a year and we expect to do at least that well until the mid-1970's. The plain paper part of the copier market is expected to grow at a faster rate. Our long range plan calls for marketing both plain paper and coated paper copiers as required for different types of copying.

Copier Products' business consists of the Copy Service program, which provides the customer with the copier, paper, supplies and service as a package, on a cost per copy basis, and a fast-growing dealer business. Copy Service is favored by large users of copiers who also benefit from a nationwide sales and service network. Almost 1,000 dealers also handle complete lines of SCM copiers, papers and toners and sell direct to the user.

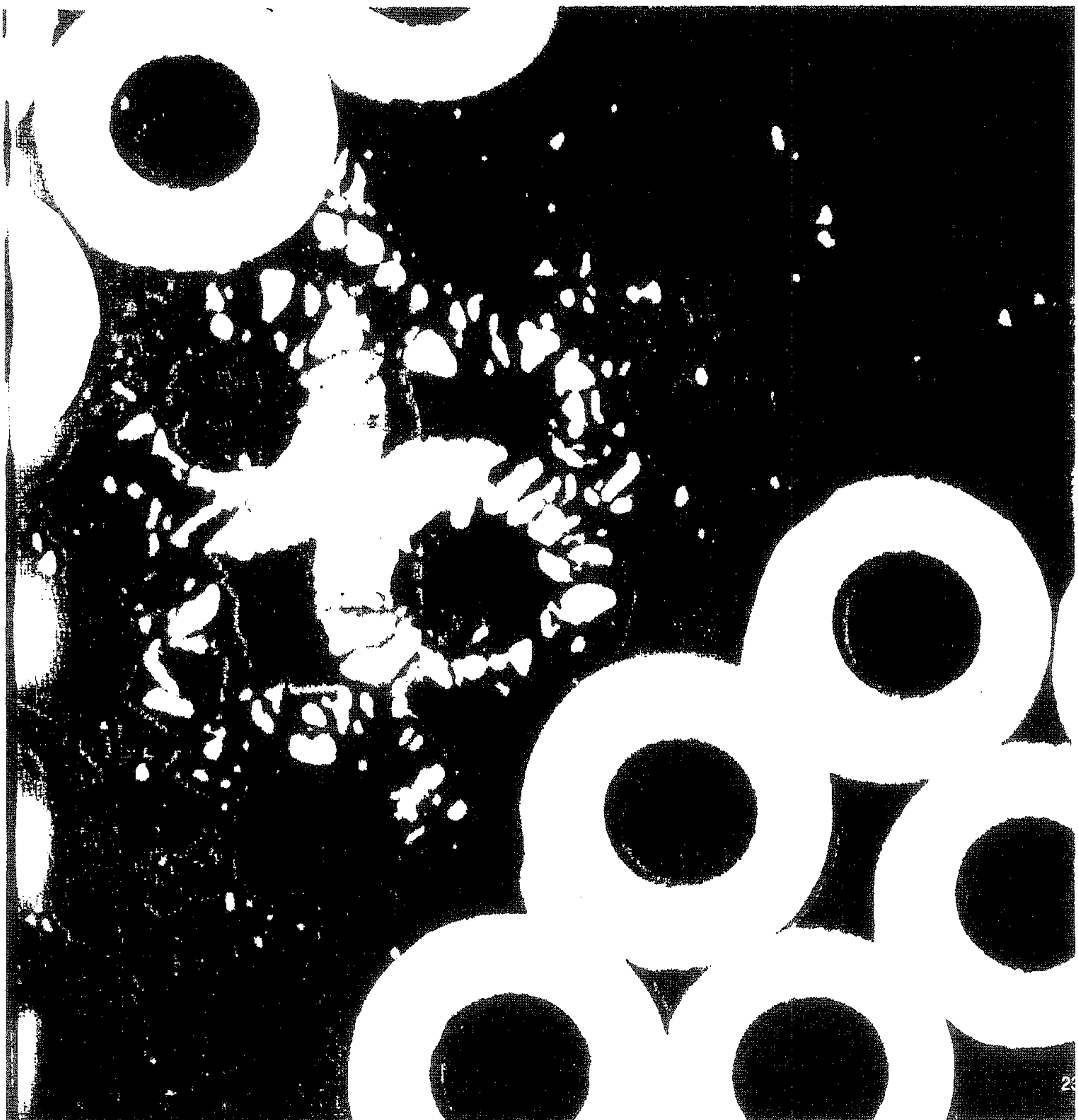
SCM copier products are manufactured in Cortland, New York and Phoenixville and Hazleton, Pennsylvania. Some copiers manufactured by Minolta are sold and serviced by SCM in this country.

International: In addition to these domestic activities we maintain direct and distributor operations in 100 countries. Revenues from these operations are about equal to domestic revenues.

During the year these operations were strengthened by the purchase for cash of facilities to manufacture toners (the liquid or powder ink-like substance that forms the image on the copy paper) in Hazleton, Pa., and of an established distribution organization that operates in Sweden and Finland.



SCM pioneered the development of copiers that use zinc oxide coated paper and introduced the first machine to use a liquid toner to make dry copies. Copiers using coated paper have the advantage of simplicity, dependability of operation and lower cost. The complicated process of applying zinc oxide to paper is carried out at our plant at Phoenixville, Pa. In addition to supplying paper for our own copiers, Copier Products also sells paper and other products for competitive machines.



GLD30801

Chemicals

(In millions)	1973	1972	1971	1970	1969
Net sales	$103.6	$ 84.6	$ 76.1	$ 77.0	$ 75.2
Operating income	$ 5.5	$ 3.1	$ 3.6	$ 6.4	$ 9.4
Return on net sales	5.3%	3.7%	4.7%	8.3%	12.5%
Average assets	$ 78.9	$ 73.0	$ 73.0	$ 68.6	$ 57.1
Return on average assets	7.0%	4.3%	4.9%	9.3%	16.6%

Glidden Chemicals is active in four areas, each requiring sophisticated chemical techniques. They are: Pigments and Colors, Organic Chemicals, Ceramics and Metal Powders. As a whole the group produced 12.5 per cent of SCM operating profits on 14.8 per cent of average assets. A year ago, chemicals produced 10.1 per cent of operating profit on 13.8 per cent of average assets. Three of the four operations showed gains over 1972.

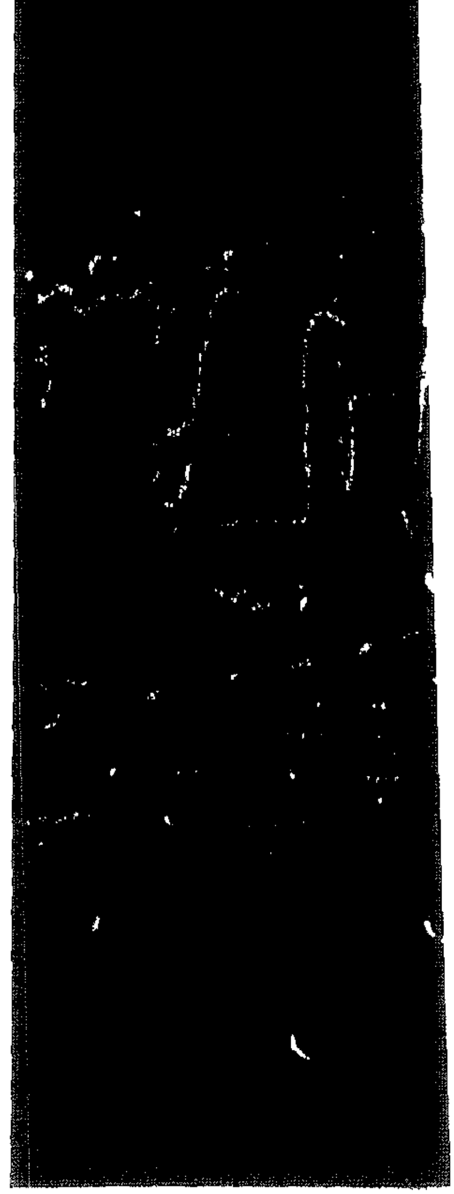
Pigments and Colors: This product line was profitable last year after losing money in 1972. The main product of this group is titanium dioxide, a white pigment, sold to the paint, paper, plastic, and rubber industries and used as a whitener and opacifier.

Prices are now firm due to a worldwide shortage of titanium dioxide. Our two plants in Baltimore have a capacity of about 80,000 tons, making Glidden the fourth largest of six U.S. producers of titanium dioxide.

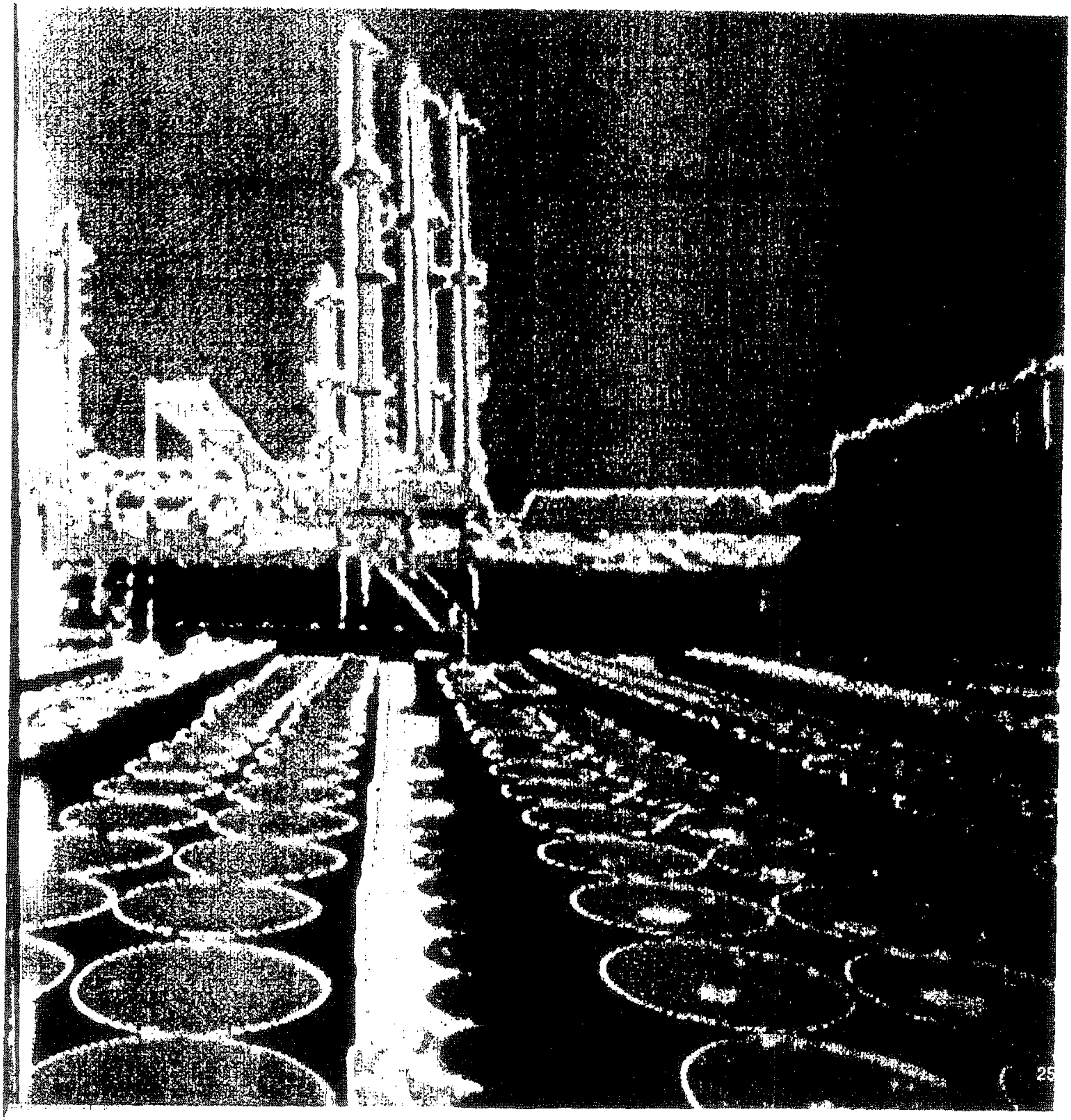
Titanium dioxide is produced by either the sulfate process or the newer chloride process that produces a somewhat higher quality, higher priced end product. We make approximately 53,000 tons by the sulfate process, and the rest by the chloride method. SCM's future plant expansion in this business is expected to be for chloride capacity.

The current tight supply results partly from a combination of depressed prices and stricter enforcement of air and water pollution control regulations which caused some companies to discontinue certain titanium dioxide production

Glidden Organic Chemicals' Jacksonville, Fla. plant (right) has the capacity to refine more than one million gallons of crude sulfate turpentine monthly. Through an intricate refining process we produce intermediates, that is, raw materials used by other manufacturers to make a wide range of products. The various products produced at Jacksonville range in price from a half cent a pound to over $97 a pound for perfume and flavor components.



GLD30807



GLD30803

facilities, amounting to about 140,000 tons in 1972.

Organic Chemicals: Glidden Organic Chemicals also increased its profits and operated at capacity. Glidden is the country's largest refiner of crude tall oil and crude sulfate turpentine. Our crude tall oil refinery at Port St. Joe, Florida was doubled in size this year in a joint venture with St. Regis Paper Company and began production in July. The refinery's annual capacity has been expanded to more than 100,000 tons.

The Port St. Joe refinery produces tall oil products used in making plastic resins, paint resins and soaps.

The Jacksonville refinery, which has an annual capacity of 12 million gallons, produces basic terpene products, including pine oil, camphene and pinene, and fine chemicals, including perfume and flavor ingredients, vitamin intermediates and synthesized essential oils. Our terpene chemistry involves fractionating and catalytic cracking and reforming turpentine to create materials with varying properties of taste, smell and consistency. Through synthesizing we duplicate natural flavors such as lemon oil, spearmint, peppermint and cinnamon. An important part of our business is the manufacture of intermediates for Vitamins A and E now in heavy worldwide demand.

Ceramics: Ceramics had record sales and a high level of profits in 1973. Profits declined somewhat from the record levels of 1972, due in large part to substantial increases in raw materials costs

Because of expanding technology, the market for metal powders, especially non-ferrous and specialty iron powders, is experiencing rapid growth. Parts, such as gears, bushings and cogwheels, for example, can be formed by compressing a metal powder and treating it at very high temperatures. This technique has resulted in the replacement of large numbers of parts previously formed by machining. The metal stock being measured (left) by a micrometer, to make sure it meets rigid standards, was compacted from metal powder.

that could not be recovered.

SCM's Glidden Ceramics produces ceramic and porcelain glazes used in the manufacture of household appliances, tiles, dinnerware and enamel-covered products. The group's Baltimore plant serves the U.S. market for these materials.

The market for the Ceramic group's products has a moderate growth rate. We are the second of four producers in the field and have an established reputation as a quality supplier. Sales of our ceramic products are influenced by home construction and appliance sales and have been cyclically strong since the end of the 1971 recession.

Research and development has resulted in a new material for continuous cleaning oven linings. Another new product is a glaze for dinnerware that is tough enough to go directly from the freezer to the oven, and attractive enough to be used in the dining room.

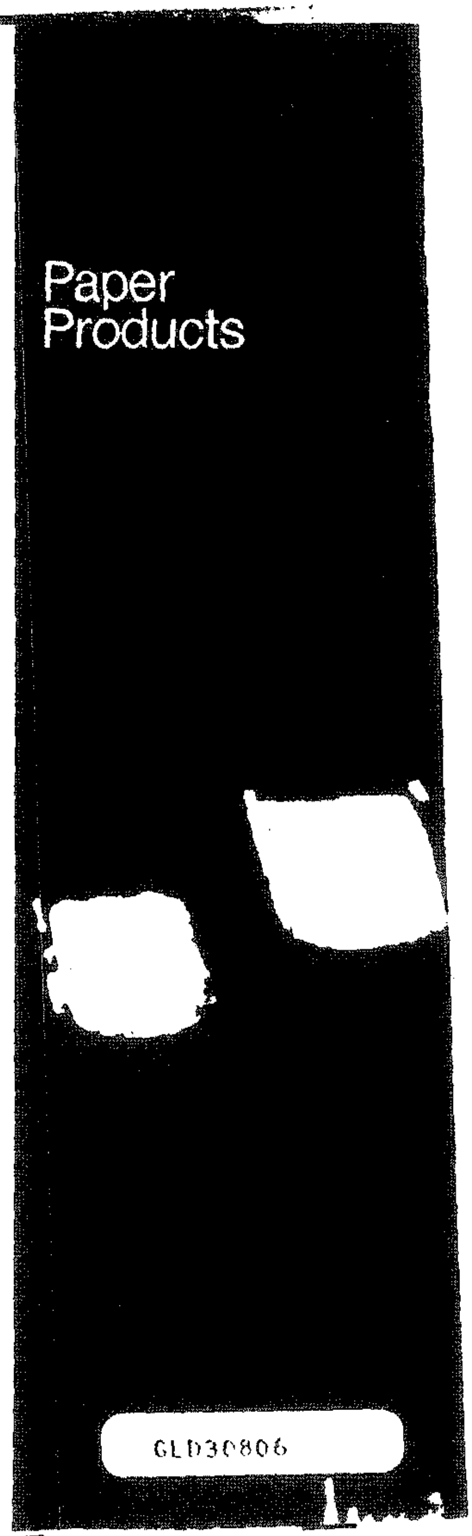
Metal Powders: SCM Glidden Metals had a record year. Strong demand for our products, primarily those used by the automotive and appliance industries, and a good export business were chiefly responsible for this performance. The Metals Group produces copper and bronze powder and a wide range of stainless steel and non-ferrous metal and metal oxide powders. These products are produced at the group's two plants at Hammond, Indiana and Johnstown, Pennsylvania.

About two-thirds of sales are from non-ferrous and alloy compacting powders sold to manufacturers who use these materials to make powder metallurgy parts which are lighter, stronger and more durable than machined parts.

The remainder of the group's sales consists of specialty products. SCM Glidden Metals has the strongest marketing, manufacturing and technical organization in the non-ferrous powder metallurgy field.

In June we announced a major expansion of our facilities at Johnstown, and introduced "GlidCop", the first commercially available dispersion strengthened copper.

Paper Products



(In millions)	1973	1972	1971	1970	1969
Net sales	$102.5	$ 86.1	$ 86.1	$ 88.5	$ 77.5
Operating income	$ 7.8	$ 4.2	$ 3.6	$ 3.2	$ 1.9
Return on net sales	7.6%	4.9%	4.2%	3.6%	2.4%
Average assets	$ 39.2	$ 36.2	$ 49.6	$ 53.8	$ 47.7
Return on average assets	19.9%	11.7%	7.3%	5.9%	3.9%

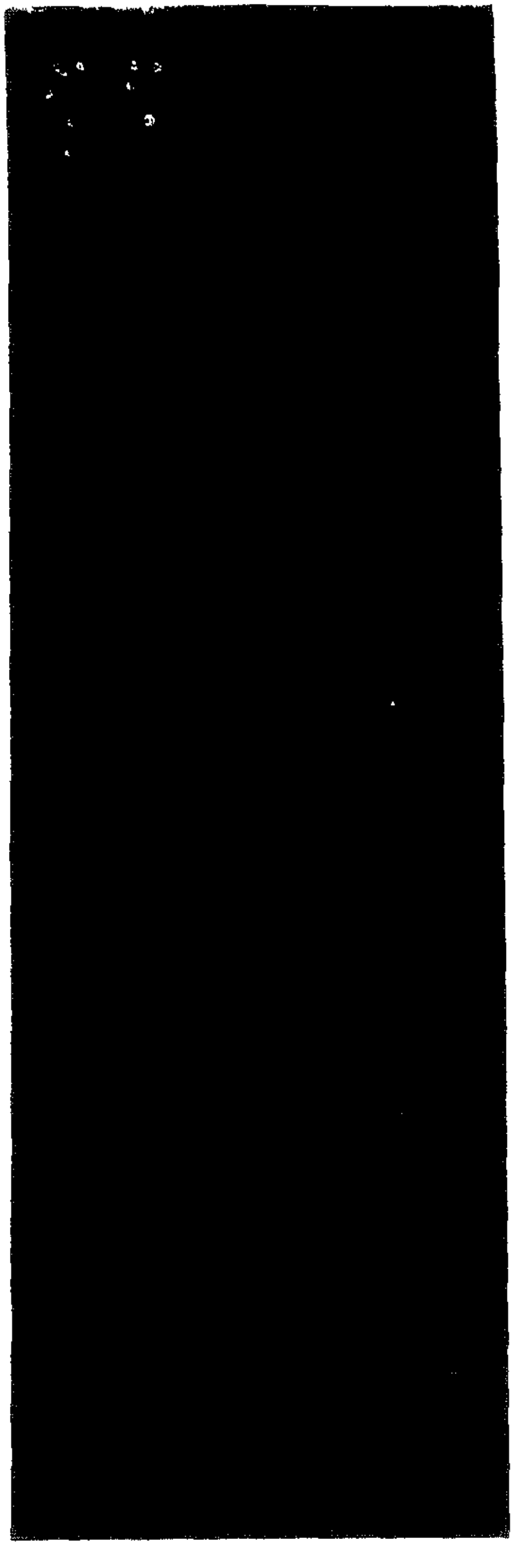
Allied Paper and Histacount had record sales and profits last year. The operation earned $7.8 million on $39.2 million of average assets. This is equivalent to 17.8 per cent of the company's earnings on 7.3 per cent of the assets. Pulp and paper, Allied/Egry and Walton Business forms and office and school supplies were all significantly ahead of 1972. For the first time in several years, demand caught up with and, in some areas, exceeded supply. Our pulp and paper operations benefitted from higher demand and operated at capacity throughout the year.

Pulp and Paper: Allied operates in four areas: pulp, paper, business forms and office and school supplies. The division is headquartered in Kalamazoo, Michigan where it operates two paper mills. It also operates an integrated pulp and paper mill at Jackson, Alabama. Business forms plants are at Denison, Texas; Leipsic, Ohio; Petersburg, West Virginia and Buena Park, California.

The paper industry is emerging from a period of over-capacity that had a de-

Allied Paper normally produces about 175,000 tons of pulp annually, marketing from 40,000 to 70,000 tons and using the rest for its own papermaking requirements. We purchase another 50,000 tons of Canadian pulp annually, most of it being used to make specialty grades of paper. In recent years Allied has been concentrating its efforts on manufacturing specialty papers. The greater technology and higher costs of production of these grades are compensated by higher prices than for commodity grades. A large amount of our specialty papers are used to print Bibles, encyclopedias and other reference and general interest books.

GLD30807



pressing effect on earnings over several years. Allied has lessened this impact by increasing emphasis on specialized papers with demanding technical requirements. However, paper companies are expected to do well for at least the next several years, in view of the acute shortage of capacity in the industry reflecting economic and environmental problems.

Book publishing grades of paper, particularly lightweight grades, are Allied's specialty. We are the largest producer of lightweight "Bible" papers, a light but opaque paper used in Bibles and reference books. Other specialty items are electrostatic offset master paper and cigarette tipping papers, a field we recently entered. These products are the result of an intensified product development program that we are continuing to expand.

Our Jackson mill normally produces 175,000 tons of pulp annually, most of which is used for our products. Production of pulp at this mill has been reduced somewhat while we install a new recovery boiler. The new recovery boiler will enable us to meet new stricter pollution control regulations and is expected to be completed early in fiscal 1975.

During the year, our Southern mill was forced to curtail its use of natural gas and to substitute higher priced fuel oil. This situation, an aspect of the so called "energy crisis" in America, is expected to continue.

Histacount, a separate operating unit within the paper products category, sells specialized forms, stationery and related items by catalog to the medical and a variety of other professions. The operation continued its high and stable level of performance in 1973.

Office and School Supplies:
This is the smallest of Allied's businesses. School supplies are sold under the "Penrite" label and office supplies are sold under the "Gates" label.
School and home use supplies are also sold under private labels in discount houses, major variety, drug and supermarket chains, with our marketing concentrated in the midwest. Gates office supplies, including pads, adding machine rolls, index cards, and mimeograph, duplicator and bond papers are distributed nationally through retail and wholesale office supply dealers, wholesale school supply dealers and paper merchants.

Business Forms: The Allied/Egry and Walton groups of Allied Paper produce business forms. Our operations in the forms business have more of a regional character than those of our larger competitors. Allied/Egry is located in the east central part of the country. Walton, which specializes in custom business forms, is located in Southern California. Allied/Egry's strength is its ability to produce very large quantities of stock or custom forms at competitive costs. In the new fiscal year it will open a new plant at Gainesville, Georgia to provide better service to customers in the southeast.

Allied Paper's Allied/Egry and Walton groups manufacture and sell a wide range of forms. The $1.2 billion forms market has an average annual growth rate in excess of 10 per cent, and a somewhat higher rate for computer forms. We have produced several hundred million copies of various forms for office use at our plant in Denison, Texas (left). Direct distribution through more than 70 salesmen accounts for 80 per cent of our sales; the remainder is sold to dealers through a small sales force.

Other Products

(In millions)	1973	1972	1971	1970	1969
Net sales	$ 24.8	$ 26.5	$ 29.1	$ 30.8	$ 33.5
Operating income	$ (.2)	$ .4	$ (2.2)	$ (9.1)	$ (1.3)
Return on net sales	—	1.5%	—	—	—
Average assets	$ 14.8	$ 18.3	$ 19.0	$ 25.4	$ 25.2
Return on average assets	—	2.0%	—	—	—

Other products consists of Proctor & Schwartz and Kleinschmidt and is the smallest of SCM's business groups. Sales of the Proctor & Schwartz and Kleinschmidt operations totalled $24.8 million in 1973.

Proctor & Schwartz: SCM's industrial process machinery group manufactures and sells large industrial drying machines used in the food, chemical and tobacco industries and machines used to process fibers prior to weaving. It had record sales and profits last year.

The company has plants at Lexington, N.C. and Philadelphia, Pa. International operations are handled by Proctor-Dalglish with a plant and headquarters in Glasgow, Scotland.

In the past decade Proctor & Schwartz has sold more than $100 million of equipment domestically and this has generated a profitable parts and service business.

Proctor-Dalglish is particularly successful in selling Continental and Eastern Bloc countries and we have exported from the United Kingdom a substantial volume of goods to these nations. The growing trade with the Soviet Union should provide us with growth opportunities.

New and improved product development is vital for continued growth. The fastest growing part of the textile market is the area of non-woven fabrics. We have developed an oven for drying non-woven batting. Another new product is a band oven used in the manufacture of cookies, crackers and snack items.

Kleinschmidt: This operation designs and manufactures telecommunications equipment, principally for the U.S. Army, at its headquarters and plant at Deerfield, Illinois.

Kleinschmidt's basic military telecommunications business is increasingly being supplemented by sales of commercial data handling equipment. While Kleinschmidt's loss was greater than a year ago, it is significant that these losses resulted mostly from the writing down and disposal of considerable amounts of obsolete inventory, and not from losses on normal operations. We expect Kleinschmidt's continuing work on a new generation high speed telecommunications system for the military to be profitable as contract work progresses.

This new teletypewriter, known as the Forward Area Tactical Teletypewriter (FATT) will replace the Army's existing network of teletypewriters. Currently the FATT program is in the advanced production engineering stage with completion expected next year. We expect that production contracts will follow.

While Kleinschmidt's government business is important, we have been placing increasing emphasis on products with commercial application. The first of these, a 600 line per minute line printer, was introduced in May and shortly after we received an order for 720 to be delivered over a three-year period.

GLD30810

Operating Businesses

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

–Smith-Corona Group
Paul J. Uebbing
Vice President-General Manager

–Proctor-Silex Group
(Philadelphia, Pennsylvania)
E. Peter Larmer
Vice President-General Manager

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

–Copier Products Group
John J. Reilly
Vice President-General Manager

–Marchant Group
Matthew E. Meek
Vice President-General Manager

–International Group
Francis D. De Maio
Vice President-General Manager

–Histacount, Inc.
(Melville, N.Y.)
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 Colors 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

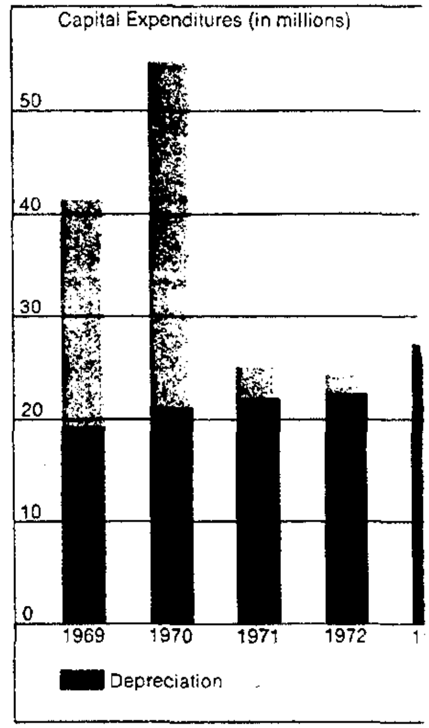
–Allied/Egry Group
(Dayton, Ohio)
G. W. Underwood, President

–Walton Printing Group
(Los Angeles, California)
R. L. Walton, President

–Office and School
Supplies Group
(Marion, Indiana)
W. R. Gates, President

GLD30811

Financial Review

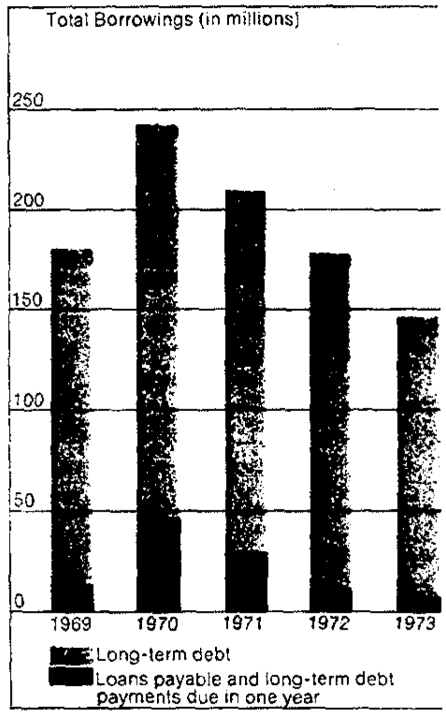


Sales and Earnings: Net sales for 1973 were $980.3 million, up 6.8 per cent over last year's $917.8 million. Operating income was $43.9 million, up 42.5 per cent, or $13.1 million over last year's $30.8 million. Operating income was 4.5 per cent of net sales in 1973 compared to 3.4 per cent in 1972. Details of these changes by product group are explained in the review of operations. Pretax income of $31.3 million was up 78 per cent over last year's pretax income before extraordinary loss of $17.6 million. Net income of $2.00 per share was up 77 per cent over last year's $1.13 per share before extraordinary items. Quarterly sales, income and earnings per share for the last two fiscal years are summarized in the table below.

Income Taxes: Provision for United States and foreign income taxes was $ million, an effective rate of 42 per cent compared to last year's 41 per cent rat Without the investment credit of $800,0

(In millions)	Sales		Income		Per Shar	
Quarter	1973	1972	1973	1972	1973	19
First	$227.7	$223.0	$ 3.3	$ 2.0	$ .36	$
Second	241.2	228.4	5.8	3.3	.63	
Third	246.7	226.6	3.5	1.4	.38	
Fourth	264.7	239.8	5.7	3.6	.63	
	$980.3	$917.8	$18.3	$10.3	$2.00	$1

GLD30812



in 1973, the effective tax rate would have been 44 per cent.

In accordance with current accounting practices, U.S. income taxes have been provided on that part of foreign earnings expected to be repatriated in the future. U.S. income taxes have not been provided on $27.1 million of retained earnings of foreign subsidiaries at June 30, 1973 since these earnings are considered to be permanently invested. If these earnings were to be remitted to the parent company, the U.S. tax liability would be substantially reduced by available foreign tax credits.

Working Capital: During 1973, working capital turnover improved by approximately 8 per cent, with the greatest improvement in inventories. Working capital increased $5.6 million as a result of foreign business acquisitions and growth of the company generally. This increase is reflected in both accounts receivable and inventories, offset by an increase in current liabilities.

Debt: No additional financing was required during 1973. Long-term debt declined $22.9 million to $151.0 million. Short-term bank borrowings increased $4.3 million during the year. In total, borrowings were reduced by $18.6 million during the year.

At June 30, 1973 total debt, short-term and long-term, was 39.6 per cent of total debt plus equity compared to 44.1 per cent at June 30, 1972.

Capital Expenditures: Capital expenditures, including $5.0 million related to foreign acquisitions, were $40.0 million in 1973 compared to $25.2 million in 1972. At the end of the fiscal year many capital projects were underway that will be completed or near completion by the end of fiscal 1974 and, therefore, capital expenditures for the coming fiscal year are expected to exceed fiscal 1973 levels. Depreciation was $27.2 million in 1973 compared to $23.8 million in 1972.

Dividends: In June the Board of Directors declared a 10¢ dividend resuming the quarterly dividend policy that was discontinued in June 1970. This decision to resume quarterly dividend payments resulted from the company's considerably improved cash position and the much improved earnings.

Statement of Consolidated Income

(In thousands) Years ended June 30	1973	1972
Net sales	$980,281	$917,817
Cost of sales	708,946	671,894
Gross profit	271,335	245,923
Selling, administrative and research expenses	227,481	215,141
Operating income	43,854	30,782
Other income (expense), net	(576)	284
Interest expense, net	11,993	13,475
Income before income taxes and extraordinary loss	31,285	17,591
United States and foreign income taxes	12,986	7,264
Income before extraordinary loss	18,299	10,327
Extraordinary loss	—	10,176
Net income	$ 18,299	$ 151
Earnings per share:		
Income before extraordinary loss	$ 2.00	$ 1.13
Extraordinary loss	—	1.11
Net income	$ 2.00	$ .02
Fully diluted net income	$ 1.91	$ .02

Statement of Consolidated Retained Earnings

(In thousands) Years ended June 30	1973	1972
Balance, beginning of year	$ 67,799	$ 67,648
Net income	18,299	151
Cash dividend ($.10 per share)	(915)	—
Balance, end of year	$ 85,183	$ 67,799

See accompanying notes to financial statements.

GLD30814

Statement of Changes in Consolidated Financial Position

(In thousands)	Years ended June 30	1973	1972
Sources:	Operations:		
	Income before extraordinary loss	$18,299	$10,327
	Add expenses not requiring working capital:		
	Depreciation	27,210	23,769
	Deferred pension expense	2,410	1,475
	Amortization of deferred charges	361	279
	Deferred income taxes—non-current	3,701	4,170
	Total	51,981	40,020
	Extraordinary loss adjusted for deferred taxes and other charges not affecting working capital	—	(6,632)
	Working capital provided by operations	51,981	33,388
	Disposal of property, plant and equipment	2,232	3,022
	Sale of common stock	57	26
	Total	$54,270	$36,436
Applications:	Additions to property, plant and equipment	$39,966	$25,228
	Reduction of long-term debt	12,585	16,398
	Cash dividend	915	—
	Other changes in non-current items	(4,840)	1,225
	Change in working capital	5,644	(6,415)
	Total	$54,270	$36,436
Changes in Working Capital:	Current assets:		
	Cash and marketable securities	$ (7,773)	$ (394)
	Accounts receivable, net	18,616	6,059
	Inventories	17,389	(32,340)
	Deferred income taxes and prepaid expenses	(2)	7,290
	Total	28,230	(19,385)
	Current liabilities:		
	Loans and long-term debt payable within one year	6,015	17,973
	Accounts payable and accrued liabilities	(21,185)	(8,348)
	United States and foreign income taxes	(7,512)	2,725
	Deferred revenue on maintenance agreements	96	620
	Total	(22,586)	12,970
	Increase (Decrease) in working capital	$ 5,644	$ (6,415)

See accompanying notes to financial statements.

GLD30815

Consolidated Balance Sheet

Assets (in thousands)	June 30 1973	
Current assets:		
Cash	$ 6,168	$ 1
Marketable securities (at cost which approximates market value)	3,223	
Accounts receivable	157,537	13
Less allowance for doubtful accounts	4,606	
	152,931	13
Inventories:		
Raw materials and work in process	85,996	6
Finished goods	91,979	9
	177,975	16
Deferred income taxes and prepaid expenses	16,263	1
Total current assets	356,560	32
Property, plant and equipment:		
Cost:		
Land and buildings	110,805	10
Machinery and other equipment	289,389	26
	400,194	369
Less accumulated depreciation	212,832	192
	187,362	176
Other assets	8,785	9
Total	$552,707	$51

See accompanying notes to financial statements.

Liabilities and Shareholders' Equity (in thousands)	June 30 1973	1972
Current liabilities:		
Loans payable	$ 7,698	$ 3,401
Accounts payable and accrued liabilities	101,063	79,878
United States and foreign income taxes	9,374	1,862
Deferred revenue on maintenance agreements	6,952	7,048
Long-term debt payments due within one year	1,532	11,844
Total current liabilties	126,619	104,033
Pension and other liabilities	17,177	10,762
Long-term debt	149,439	162,024
Deferred income taxes	17,158	13,457
	183,774	186,243
Shareholders' equity:		
Common stock	45,782	45,753
Additional paid-in capital	111,349	111,321
Retained earnings	85,183	67,799
	242,314	224,873
Total	$552,707	$515,149

See accompanying notes to financial statements.

GLD30817

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 are stated generally at the lower of average cost or market.

Property, Plant and Equipment: Depreciation is provided generally on a straight-line basis at rates based on estimated useful lives. At the time properties are retired or otherwise disposed of, the property and related accumulated depreciation accounts are relieved of the applicable amounts, and any profit or loss is included in current operations.

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. 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: Earnings per share are computed by dividing net income by the weighted average number of common and common equivalent shares outstanding. Fully diluted earnings per share are computed based on the assumption that convertible debt obligations were converted and all 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 $10,000,000 for the year ended June 30, 1973 and $6,900,000 for the year ended June 30, 1972. The increase in pension expense was due to improvement in benefits and the amortization of the average market performance of the trust fund securing such pensions. At June 30, 1973, unfunded prior service liabilities approximated $38,900,000. Trust fund assets, together with the liability accrued in the Consolidated Balance Sheet, exceeded the actuarially computed value of all benefits actually vested in participants under the plans.

Income Taxes: The 1973 current provision of $9,376,000 for United States and foreign income taxes has been reduced by investment credits of $800,000. At June 30, 1973, provision for income taxes has not been made on $27,100,000 of undistributed earnings of foreign subsidiaries since these earnings are considered to be permanently invested. Provision has been made for income taxes that will become payable when earnings of foreign subsidiaries not considered to be permanently invested are remitted to the United States.

Inventories: In recognition of a continually volatile market in edible oils, the Company established, at approximately the lowest prices experienced during the year, a value on that portion of its inventory necessary for continuing normal operations. This resulted in a decrease in 1973 after tax earnings of approximately $1,400,000 or $.15 per share of common stock. Although the effect of this change in method on any one prior year is impracticable to determine, it has no cumulative effect on prior periods.

Capital Stock: The authorized capital 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, 1973, 9,156,485 shares of common stock were outstanding; 458,277 shares were reserved for issuance under the Company's stock option plans; 891,946 shares were reserved for issuance upon conversion of the 5½% subordinated debentures due 1978-1988; and 322,234 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 market price on the date of 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 1973 options to purchase 142,500 shares of common stock were granted; options for 41,566 shares expired; and options for 5,845 shares were exercised. Options exercised during 1973 contributed $29,000 to Common Stock (1972—$11,000) and $28,000 to Additional Paid-in Capital (1972—$15,000). At June 30, 1973, options for 385,175 shares were outstanding.

Long-Term Debt: (in thousands)

5½% sinking fund debentures due 1976-1983	$ 13,255
5¾% sinking fund debentures due 1975-1987	16,174
7¼% sinking fund debentures due 1975-1988	17,508
9¼% sinking fund debentures due 1975-1990	35,000
Other loans—interest at rates from 5% to 8¾%	11,018
5½% convertible subordinated debentures due 1978-1988	41,484
5¼% convertible subordinated debentures due 1979-1989	15,000
Total long-term debt	$149,439

During the next five years, approximate long-term debt maturities will be: 1974—$1,500,000; 1975—$3,400,000; 1976—$6,500,000; 1977—$6,500,000; 1978—$6,000,000. Under the most restrictive provisions of the indentures related to long-term debt, Retained Earnings of $10,600,000 was available at June 30, 1973 for declaration of cash dividends.

Extraordinary Item: The extraordinary loss of $10,176,000,net of tax,in 1972 resulted primarily from a realignment of calculator operations and discontinuance of the floorcare operations.

Commitments: At June 30, 1973 the Company's annual rental for real property under long-term leases was approximately $12,000,000. These leases have varying expiration dates through 2007.

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 at June 30, 1973 and the related statements of consolidated income and retained earnings, and changes in consolidated financial position for the year 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 financial statements present fairly the financial position of the companies at June 30, 1973 and the results of their operations and the changes in their financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent in all material respects with that of the preceding year.

Haskins & Sells
August 16, 1973

Ten-Year Statistical Summary

		1973	1972	1971
Income				
	Net sales	$980,281	$917,817	$875,138
	Income before income taxes	31,285	17,591	13,073
	U.S. and foreign income taxes	12,986	7,264	6,012
	Income before extraordinary items	18,299	10,327	7,061
	Extraordinary items, net of tax	—	(10,176)	(9,252)
	Net income (loss)	18,299	151	(2,191)
	Dividends	915	—	—
	Income reinvested	17,384	151	(2,191)
	Depreciation	27,210	23,769	22,439
Per Common Share				
	Income before extraordinary items	$ 2.00	$ 1.13	$ .77
	Net income (loss)	2.00	.02	(.24)
	Cash dividends	.10	—	—
	Stock dividends	—	—	—
	Book value	26.47	24.57	24.56
Financial Position				
	Working capital	$229,941	$224,297	$230,712
	Property, plant and equipment, net	187,362	176,838	184,122
	Total assets	552,707	515,149	542,881
Other Statistics				
	Additions to property, plant and equipment	$ 39,966	$ 25,228	$ 25,543
	Income before extraordinary items:			
	Return on average equity	7.6%	4.6%	3.1%
	Return on net sales	1.9%	1.1%	.8%
	Current ratio	2.82	3.16	2.97
	Number of employees	29,400	28,300	28,600
	Number of shareholders	47,700	49,600	53,400
	Average common shares outstanding	9,154,000	9,149,000	9,146,000

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

GLD30820

1970	1969	1968	1967	1966	1965	1964
$854,511	$807,648	$744,758	$705,160	$644,787	$558,393	$470,633
7,884	39,391	30,820	43,626	40,408	29,431	22,921
1,446	18,752	13,061	18,550	18,956	14,070	11,140
6,438	20,639	17,759	25,076	21,452	15,361	11,781
(4,542)	—	(4,700)	—	1,207	403	—
1,896	20,639	13,059	25,076	22,659	15,764	11,781
5,421	5,136	4,763	8,479	7,666	5,547	4,920
(3,525)	15,503	8,296	16,294	14,474	8,934	5,624
21,832	19,372	17,807	15,384	12,835	11,821	11,484
$ .71	$ 2.37	$ 2.13	$ 2.90	$ 2.56	$ 1.96	$ 1.47
.21	2.37	1.58	2.90	2.72	2.02	1.47
.60	.60	.60	.40	.30	—	—
2%	2%	3%	3%	2.5%	5%	3%
24.81	25.54	24.24	22.24	25.57	24.83	24.85
$233,976	$231,785	$221,718	$207,068	$165,245	$143,484	$138,389
197,112	168,310	148,152	138,141	108,680	107,727	104,028
578,107	524,232	470,009	451,402	382,329	331,223	319,261
$ 54,527	$ 40,764	$ 32,188	$ 36,116	$ 22,435	$ 14,701	$ 11,631
2.8%	9.5%	9.2%	12.8%	10.6%	8.5%	7.0%
.8%	2.6%	2.4%	3.6%	3.3%	2.8%	2.5%
2.72	3.08	3.50	3.10	2.84	3.03	3.08
31,100	33,500	33,200	33,100	31,300	29,900	25,900
53,500	50,000	47,500	45,600	47,000	42,500	37,500
9,014,000	*8,716,000*	*8,616,000*	*8,158,000*	*7,756,000*	*6,649,000*	*6,458,000*

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 & Robbins

Paul W. Neidhart*, Senior Vice President of SCM; President, Glidden-Durkee Division

Crocker Nevin*, Consultant and former Chairman of the Board, Marine Midland Bank-New York

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. Neidhart, Senior Vice President; President, Glidden-Durkee Division

James Balph, Vice President-Employee Relations

George F. Burns, Vice President; President, Consumer Products Division

William V. Cawley, Vice President-Treasurer

Herbert H. Egli, Vice President-Finance and Controller

Ernest J. Klimczak, Vice President; President, Allied Paper, Inc.

Robert L. Lozon, Vice President

Richard Sexton, Vice President-General Counsel

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 94104

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 9:30 a.m. on October 25, 1973 at the Continental Illinois Bank, 231 South LaSalle Street, Chicago, Illinois.

SCM Corporation
299 Park Avenue
New York, N.Y. 10017