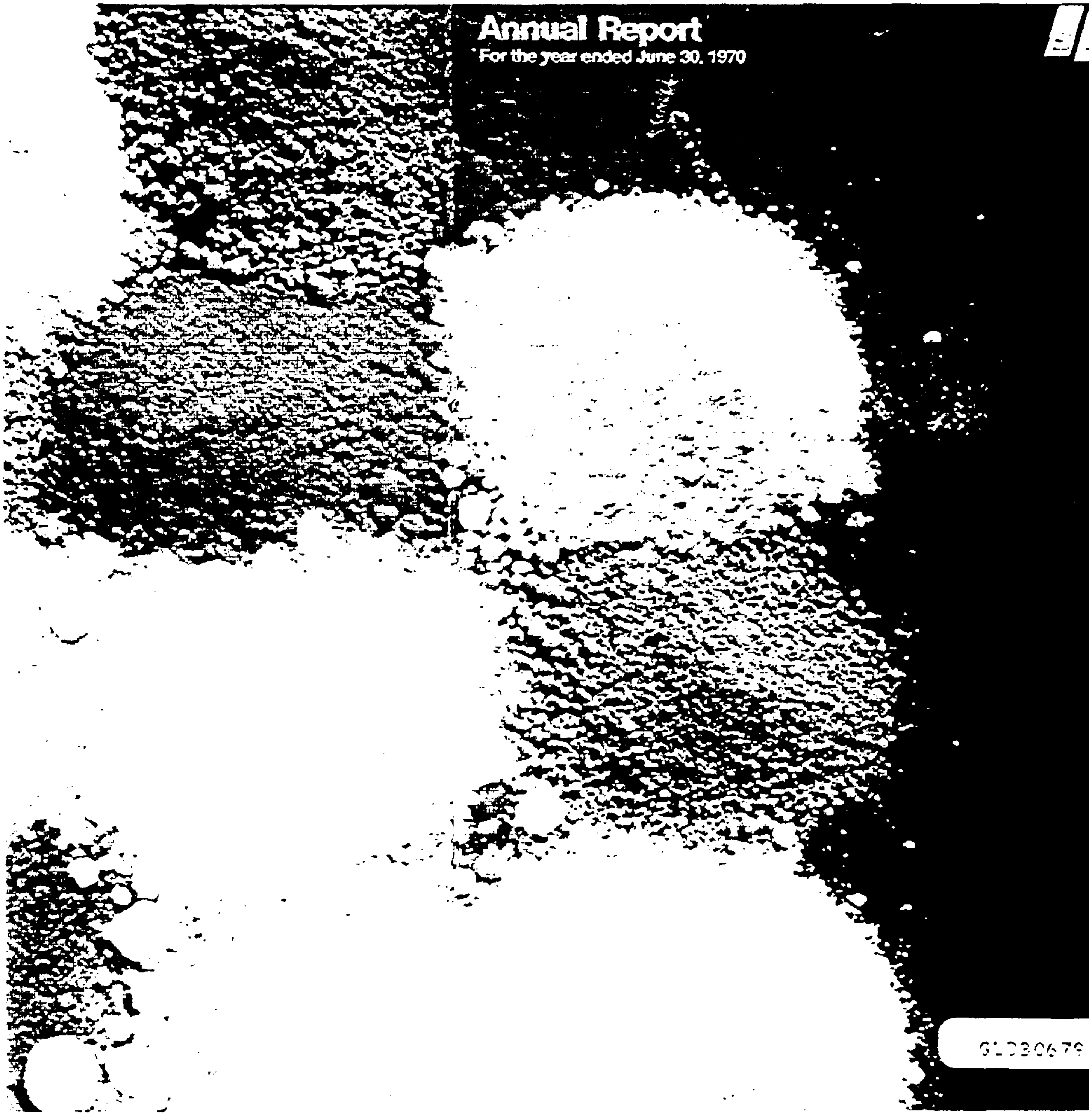
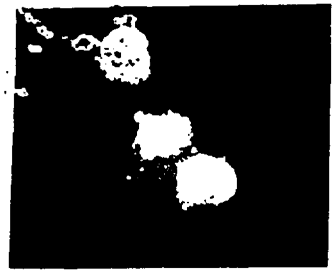
Annual Report

For the year ended June 30, 1970





The Company
SCM Corporation is a diversified manufacturing company whose products range from pigments and colors (see cover) and glazes for fine china, to battery-powered portable typewriters. SCM products are manufactured in more than 65 domestic and 13 foreign plants. The company employs more than 30,000 people, and its 9.1 million common shares are owned by more than 53,000 shareholders.

Operations are grouped in five divisions, each with operating autonomy, and all reporting to a corporate officer having operating responsibility for the company as a whole.

SCM's customers are, roughly, 40 percent industrial, 40 percent consumer and 20 percent business and commercial. Today, with products permeating virtually every aspect of modern life, and as annual sales near $1 billion, the company has passed what is considered to be the point of critical size needed to serve the world markets of the 1970's. The company's balance, size and diversity have been systematically developed since 1966 when its merger with Proctor-Silex marked SCM's first venture outside the field of office equipment.

Contents

To Our Shareholders

With earnings declining from $2.37 per share in 1969 to 71 cents per share in 1970, the year can only be characterized as a great disappointment. Net income was 21 cents per share after the non-recurring special charge of 50 cents per share (see Financial Review). But even disregarding the special charge, results for 1970 were far from what we anticipated.

Among the reasons for the results, the condition of the general economy must be counted as the most important. Since November 1969, we have seen in different parts of SCM's business weak demand, over-capacity and resistance to much needed price increases. Since January, softness has pervaded industrial markets in general, and many consumer markets as well.

The pronounced decline in the rate of growth in the economy as a whole tended to exaggerate what in more normal growth periods would constitute less serious problems. For example, in SCM's industrial businesses and in some consumer areas as well, strikes in the trucking industry held down earnings. In addition, delays and unexpected extra costs in the start-up of the company's new chloride-process titanium dioxide plant in Baltimore adversely affected profits for our Pigments and Colors Group. These are normal ups and downs in any year, but when the economy in general falters, all business problems are magnified.

Higher labor costs and selling and administrative expenses eroded a good part of the benefits normally accruing to higher sales. This was especially true in consumer product lines where competitive conditions made price increases difficult. In appliances, for example, price increases were held to a very modest 1.4 percent for the industry as a whole; and this in a year in which inflation grew at a better than six-percent rate. Not surprisingly, given this state of affairs, operating results were poorer than last year in each major item, even though sales in many areas continued to show acceptable increases.

The decline in market value of stocks and bonds in which the company's pension fund is invested has required increased provisions.

Our considerably higher interest expense was only partially offset by the lower taxes during the year. Accordingly, these factors also lowered our net earnings for the year.

Finally, but not of least importance, two areas of SCM's business which are particularly dependent on military procurement fell behind last year's results. These are Kleinschmidt and Melabs, Inc. Like most suppliers to the military, their business has been hurt by cutbacks in regular defense procurement, a reflection of the cost of the Vietnam war.

In June 1970, Kleinschmidt received a contract for the second phase of development of a new generation of military teleprinters which will help, but production orders are still to come.

With proper steps being taken to reduce present losses, we remain convinced for the longer term that the military and civilian prospects are very attractive for Kleinschmidt. For the immediate future, Kleinschmidt and Melabs must be considered problem areas. Among other steps taken, we have reduced both their size and their costs to a level commensurate with our reduced short-term expectations. The two operations have been consolidated and management changes have been made.

In a more general way, we have undertaken very stringent cost-cutting efforts throughout the company. Total employment, for example, has been reduced by 6 percent in the last few months. At the end of the year we showed a

President Emerson E. Mead (left), with executive vice president, Paul H. Elicker, (top) at SCM's New York headquarters.

GLD30681

Of great importance was the election of Paul H. Elicker as executive vice president of the company at the Board of Directors meeting of March 19. In his new post, Mr. Elicker, who has been SCM's chief financial officer since 1956, will have full line operating responsibility throughout the company. While he will retain responsibility for financial services, his primary assignment for the immediate future will be to concentrate on improving the profitability of operations.

We can say now, shortly after the close of a most difficult year, that we anticipate a return to more normal levels of growth and profitability at least by the second half of the fiscal year. Due in large measure to the general level of the economy, year-to-year comparisons will continue to be unfavorable in the first and second quarters.

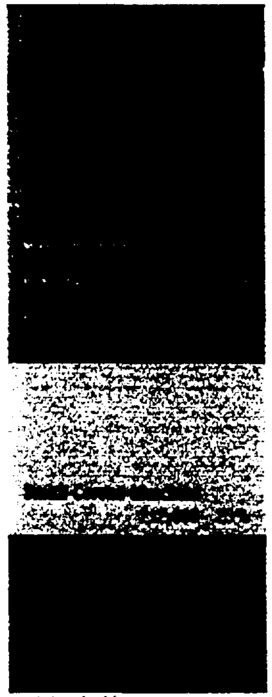
In the meantime, strict attention is being given to conservation and best allocation of the company's cash resources.

In closing, let me say that despite the problems of fiscal 1970, we are completely confident that the best years are ahead—for the company, its employees and its shareholders.

Emerson E. Mead
President

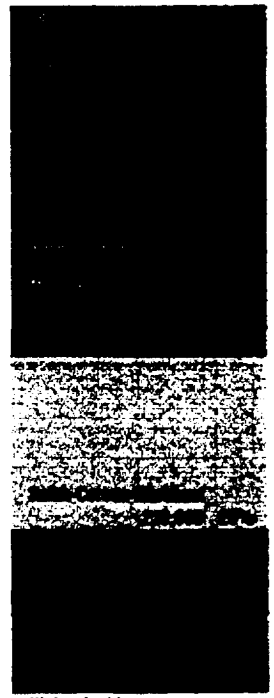
August 28, 1970

1970



Kleinschmidt 6,000 1%

1969



Kleinschmidt 13,000 2%

For the Year Ended June 30	[illegible]	[illegible]
Net sales	[illegible]	$807,648,000
Income before income taxes	7,334,000	39,391,000
United States and foreign income taxes	[illegible]	18,752,000
Income before extraordinary items	[illegible]	20,639,000
Extraordinary items	[illegible]	—
Net income	[illegible]	20,639,000
Earnings per share, on average shares		
Income before extraordinary items	[illegible]	2.37
Extraordinary items	[illegible]	—
Net income	[illegible]	2.37
Net income per share, assuming conversion of debentures and exercise of stock options	.21	2.24
Net capital expenditures	50,635,000	39,530,000
Depreciation	21,392,000	19,372,000
Cash flow from operations	25,357,000	42,306,000
Per share	[illegible]	4.85
Cash dividends per share	[illegible]	.60
At Year End		
Working capital	233,976,000	231,785,000
Property, plant and equipment-net	197,112,000	168,310,000
Long-term debt	192,922,000	170,631,000
Shareholders' equity	226,795,000	226,628,000
Number of shareholders	53,500	50,000
Number of employees	31,100	33,500

GLD 30682

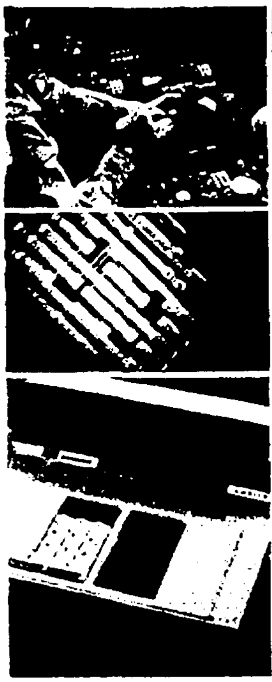
Smith-Corona Marchant
SCM's office equipment group, the Smith-Corona Marchant Division, had a disappointing year. Sales were up only in portable typewriters and in calculators. They were down in office copiers and office typewriters.

The division was reorganized toward the end of the fiscal year to provide each of the three major product lines with a group manager with control of product engineering, manufacturing and marketing. Research and development and international operations continue as separate entities.

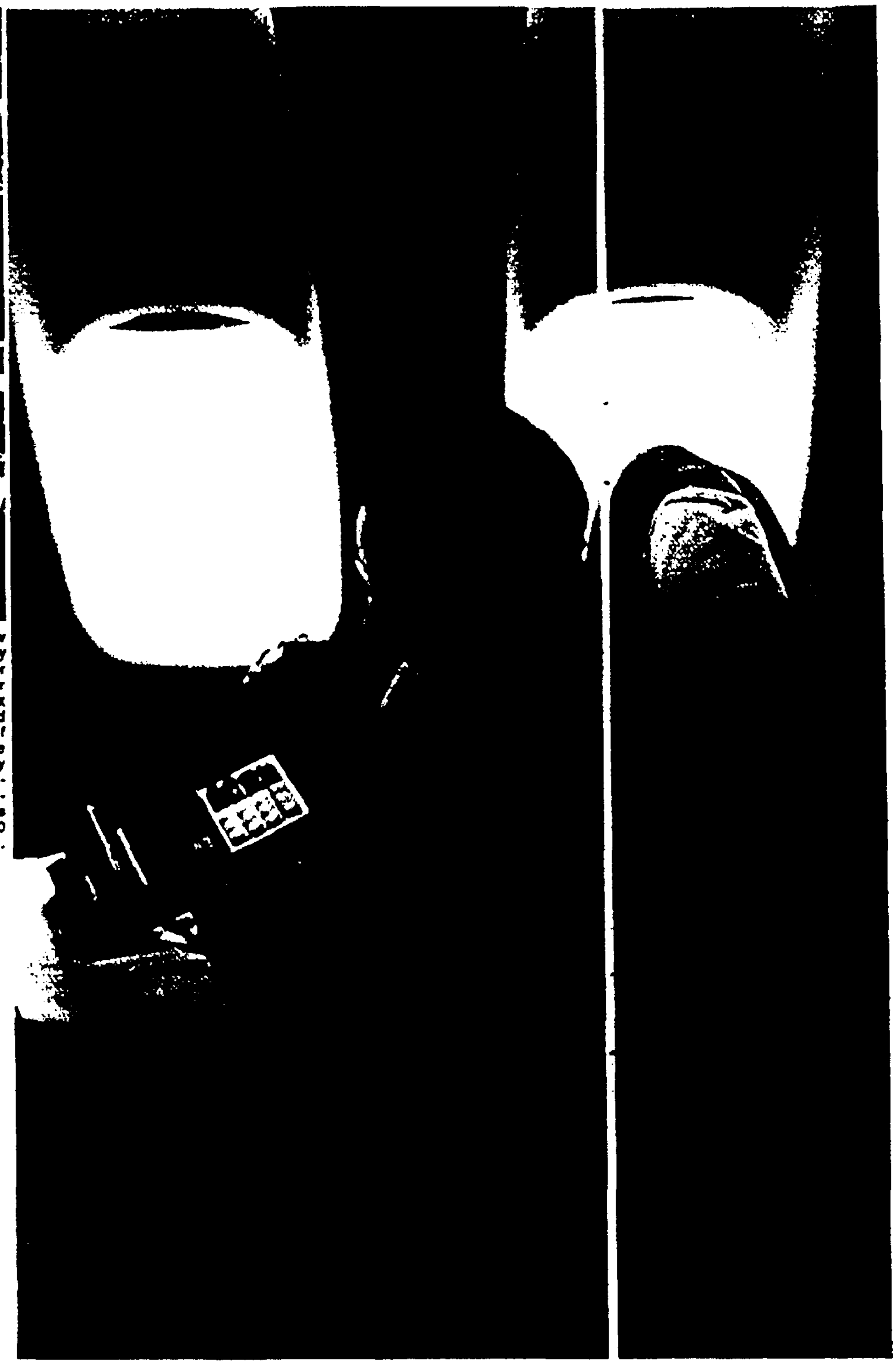
Typewriters
The Smith-Corona Group had a good year, continuing to benefit from the shift in consumer preference from manual machines to electric machines. This shift justifies the decision made some time ago to concentrate efforts on improving electric portable typewriters, and the decision to bring to market the compact electric office typewriter. Also reflecting this shift, production of both manual typewriters and deluxe office electric typewriters was discontinued at the end of the fiscal year.

In June, the company announced the closing down of its typewriter operation at

[redacted]



Aboard a 747, Marchant's new "mini-calculator" examined by ground maintenance instructor (top) and used by passenger (right) to handle complex computations at millisecond speeds. The compactness of the mini derives from large scale integration of circuitry and MOS-chip technology (microphoto center). The Marchant 414 (bottom) contains eight chips, each with 1,200 metal oxide silicon transistors.



Sales of Proctor-Silex electric housewares started the year with big gains but encountered heavy inventory corrections by distributors from December through the end of the fiscal year. Sales were only slightly ahead of last year, and profits were disappointing.

Appliances
The effects of the economic slowdown were felt earlier here than in other industries—as early as the pre-Christmas selling season. This resulted in curtailed buying by retailers and distributors. In the spring, many of the Division's most important customers were cut off by the extended trucking strike. High start-up costs continued at the new plant in Altoona, Pa.

Still, it is most encouraging to note that the division was able to increase its share of the market in most lines in a troublesome year. We are confident that the record of

Glidden-Durkee is the Company's largest division. Its sales were up 9.2 percent in the face of generally poor economic conditions, trucking strikes and other problems, but earnings were somewhat lower than last year's.

Coatings and Resins

Glidden-Durkee actually increased its share of the total coatings and resins market in a year in which industry sales were down slightly.

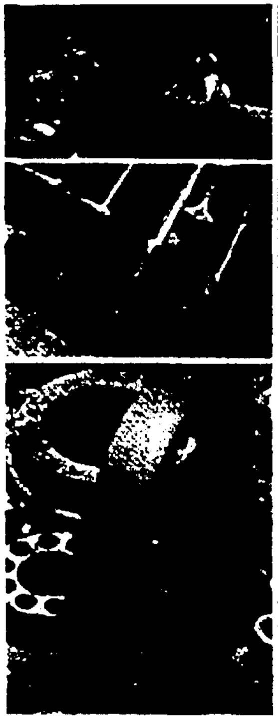
Almost two-thirds of Glidden's coatings and resins sales are in consumer paints. About one-third of the group's sales are in industrial coatings, including materials for electro-coating and a variety of maintenance paints and other coatings. The balance of the group's sales are in building materials such as resin-based adhesives, caulks, and sealants.

Since the bulk of Glidden paint sales are to painting contractors and consumers, rather than new construction, the nationwide decline in housing starts affected sales less than might be expected.

It is encouraging to note that outside the U.S., Glidden has established growing subsidiaries, particularly in Latin America and in the Common Market. These subsidiaries, as well as a

Industrial applications are an important and growing market for Glidden coatings. Left, an extremely fine tolerance coating of Glidden Gel-Kote® is applied inside the mold for a Chris Craft hull and the resultant finish is shown at center. Above, metalescent materials for electrocoating, widely used in the automobile and metal furniture industries, are mixed in a laboratory. Below are samples of Glidden's broad line of consumer coatings and finishes.

GLD3C688



The search for safe pesticides and herbicides continues at the Organic Chemicals Group in Jacksonville, Fla. Aquatic herbicides (right) and agricultural weed killers (center) are potential uses of two new compounds shown in laboratory tests. The molecular structures of these and other compounds are studied with the aid of a nuclear magnetic resonance spectrometer (top). Parts fabricated from powdered metals (bottom) are important end products of inorganic chemistry at Glidden-Durkee, as are pigments and colors (cover).

companies to whom Glidden technology has been licensed, are in general doing very well.

Chemicals

In continuing its policy of orienting capital investments toward areas showing the greatest promise of rapid growth, SCM Glidden's chemical operations started up a new titanium dioxide plant and a new terpene intermediate unit this year.

The new titanium dioxide facility started production this spring of a high-quality pigment that is finding increasing applications in the paint and plastics industries. The market for conventional sulfate-process pigment is still strong. However, competitive price reductions occurred during the year on all types of titanium oxide. This factor, plus delays and unexpected extra costs in bringing the highly complex chloride facility to full production, held earnings below expected levels in the year just ended.

The Ceramics Group, a small but very effective operation which has provided a good level of return on invested capital, had another good year.

Organic Chemicals, after a slow start due to raw material

GLD3C689

r

s
lfate

: 55
ts.
ry

d
al

or
avors

rs
and
re
d

ued

it
ders
ential
re
ion.

up
ty
have
the

Development of new industrial food products has been facilitated by consolidation of research facilities in new laboratories at Strongsville, O. (top). Conditions are simulated to test effects of cooking oils on foods (above). At left, lab technician inspects the results of a test of products used in baking.

GLD30690

Totally automated packaging machines speed these frozen hors d'oeuvres from the Kitchens of Gretchen Grant to grocers' freezers. Of a wide variety of food specialities packed by Durkee, shown here are maraschino cherries packed under rigid temperature control (bottom) and vegetable colorings and flavors used in foods (top).

prolonged trucking strike interrupted deliveries of finished materials which made it impossible to fill a number of orders.

A new edible oil refinery is under construction at Joliet, Ill., which will increase capacity in processed edible oils by approximately 40 percent. Construction of the new unit is proceeding on schedule and present plans call for completion of the facility, and the commencement of production, early in 1971.

In Food Service, Durkee continued to perform well in its primary lines of ingredient foods, cooking oils and spices. The group has become more involved in supplying mass feeders with portion-controlled main entree items. During the year a frozen fish line of entrees was added to the basic lines of beef and poultry. Durkee hors d'oeuvres, first sold in bulk by Food Service, have become a highly successful product in the fast-growing snack and convenience foods business.

Consumer Foods improved on the prior year's performance. Durkee Spices and its broad and growing line of sauces and gravy mixes continued to show modest gains.

Allied Paper

Allied Paper started the year with good margins, but finished with reduced operating schedules. It ended the year somewhat ahead of 1969 in both sales and profits.

Pulp and Paper Mills

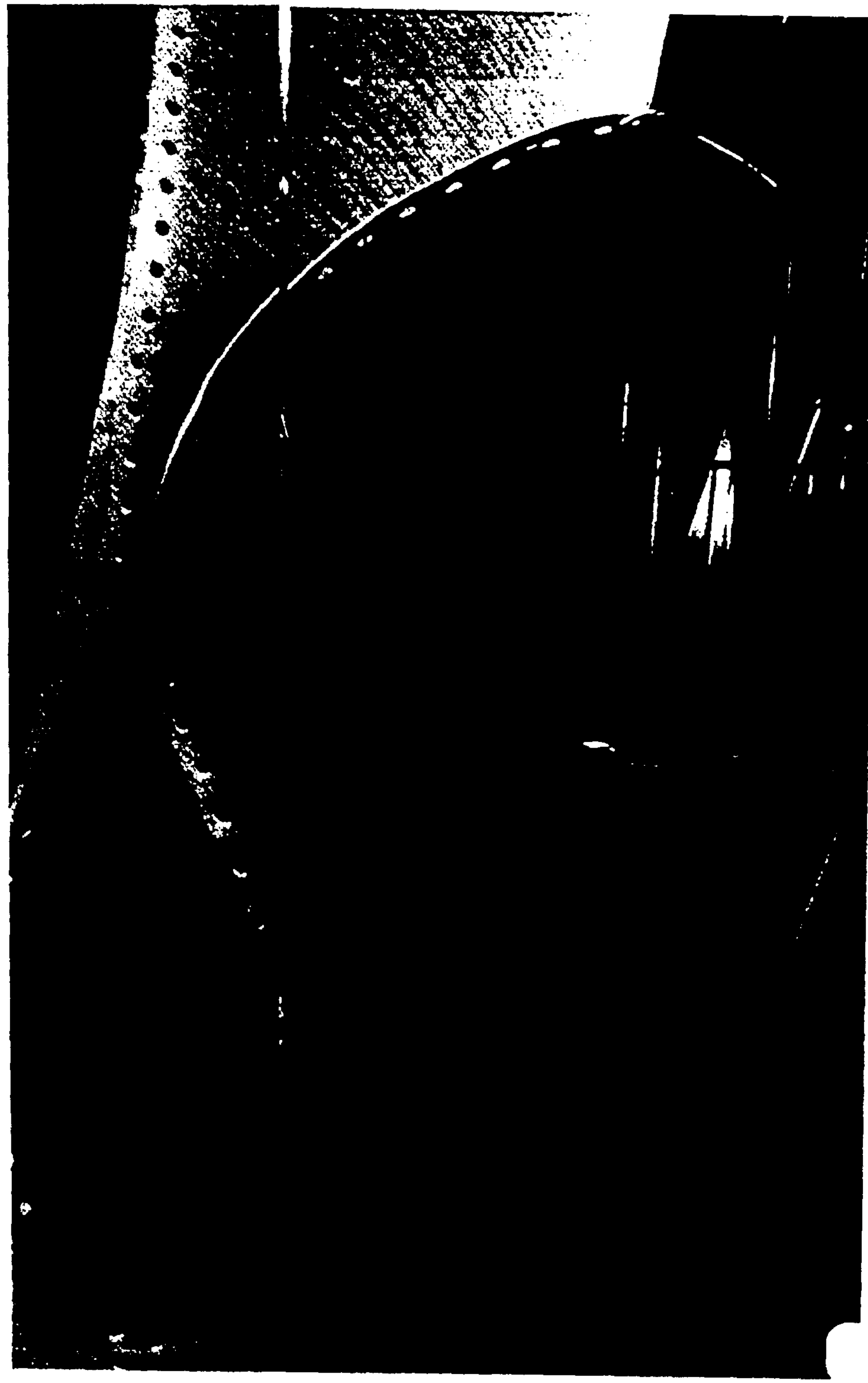
The modern Southern Mill facility at Jackson, Ala., operated at substantial capacity, producing 170,000 tons of pulp and 80,000 tons of fine grade printing, publication and business forms paper. Unusually strong export pulp prices aided the operating results.

New orders for reference book papers from the older Kalamazoo Mills were satisfactory in the first half, but faded later in the year.

Allied's King Mill made paper making history with the installation of a vertical paper making machine, the first in the world to be used for fine grades of paper. Vertically formed paper has superior qualities—reduced curl and identical printing characteristics, regardless of which side is printed on.

Business Forms

Manufacturing facilities were further consolidated in Allied/Egry Business Forms during the year and costs were improved. The industry as a whole continued its good overall growth rate despite the softness in the economy. Allied/Egry ranks fourth in the industry.



Business forms, particularly continuous forms used for computer print-out (shown at top and left), is one of the fastest growing areas of the paper industry. Allied/Egry plays a major role in supplying this market. Allied is among the nation's largest producers of reference book papers (bottom).

GLD30692

Sales
Net sales were $854.5 million, up 6% over last year's $807.6 million. The Glidden-Durkee Division was ahead of last year by 9.2%. The other divisions' sales increased somewhat less, except Kleinschmidt which experienced a further decline.

Earnings
Net income after taxes but before extraordinary items was $6.4 million compared to last year's $20.6 million. The largest single cause of this decline was our military business; our Kleinschmidt Division incurred substantially increased losses as did our smaller operation at Melabs.

At Kleinschmidt, we continued the costs of maintaining a technical team to develop a new generation of military teleprinters, pending receipt of a government contract. The contract was not received until the close of the fiscal year, but is expected to improve results in the next fiscal year.

The profits of our divisions other than Kleinschmidt were substantially impacted by general economic conditions and by the trucking strike. As a result, all of the divisions except Allied Paper were less profitable than last year. This was especially the case with certain of our office equipment lines and segments of our industrial business.

In addition to the impact of the general economy on the Company's business, substantial losses were incurred in the Shetland Floor Care Group of the Proctor-Silex Division as a result of high manufacturing costs, and severe competitive conditions.

At the end of the year we also began to experience manufacturing start-up difficulties in our new process pigment plant.

U.S. and Foreign Income Taxes
U.S. and foreign taxes on income before extraordinary items was $1.4 million or 18.3%, down from last year's 47.6% rate. The major cause of our low tax rate was investment credit of $1.6 million. Also, even after appropriately providing for taxes on unremitted foreign earnings, tax rates on foreign operations are lower than U.S. rates.

During fiscal 1971, we expect to receive U.S. income tax refunds of $10.1 million. This represents estimated payment refunds, credit against certain operating losses and carry-back of investment credit.

During the year Federal income tax returns of Allied Paper for the years 1954-1965, against which tax deficiencies of about $4 million had been asserted, were settled for $798,000 plus interest. Provision for this settlement has been shown in the statement of shareholders equity as a direct charge to retained earnings.

Earnings Per Share
Income before extraordinary items was 71¢ per share, compared to last year's $2.37 per share after adjustment for the stock dividend. Extraordinary items amounted to 50¢ per share and reduced this year's net income per share to 21¢. Earnings per share are based on 9,014,000 average shares outstanding this year and 8,716,000 average shares outstanding in fiscal 1969.

A part of our capitalization consists of two issues of convertible subordinated debentures. If these were converted and outstanding employee stock options exercised, net income per share for 1970 would not be reduced.

Dividends
Our quarterly cash dividend was continued at the annual rate of 60¢ per share and was accompanied by a 2% stock dividend early in the year.

As of June 30, 1970, based on the requirements of our most recent loan indenture, dividend payments were limited to $2 million plus earnings after that date. This compares with $15 million available at June 30, 1969, and reflects the new loan indenture which reduced the amount available to $10 million as of June 30, 1969. In addition, dividends for the year exceeded available earnings of the parent and restricted subsidiaries after the extraordinary charge by $8 million.

Capitalization
In February the Company issued $35 million of 9¼% Sinking Fund Debentures Due in 1990. The proceeds were used to reduce short-term bank borrowing incurred for capital investment and working capital purposes. These debentures are listed on the New York Stock Exchange.

During the year 254,000 shares of Common Stock were issued to acquire the business of three companies. These acquisitions were accounted for as poolings of interest, but since sales and results of these three companies were not material, prior financial statements were not restated.

Investments
Net capital expenditures were $50.6 million in 1970. The largest part of these were accounted for by our chloride-process titanium dioxide pigment plant in Baltimore, Md., continued work on our new edible oil refinery at Joliet, Ill., continued modernization of coatings and resins plants, tooling of new products and the cost of

GLD30694

photocopy equipment to be leased to customers.

• These investments were partly financed by cash flow of $2.81 per share, which included depreciation of $21.8 million.

Return On Investment
Operations generated about $95.00 in sales for each share of Common Stock; however, net income before extraordinary items was .75% of sales, and earnings per share before extraordinary items was 71¢. Return on shareholder equity before extraordinary items was 2.84%.

Extraordinary Items
During fiscal 1970 we started a profit improvement program that included termination of certain unprofitable operations no longer fitting in with our objectives. The closing of our Berlin, Germany, rotary calculator operation completed the phase-out of mechanical calculator production and we are now fully converted to production of electronic machines. The iron powder production facility in Hammond, Ind., was closed because it recently operated unprofitably and the long-range outlook did not show an acceptable return. We also discontinued production of manual and deluxe electric office typewriters during the year, since the return on further investments required would not meet our standards. Our lower-price, compact electric office typewriters will continue to contribute to profits. As a result of terminating production of manual and deluxe electric office typewriters we were able to realign production of portable typewriters, which will further improve profits.

All of these moves make working capital available and will improve our cash position and profits in future years.

Statement of Consolidated Income

	Year Ended June 30, 1970	Year Ended June 30, 1969
Net sales	$854,511,000	$807,648,000
Cost of sales	618,758,000	571,296,000
Gross profit	235,753,000	236,352,000
Selling, administrative and research expenses	213,750,000	186,051,000
Operating profit	22,003,000	50,301,000
Add other income, net	1,295,000	975,000
Interest expense, net	15,414,000	11,885,000
Income before income taxes	7,884,000	39,391,000
United States and foreign income taxes	1,446,000	18,752,000
Income before extraordinary items	6,438,000	20,639,000
Extraordinary items (less applicable income taxes of $4,130,000)	4,542,000	—
Net income	$ 1,896,000	$ 20,639,000
Earnings per share:		
Income before extraordinary items	$ .71	$2.37
Extraordinary items	.50	—
Net income	$ .21	$2.37
Fully diluted earnings per share:		
Income before extraordinary items	$ .71	$2.24
Extraordinary items	.50	—
Net income	$ .21	$2.24

Statement of Consolidated Source and Application of Funds

	Year Ended June 30, 1970	Year Ended June 30, 1969
SOURCE OF FUNDS:		
Net income	$ 1,896,000	$ 20,639,000
Depreciation (generally straight line)	21,832,000	19,372,000
Provision for deferred income taxes	1,402,000	2,041,000
Amortization of deferred charges	227,000	254,000
Cash flow from operations	25,357,000	42,306,000
Net increase from issuance of long-term debt	35,271,000	20,871,000
Reclassification of deferred income taxes	2,886,000	—
Pension and other changes in non-current items	3,429,000	(804,000)
Sale of common stock	169,000	628,000
Stock issued for net assets of companies acquired	4,515,000	1,263,000
Total	$ 71,627,000	$ 64,264,000
APPLICATION OF FUNDS:		
Net capital expenditures	$ 50,635,000	$ 39,530,000
Reduction of long-term debt	13,380,000	9,531,000
Cash dividends	5,421,000	5,136,000
Increase in working capital	2,191,000	10,067,000
Total	$ 71,627,000	$ 64,264,000

See accompanying notes to financial statements

GLD30695

Consolidated Balance Sheet

	June 30, 1970	June 30, 1969
Assets		
Current assets:		
Cash	[illegible]	$ 16,835,000
Accounts receivable—net	[illegible]	122,187,000
Inventories	[illegible]	197,874,000
Prepaid taxes and expenses	[illegible]	6,461,000
Total current assets	[illegible]	343,357,000
Property, plant and equipment—net	[illegible]	168,310,000
Other assets	[illegible]	12,565,000
Total	[illegible]	$524,232,000
Liabilities and Shareholders' Equity		
Current liabilities:		
Loans payable	[illegible]	$ 8,672,000
Accounts payable and accrued liabilities	[illegible]	71,411,000
United States and foreign income taxes	[illegible]	17,135,000
Deferred revenue on maintenance agreements	[illegible]	7,074,000
Long-term debt payments due within one year	[illegible]	7,280,000
Total current liabilities	[illegible]	111,572,000
Other liabilities	[illegible]	2,328,000
Long-term debt	[illegible]	170,631,000
Deferred income taxes	[illegible]	13,073,000
Shareholders' equity	[illegible]	226,628,000
Total	[illegible]	$524,232,000

See accompanying notes to financial statements

Details of Balance Sheet Items

	June 30, 1970	June 30, 1969
Accounts receivable:		
Due from customers	$136,452,000	$125,029,000
Less allowance for doubtful accounts	3,886,000	2,842,000
Net	132,566,000	122,187,000
Recoverable federal income taxes	10,080,000	—
Net accounts receivable	$142,646,000	$122,187,000
Inventories, at the lower of current cost or market:		
Raw materials and work in process	$ 83,785,000	$ 84,005,000
Finished goods	120,402,000	113,869,000
Total inventories	$204,187,000	$197,874,000
Property, plant and equipment:		
Cost:		
Land	$ 11,158,000	$ 10,210,000
Buildings	87,035,000	84,780,000
Machinery and other equipment	261,163,000	226,386,000
Total cost	359,356,000	321,376,000
Less accumulated depreciation	162,244,000	153,066,000
Net	$197,112,000	$168,310,000
Long-term debt:		
5¾% sinking fund debentures due 1972-1987	$ 20,000,000	$ 20,000,000
5½% sinking fund debentures due 1971-1983	19,454,000	21,000,000
7¼% sinking fund debentures due 1973-1988	20,000,000	20,000,000
9¼% sinking fund debentures due 1975-1990	35,000,000	—
Bank term loans due 1971-1974 interest at prime rate plus a fraction	25,997,000	36,000,000
Notes payable to insurance companies due 1971-1979—interest at rates from 5% to 6%	7,625,000	8,875,000
Other loans—interest at rates from 5% to 10¾%	8,361,000	8,267,000
5½% convertible subordinated debentures due 1978-1988	41,485,000	41,489,000
5¼% convertible subordinated debentures due 1979-1989	15,000,000	15,000,000
Total long-term debt	$192,922,000	$170,631,000

GLD306 96

Statement of Consolidated Shareholders' Equity

	Common Stock	Additional Paid-in Capital	Retained Earnings	Total Shareholders' Equity Year Ended June 30, 1970	Total Shareholders' Equity Year Ended June 30, 1969
Balance at beginning of year	$43,503,000	$106,612,000	$76,513,000	$226,628,000	$209,234,000
Adjustment—settlement of income taxes	—	—	(996,000)	(996,000)	—
Balance at beginning of year as restated	43,503,000	106,612,000	75,517,000	225,632,000	209,234,000
Changes relating to poolings of interest	1,270,000	104,000	3,141,000	4,515,000	1,263,000
Net income	—	—	1,896,000	1,896,000	20,639,000
Cash dividends	—	—	(5,421,000)	(5,421,000)	(5,136,000)
Stock dividends	871,000	4,423,000	(5,294,000)	—	—
Sale of common stock under option plans	60,000	109,000	—	169,000	628,000
Issuance of common stock on conversion of subordinated debentures	1,000	3,000	—	4,000	—
Balance at end of year	$45,705,000	$111,251,000	$69,839,000	$226,705,000	$226,628,000

See accompanying notes to financial statements

Notes to Financial Statements

Principles of Consolidation
The consolidated financial statements include all subsidiaries. The acquisitions of three companies in 1970 for 254,000 shares of common stock were treated as poolings of interests. Since the operations of these companies are not significant in relation to total operations, prior financial statements were not restated.

United States Income Taxes
As a result of settlement of federal income tax deficiencies asserted against Allied Paper for the years 1954 through 1965, the Company has provided $798,000 plus the related interest which has been charged directly to retained earnings. Prior financial statements have not been restated because there would be no effect on the Statement of Consolidated Income and the effect on the Consolidated Balance Sheet would be immaterial. Provision for income taxes has been reduced by investment credits of $1,600,000. In addition, certain taxes on foreign income have been provided for at varying rates that are less than United States rates.

Long-Term Debt
During the next five years approximate long-term debt maturities will be: 1971, $11,500,000; 1972, $14,200,000; 1973, $16,100,000; 1974, $8,900,000; 1975, $8,400,000.

Under the most restrictive provisions of the loan agreements approximately $2,000,000 of retained earnings was available for cash dividends at June 30, 1970.

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, 1970, 9,141,091 shares of common stock were outstanding, 534,301 shares were reserved for issuance under the Company's stock option plans, 891,764 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. During 1970 options to purchase 63,120 shares were granted, options for 12,134 shares were exercised, and options for 63,045 shares were cancelled. At June 30, 1970, options for 339,590 shares were outstanding. Options are granted at fair market value.

Extraordinary Items
The extraordinary loss for the year ended June 30, 1970, resulted mainly from the liquidation of the Company's rotary calculator manufacturing plant in West Berlin, Germany, and discontinuance of its manual and deluxe electric office typewriter business and an iron powder operation in Hammond, Ind.

Earnings Per Share
Earnings per share have been computed by dividing net income by the average number of shares outstanding. Fully diluted earnings per share was computed as above, with the appropriate adjustment assuming exercise of options and assuming the conversion of all convertible debentures with related adjustments to net income for interest net of tax. There was no dilutive effect for 1970.

Retirement Plans
The Company has several retirement plans providing pensions for substantially all of its employees. Pension expense, which includes interest on unfunded prior service liabilities, was $2,400,000 for the year ended June 30, 1970, and $700,000 for the year ended June 30, 1969. The increase in pension expense was caused mainly by a decline in the market value of securities included in the fund. It is the Company's policy to fund pension cost only when actuarial computations prescribe such funding. There are no unfunded vested benefits as of June 30, 1970.

Commitments
At June 30, 1970, the Company's annual rental for real property under long term leases was approximately $8,900,000. These leases have varying expiration dates through 2017.

These obligations will decrease by about $2,700,000 by 1980 and by an additional $1,400,000 by 1985.

Auditors' Report

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

To the Shareholders
SCM Corporation:

We have examined the financial statements of SCM Corporation and subsidiary companies for the year ended June 30, 1970. 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, the accompanying consolidated balance sheet and the statements of consolidated income and consolidated shareholders' equity present fairly the financial position of the companies at June 30, 1970 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year, and the accompanying statement of consolidated source and application of funds presents fairly the information shown therein.

Haskins & Sells

August 14, 1970

GLD30697

Ten Year Statistical Summary

All dollar amounts presented in thousands, except figures given on a per share basis.

	1970	1969	1968	1967	1966	1965	1964	1963	1962	1961
Income										
Net sales	$854,511	$807,648	$744,758	$705,160	$644,787	$558,393	$470,633	$453,126	$429,315	$392,970
Income before income taxes	7,884	39,391	30,820	43,626	40,408	29,431	22,921	20,066	20,416	12,737
U.S. and foreign income taxes	1,446	18,752	13,061	18,550	18,956	14,070	11,140	9,188	9,524	6,513
Income before extraordinary items	6,438	20,639	17,759	25,076	21,452	15,361	11,781	10,878	10,892	6,224
Extraordinary items, net of tax	(4,542)	—	(4,700)	—	1,207	403	—	—	912	(85)
Net income	1,896	20,639	13,059	25,076	22,659	15,764	11,781	10,878	11,804	6,139
Dividends	5,421	5,136	4,763	8,479	7,666	5,547	4,920	4,663	7,592	4,622
Income reinvested	(3,525)	15,503	8,296	16,294	14,474	8,934	5,624	5,335	3,794	1,316
Depreciation	21,832	19,372	17,807	15,384	12,835	11,821	11,484	12,042	10,795	11,989
Per Common Share										
Income before extraordinary items	$ .71	$ 2.37	$ 2.13	$ 2.90	$ 2.56	$ 1.96	$ 1.47	$ 1.39	$ 1.47	$ .79
Net income	.21	2.37	1.58	2.90	2.72	2.02	1.47	1.39	1.61	.78
Cash dividends	.60	.60	.60	.40	.30	—	—	—	—	—
Stock dividends	2%	2%	3%	3%	2½%	5%	3%	3%	2%	—
Cash flow from operations	2.81	4.85	3.72	5.20	4.73	4.29	3.57	3.57	3.54	2.50
Book value	24.81	25.54	24.24	22.24	25.57	24.83	24.85	23.95	23.33	22.40
Financial Position										
Working capital	$233,976	$231,785	$221,718	$207,068	$165,245	$143,484	$138,389	$134,885	$115,434	$114,497
Property, plant and equipment—net	197,112	168,310	148,152	138,141	108,680	107,727	104,028	103,909	107,652	102,213
Total assets	578,107	524,232	470,009	451,402	382,329	331,223	319,261	301,084	293,800	280,354
Other Statistics										
Net capital expenditures	$ 50,635	$ 39,530	$ 27,818	$ 36,116	$ 22,435	$ 14,701	$ 11,631	$ 6,876	$ 16,235	$ 6,198
Return from operations on average equity	2.8%	9.5%	9.2%	12.8%	10.6%	8.5%	7.0%	6.8%	6.9%	4.0%
Return from operations on net sales	.8%	2.6%	2.4%	3.6%	3.3%	2.8%	2.5%	2.4%	2.5%	1.6%
Current ratio	2.72	3.08	3.50	3.10	2.84	3.03	3.08	3.51	2.83	2.97
Number of employees	31,100	33,500	33,200	33,100	31,300	29,900	25,900	24,900	24,200	22,900
Number of shareholders	53,500	50,000	47,500	45,600	47,000	42,500	37,500	37,200	41,400	37,700
Average common shares outstanding	9,014,000	8,716,000	8,616,000	8,158,000	7,756,000	6,649,000	6,458,000	6,443,000	6,423,000	6,397,000

GLD30698

SCM CORPORATION

SCM Corporate Data

Directors

Emerson E. Mead, *Chairman**
Richard C. Bond*
John T. Booth
George F. Burns
Lewis H. Durland
Paul H. Elicker*
George E. Hall*
Ward D. Harrison

Wallace W. Knox*
Paul W. Neidhardt
Crocker Nevin
William W. Quinn
Walter M. Schwartz, Jr.
James M. Symes*
George S. Warner
William I. Myers, Emeritus*

*Member of Executive Committee

Corporate Officers

Emerson E. Mead
President

Paul H. Elicker
Executive Vice President

Jack B. Bredt
Vice President—Employee Relations

George F. Burns
Vice President; President, Smith-Corona Marchant Division

William V. Cawley
Vice President—Treasurer

Herbert H. Egli
Vice President—Controller

George E. Hall
Vice President and General Counsel; Secretary

Ward D. Harrison
Vice President; Chairman, Allied Paper, Incorporated

Paul W. Neidhardt
Vice President; President, Glidden-Durkee Division

Walter M. Schwartz, Jr.
Vice President; President Proctor-Silex Division

Transfer Agents

Marine Midland Grace Trust Company of 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 — One Whitehall Street, New York, New York 10015

United California Bank — 95 Hawthorne Street, San Francisco, California 94104

Corporate Headquarters

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

Annual Meeting

The Annual Meeting of Shareholders will be held at 9:30 a.m. on October 29, 1970 at 100 California Street San Francisco, California

GLD30699