THE GLIDDEN COMPANY

CLEVELAND, OHIO

GLIDDEN
Everywhere on Everything

ANNUAL REPORT
Year Ended October 31, 1943

GLD002857

THE GLIDDEN COMPANY

CLEVELAND, OHIO

Cleveland, Ohio,
December 30, 1943.

To the Shareholders of
The Glidden Company:

The annual report of your Company for the fiscal year ended October 31, 1943, is submitted herewith. The Consolidated Profit and Loss Statement shows an increase in the company's sales of $15,438,885.16 as compared to the previous year. The net earnings for the year, after all charges except Income and Excess Profits Taxes, show an increase of $2,325,446.84 over the previous year.

It is interesting to note that before taxes our earnings show an increase of more than fifty-six per cent but it was necessary to set up a tax reserve equivalent to $5.41 per share on the oustanding Common stock of the company, excluding Treasury stock, as against $1.87 which we will be permitted to keep as earnings per share on the Common stock.

All divisions of the company, Paint and Varnish, Chemical and Pigment, Metals Refining, Naval Stores, Vegetable Oil Processing, Durkee Famous Foods and Soya Products show satisfactory earnings. The operations of the Soya Products Division produced the largest earnings in the history of the division. In our last annual report we predicted a bright future for this division and the results prove that our prediction was correct, both as to volume of business and earnings.

The world-wide shortage of edible oils and fats has given our Durkee Famous Foods Division a fine opportunity for the development of its business and judging from orders that we are receiving from Lend-lease, as well as from domestic sources, it is apparent that our food division will continue to develop rapidly. It is a basic industry, as we produce both the raw materials and the finished product. Sales of Margarine, Vegetable Oil Shortening, Salad Oils and Soya Bean Flour have passed all previous records.

Our Paint and Varnish Division was hampered by government restrictions and by price ceilings but we were fortunate in being able to increase our volume of business by approximately $1,500,000. The popularity of SPRAY-DAY-LITE, our Industrial maintenance paint, has greatly increased our volume of paint sales and the development of sales of our new Soya Bean paint, SPRED, a water thinned paint for home and interior use, has been phenomenal.

In our last annual report we mentioned the purchase of a plant in Indianapolis for the production of soya bean products and the supplying of stock feeds. We are pleased to report that this division earned a very satisfactory profit for the year just closed and orders on hand indicate a very large business for our new fiscal year. The shortage that exists of stock feeds of all kinds, and the big demand for soya bean products, indicate that our purchase of this property was a wise one.

The renegotiation of the company for the period ending October 31, 1942, resulted in no assessment and inasmuch as the general policy of the company as to prices, sales profits, etc., did not change during 1943 we do not expect there will be any assessment against 1943 profits when and as renegotiations are completed.

Your company suffered a loss through the operations of the American Zirconium Corporation, of which your company owns ninety per cent, because of the long shut-down due to our inability to secure Ilmenite ore from Travancore, India. The company has been successful, however, in developing its Ilmenite mine in North Carolina so that at the present time the American Zirconium Corporation is in volume production on ores produced from our own mining properties. The successful operation of the American Zirconium Corporation this year will have a very important effect upon our earnings because the losses have been deducted from the company's earnings.

Your Directors have charged against Earned Surplus the amount heretofore carried as Investment in California Mining Companies. It should be explained that this action was taken because the government, in building the Shasta Dam, will flood the area in which the mines are located and your company has filed claims with the United States Government for damages to these properties in a sum greatly exceeding the amount charged off. These claims are now in process of negotiation for settlement and the amount recovered will be credited directly to Earned Surplus.

Your Directors wish to call attention to the fact that the conversion from peace goods to war time goods did not involve any problem to The Glidden Company. It is also interesting to note that there will be no conversion problem in returning to peacetime operations. The company's diversified business and the accumulated domestic demand should more than offset any war business or Lend-lease business that we have had during the war period.

The company's policy of using the last-in, first-out method of inventory pricing on certain raw materials continues in effect with the result that our inventories are carried on the books of the company as of October 31, 1943, at a valuation of $2,304,566.29 less than replacement cost at that date. This places the company in a strong position against loss through possible market declines. In this connection it should be borne in mind that our contracts with the various Governmental Agencies, and our firm contract sales, give us a large measure of protection against loss on market declines aside from our last-in, first-out method of computing inventories. Had the company not been working under this last-in, first-out method our earnings before taxes for the year would have been increased by $705,566.

Our employees now number about 5,300 and there are now 1,300 of our loyal employees in the Armed Forces. This has put a heavy burden on the rest of our organization but through the loyal co-operation of all executives and employees the company has been able to carry on and we are looking forward to the time when our employees will come back to us and resume their peace-time duties.

Public interest in our company is shown by the fact that we now have 10,300 Common stockholders and 3,450 Preferred stockholders.

Your Directors are pleased with the mutually satisfactory labor conditions existing throughout the organization and take pleasure in expressing their appreciation of the fine spirit of loyalty that prevails.

Yours truly,

ADRIAN D. JOYCE,
President.

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The Glidden Compa
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ASSETS

CURRENT ASSETS		
Cash		$ 3,888,916.73
Trade notes receivable	$ 17,664.80	
Trade accounts receivable	6,498,587.51	
	$ 6,516,252.31	
Less reserves	244,934.54	6,271,317.77
Inventories — raw materials, in process, finished goods — Note A		22,889,602.18
Other current accounts receivable and advances, less reserve of $27,906.30		351,049.31
TOTAL CURRENT ASSETS		$33,400,885.99
OTHER ASSETS AND INVESTMENTS		
Cash surrender value of life insurance	$ 587,735.50	
Miscellaneous notes and accounts receivable and advances, less reserves of $17,047.69	164,989.43	
Estimated postwar refund of excess profits taxes	408,300.00	
Other investments — Note H	35,893.47	1,196,918.40
PROPERTY, PLANT, AND EQUIPMENT		
Land — Note B	$ 2,330,240.76	
Buildings, machinery, and equipment — Note B	25,815,436.39	
	$28,145,677.15	
Less reserves for depreciation, depletion, and amortization	10,908,927.24	17,236,749.91
PATENTS AND RIGHTS TO MANUFACTURE		
At cost, less amortization		98,544.90
DEFERRED CHARGES		
Inventories of advertising stock and stationery, prepaid insurance, and expenses	$ 475,480.76	
Special new products development	68,191.19	543,671.95
		$52,476,771.15

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ANCE SHEET
nd Subsidiaries
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LIABILITIES, CAPITAL STOCK, AND SURPLUS

CURRENT LIABILITIES				
Notes payable to banks or through broker:				
Short-term loans		$ 4,700,000.00		
Serial notes maturing July 1, 1944		1,000,000.00	$ 5,700,000.00	
Accounts payable			5,255,869.32	
Accrued taxes, royalties, interest, and insurance			640,846.49	
Federal, state and dominion taxes on income		$ 4,994,690.80		
Less United States Treasury Notes — Tax Series		705,000.00	4,289,690.80	
TOTAL CURRENT LIABILITIES			$15,886,406.61	
LONG-TERM DEBT				
3% debentures due July 1, 1947		$ 3,000,000.00		
Serial notes payable, maturing $1,000,000.00 annually in 1945 and 1946, interest at 2%		2,000,000.00	5,000,000.00	
MINORITY INTEREST				
In capital stock and surplus of subsidiary company			186,544.46	
CAPITAL STOCK AND SURPLUS				
Capital stock:				
Convertible preferred, 4½% cumulative, par value $50.00 a share, redeemable at $52.50 a share, convertible into seven-tenths share of common stock:				
Authorized 200,000 shares				
Issued and outstanding, including treasury shares, 199,940 shares		$ 9,997,000.00		
Common, without par value:				
Authorized 1,200,000 shares				
Outstanding, including treasury shares, 835,531 shares				
Reserved for conversion 139,958 shares				
Stated capital		4,177,655.00		
		$14,174,655.00		
Surplus — Notes C, D, E, and F:				
Capital surplus	$ 8,444,162.99			
Earned surplus	8,961,567.02			
	$17,405,730.01			
Less capital stock in treasury, at cost:				
Common 10,088 shares, convertible preferred 400 shares	176,564.93	17,229,165.08	31,403,820.08	
			$52,476,771.15	

CONTINGENT LIABILITY

As guarantor of customers notes payable — maximum amount $30,000.00.

See notes on second following page.

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CONSOLIDATED PROFIT AND LOSS AND SURPLUS

The Glidden Company and Subsidiaries

Fiscal year ended October 31, 1943

PROFIT AND LOSS STATEMENT

Net Sales		$97,144,616.81
Cost of goods sold, selling, administrative, and general expenses, including provision of $1,276,116.14 for depreciation, depletion, and amortization — Note G		90,467,532.62
		$ 6,677,084.19
Other income		259,790.31
		$ 6,936,874.50
Other deductions:		
Interest on serial notes and short-term loans	$ 200,763.03	
Miscellaneous	254,295.35	455,058.38
PROFIT BEFORE TAXES ON INCOME		$ 6,481,816.12
Taxes on income — estimated:		
Federal normal income tax, surtax, and declared value excess profits tax	$ 1,010,000.00	
Federal excess profits tax (after deducting $375,000.00 postwar refund)	3,375,000.00	
Dominion and state taxes	88,000.00	4,473,000.00
NET PROFIT		$ 2,008,816.12
Portion of net profit of subsidiary companies applicable to minority interest		10,616.68
NET PROFIT TO SURPLUS — Notes D and E		$ 1,998,199.44

SURPLUS

CAPITAL SURPLUS			
Balance at November 1, 1942			$ 8,441,922.48
Excess of stated value over cost of 60 shares of treasury stock retired			2,240.51
Balance at October 31, 1943			$ 8,444,162.99
EARNED SURPLUS			
Balance at November 1, 1942		$ 9,269,889.90	
Add net profit for the fiscal year		1,998,199.44	
		$11,268,089.34	
Deduct:			
Cash dividends paid:			
Convertible preferred — $2.25 per share	$ 448,986.16		
Common — $ .90 per share	743,978.70		
	$ 1,192,964.86		
Write-down of investment in California mining companies to nominal amount — Note H	1,113,557.46	2,306,522.32	
Balance at October 31, 1943			8,961,567.02
TOTAL SURPLUS AT OCTOBER 31, 1943			$17,405,730.01

See notes on following page.

NOTES TO FINANCIAL STATEMENTS

The Glidden Company and Subsidiaries

October 31, 1943

Note A — Inventories of principal raw materials are stated at cost (last-in, first-out method) which did not exceed replacement market; other inventories are stated at the lower of cost (accumulated average) or replacement market.

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

Note C — The indenture relating to the issue of debentures contains an agreement that as long as any of the debentures shall be outstanding the Company will not declare or pay any dividends (other than dividends payable in common stock) on any shares of its common stock except out of consolidated net earnings derived from operations of the Company and its subsidiaries subsequent to October 31, 1940; and will not expend in excess of an aggregate of $200,000.00 in the purchase, redemption, or other retirement of any shares of any class except out of such consolidated net earnings. Consolidated net earnings (as defined in the indenture) since October 31, 1940, less dividends paid, amount to $2,318,549.19.

Note D — Net assets of Canadian subsidiary included herein comprise net current assets, $564,617.46, included at the Control Board rate of exchange, and property, plant, and equipment and other assets, $326,384.51, included at amounts shown by the books of that subsidiary. Net profit includes $98,197.39 for the Canadian subsidiary, representing that subsidiary's net profit for the year after giving effect to adjustment of its net current assets to Control Board rate of exchange in effect at October 31, 1943. Consolidated earned surplus includes $1,442,224.03 of surplus of the Canadian subsidiary.

Note E — Profits of the companies include those from transactions subject to the provisions of the War Profits Control Act providing for the recapture of any profits found as a result of renegotiation to be excessive. In renegotiation proceedings for the year ended October 31, 1942, it was determined that profits realized from such transactions were not excessive, and it is believed that the effect, if any, that renegotiation proceedings may have upon the financial statements of the companies for the year ended October 31, 1943, will not be material.

Note F — In prior years certain items of discount and expense, provision for contingencies, and losses on dismantlements have been charged to capital surplus. If such items together with additional depreciation claimed for federal income tax purposes for the year 1932 to 1943 inclusive, had been charged against earned surplus instead of capital surplus, the respective amounts of such surplus accounts would be $7,570,109.02 and $9,835,620.99 at October 31, 1943.

Note G — Depreciation claimed in the Company's federal income tax return for the year 1943 exceeded the amount included in this statement by $69,481.07 due to depreciation claimed on costs written off or credited to revaluation reserve during 1932.

Note H — The status of the Company's investments in California Mining Companies has been explained in previous annual reports. The claim for damages filed against the United States Government, referred to in the Company's annual report for the year ended October 31, 1942, is still pending and relates to certain of the properties located in areas that will be flooded as a result of the construction of Shasta Dam in the State of California. The management is unable to state the possible amount of recovery under such claim or otherwise to estimate the value of these properties and it has decided to reduce the carrying value of its investments to a nominal amount of $2.00 by this charge to surplus, pending determination of actual value. Such nominal amount is included in "other investments" in the balance sheet.

ERNST & ERNST

CLEVELAND

UNION COMMERCE BUILDING

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

We have examined the consolidated balance sheet of The Glidden Company and subsidiaries as of October 31, 1943, and the consolidated statements of profit and loss and surplus for the fiscal year then ended, have reviewed the system of internal control and the accounting procedures of the companies and, without making a detailed audit of the transactions, have examined or tested accounting records of the companies and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary. Such procedures included test confirmation of trade receivables and observation of procedures employed by the companies in ascertaining inventory quantities at locations selected by us.

In our opinion, the accompanying balance sheet and related statements of profit and loss and surplus present fairly the consolidated position of The Glidden Company and its subsidiaries at October 31, 1943, and the consolidated results of their operations for the fiscal year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ERNST & ERNST
Certified Public Accountants.

Cleveland, Ohio,
December 27, 1943

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BOARD OF DIRECTORS

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

OFFICERS

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

Transfer Agent
V YORK TRUST COMPANY
New York City

Registrar
THE CHASE NATIONAL BANK
New York City