THE GLIDDEN COMPANY

CLEVELAND, OHIO

GLIDDEN
Everywhere on Everything

ANNUAL REPORT

Fiscal Year Ended October 31, 1937

THE GLIDDEN COMPANY

CLEVELAND, OHIO

December 31, 1937

To the Shareholders of
THE GLIDDEN COMPANY:

On behalf of the Board of Directors, the certified annual report of The Glidden Company for the year ending October 31, 1937 is herewith submitted.

Our fiscal year closed with the largest volume of sales in the history of the organization. The net sales aggregated more than Fifty-four Million Dollars and showed an increase over the previous year of a little more than 21%.

During ten months of the year the profits were satisfactory, running well above the previous year, but in the last two months of the year the commodity markets declined very rapidly so that on the last day of the fiscal year the commodity index reached the lowest point since 1934.

In taking inventory at that time, raw materials, having a quotable market, were written down to the lower of market or cost. While this adversely affected the showing for the fiscal year last closed, yet it placed our business in a good inventory position for the new fiscal year.

At the present time uncertainty is the controlling factor in taxes, labor and security markets. Because of this uncertainty it has been impossible to make constructive plans for the next year. If the labor situation could be stabilized and the undistributed profits tax could be repealed, and if business could be given an opportunity to properly plan for the future, a great number of men now unemployed could be quickly put to work and prosperity would result.

There is a tremendous dormant demand for Paints and Varnishes. On every hand there is need of new construction and of renovizing. Under normal conditions it would take several years to catch up with painting requirements. The increased use of color and the desire of the people for modern homes, better living conditions, and better finished furniture and household equipment all add to the good prospects for the Paint and Varnish industry when political factors will permit it to function normally.

Our Food Division is in excellent position on inventories, and owing to the low costs of vegetable oils such products as oleomargarine, shortening, cooking oils, etc. are enjoying a good sale. Regardless of conditions, people must eat and the prospects for the Food Division are most encouraging.

In our Soya Bean manufacturing operations we have spent large sums during the past year on research, sales, and advertising with the result that our products are well established in the markets of the country. Our new units are functioning perfectly and prospects are favorable.

In the Chemical and Pigments Division our lead, lithopone and titanium pigment operations are proceeding satisfactorily and we are finding an expanding market for the products.

The annual report will indicate that the Company is in good financial position and all the properties of the Company are in fine physical condition. The processes, machinery and equipment are all modern and production can be maintained on a competitive basis.

Notwithstanding the higher expenses caused by the various State Income Tax laws, and by the Social Security taxes and all-time peak wages, had it not been for the slump in commodity prices, final results would have been most gratifying. In spite of adverse conditions, encouragement is found in the fact that the sales for the first six weeks of the new fiscal year are only 6% below the good figures for the same period of last year.

Your Directors are gratified with the mutually satisfactory labor conditions existing throughout the organization. They take this opportunity of expressing their satisfaction with the good work of the executives and employees whose loyal efforts have contributed in maintaining the satisfactory relations with our customers which have enabled us to make a new sales record.

By order of the Board of Directors,

ADRIAN D. JOYCE,
President.

CONSOLIDATED

The Glidden Company and C

October

ASSETS

CURRENT ASSETS			
Cash		$ 1,234,817.92	
Trade notes and acceptances receivable	$ 163,823.30		
Trade accounts receivable	4,339,060.66		
	$4,502,883.96		
Less reserves	127,340.56	4,375,543.40	
Inventories—at lower of cost or market except as stated in Note A:			
Raw materials, in process, finished goods and supplies		11,778,663.43	
Other current accounts receivable and advances on purchase commitments		549,302.55	$17,938,327.30
INVESTMENTS IN SUBSIDIARY AND AFFILIATED COMPANIES			
California mining companies—at less than cost—Note B:			
Capital stock (wholly owned)	$ 15,000.00		
Bonds—principal amount $500,000.00	187,500.00		
Advances	857,481.46	$ 1,059,981.46	
Affiliated company—at cost—Note C: Capital stock		600,000.00	1,659,981.46
OTHER ASSETS AND INVESTMENTS			
Cash surrender value of life insurance		$ 399,629.25	
Claims against closed banks, less reserve		50,725.15	
Sundry investments, less reserve		165,551.64	
Miscellaneous notes and accounts, advances to salesmen and sundry deposits		60,183.69	676,089.73
PROPERTY, PLANT AND EQUIPMENT			
Land at cost or less		$ 1,995,463.92	
Buildings, machinery, equipment, etc., at cost or less		17,242,069.60	
		$19,237,533.52	
Less reserves for depreciation and depletion		6,293,458.33	12,944,075.19
INTANGIBLES			
Patents and rights to manufacture, at cost, less amortization			95,213.87
DEFERRED CHARGES			
Inventory of advertising stock, stationery, unexpired insurance premiums and prepaid expenses		$ 428,203.48	
Special new products development		115,916.91	544,120.39
			$33,857,807.94

ANCE SHEET

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LIABILITIES, CAPITAL STOCK AND SURPLUS

CURRENT LIABILITIES			
Notes payable to banks and through broker		$ 3,750,000.00	
Accounts payable		1,373,904.44	
Accrued taxes, royalties, insurance, etc.		391,650.64	
Provision for federal and state taxes on income—estimated		467,533.07	$ 5,983,088.15
RESERVE			
For contingencies			67,885.56
CAPITAL STOCK AND SURPLUS			
Capital stock:			
Convertible preferred, 4½% cumulative—par value $50.00 a share (each share convertible into nine-tenths share of common stock on or before March 1, 1939, and thereafter at rates specified in the articles):			
Authorized 200,000 shares			
Converted 60 shares			
Issued and outstanding 199,940 shares	$9,997,000.00		
Common—without par value—Note D:			
Authorized 1,200,000 shares			
Outstanding 800,801 shares			
Reserved for conversion 179,946 shares			
Stated Capital	4,006,705.00	$14,003,705.00	
Surplus:			
Capital surplus	$7,520,063.39		
Earned surplus	6,319,469.21	13,839,532.60	
		$27,843,237.60	
Less treasury stock—at cost:			
1,100 shares common		36,403.37	27,806,834.23
			$33,857,807.94

Note A—Inventory of oleo resin (raw material from which nelio resin is produced by a patented process) is included on the basis of average cost, which cost aggregated approximately $95,000.00 more than market value computed on the basis of quotations for small quantities at October 31, 1937. No adjustment has been made in respect of this raw material inventory as, in the judgment of the management, the cost represents a fair valuation of the quantity which is being carried and which is required for continuous operation.

The Company was committed to purchase certain raw materials at prices, which, in the aggregate, exceeded quoted market prices at the date of this balance sheet by approximately $101,000.00.

Note B—Investments in California mining companies, whose assets consist almost entirely of properties not being operated, are stated herein at less than cost, which carrying value, on the basis of unaudited balance sheets, was $28,980.09 less than the book value of the net assets of those companies. Losses (aggregating $244,110.07 in excess of provisions or other credits of The Glidden Company applicable thereagainst) have been experienced by these companies from date of acquisition to October 31, 1937, however, the losses for the past few years, since operations of properties were suspended, have represented principally expenses in maintaining the properties. The value of investments in these companies is indeterminable at this time.

Note C—Investment in affiliated company represents one hundred per cent interest in 7% preferred stock of the American Zirconium Corporation, having a par value of $600,000.00, the dividends on which have been paid to October 1, 1937, and a forty-five per cent interest in the common stock of the same company; the unaudited statement of the company shows accumulated undistributed earnings of $24,454.50 at October 31, 1937, of which $12,928.77 is applicable to The Glidden Company's investment therein.

Note D—Warrants evidencing the rights to subscribe for 64,004-4/5 shares of common stock at $30.00 a share were issued to common shareholders of record October 4, 1937. As of October 31, 1937, holders of warrants for 741 shares had exercised such rights; the remainder of the warrants outstanding, entitling holders thereof to subscribe to 63,263-4/5 shares of common stock, expire December 15, 1937.

Contingent liabilities:

The Company was reported as having letters of credit outstanding in the amount of $990,996.82 and it was contingently liable in the maximum amount of $11,799.20 as guarantor of trade notes issued by or for account of customers.

SURPLUS ACCOUNTS

The Glidden Company and Consolidated Canadian Subsidiary

October 31, 1937

CAPITAL SURPLUS			
Balance October 31, 1936			$ 7,524,343.82
DEDUCTION			
Registration and other expenses in connection with offer to common shareholders for subscription of 78,400-12/25 shares of common stock		$ 22,805.43	
Less excess of selling price of $30.00 a share over stated value of 741 shares sold		18,525.00	4,280.43
BALANCE OCTOBER 31, 1937			$ 7,520,063.39
EARNED SURPLUS			
Balance October 31, 1936			$ 6,306,721.99
ADDITION			
Net profit for the fiscal year ended October 31, 1937		$ 2,542,793.30	
Less dividends paid:			
Convertible preferred—$2.25 a share	$ 449,920.08		
Common—$2.60 a share	2,080,126.00	2,530,046.08	12,747.22
BALANCE OCTOBER 31, 1937			$ 6,319,469.21

Note—In prior years certain items of discount and expense, provision for contingencies and losses on dismantlement have been charged to capital surplus. If such items together with additional depreciation claimed for federal income tax purposes for the years 1932 to 1936, inclusive, had been charged against earned surplus instead of capital surplus, the respective amounts of such surplus accounts would be $5,602,488.81 and $8,237,043.79 as at October 31, 1937. The Company's federal income tax return for the year 1937 was not completed at the date of this statement but depreciation to be claimed therein will exceed provision charged to profit and loss for the year ended October 31, 1937.

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CONSOLIDATED PROFIT AND LOSS STATEMENT

The Glidden Company and Consolidated Canadian Subsidiary

For the fiscal year ended October 31, 1937

Net sales		$54,052,233.07
Cost of goods sold, selling, administrative and general expenses (exclusive of depreciation)		50,870,807.32
PROFIT BEFORE INTEREST, DEPRECIATION AND OTHER INCOME		$ 3,181,425.75
Other income ($609,631.58) less other deductions ($162,353.99)	$ 447,277.59	
Less interest expense	48,971.29	398,306.30
PROFIT BEFORE PROVIDING FOR DEPRECIATION AND FEDERAL, DOMINION AND STATE TAXES ON INCOME		$ 3,579,732.05
Provision for depreciation and depletion		607,735.02
PROFIT BEFORE FEDERAL, DOMINION AND STATE TAXES ON INCOME		$ 2,971,997.03
Provision for estimated federal normal income tax and dominion and state taxes on income (no provision for surtax on undistributed profits considered necessary)		429,203.73
NET PROFIT		$ 2,542,793.30

Notes:

No provision has been made in the foregoing statement for loss of wholly owned non-operating California mining companies for the year, amounting to $44,792.84 including provision for depreciation in the amount of $27,908.64.

The Company's federal income tax return for the year 1937 was not completed at the date of this statement but depreciation to be claimed therein will exceed provision in this statement due to depreciation claimed on costs written off or credited to revaluation reserve during 1932.

Reference is made to Note A to the balance sheet concerning pricing of certain raw material inventories.

ERNST & ERNST

ACCOUNTANTS AND AUDITORS
SYSTEM SERVICE

CLEVELAND

Union Trust Building

December 24, 1937

The Glidden Company,
Cleveland, Ohio.

We have made an examination of the balance sheet of THE GLIDDEN COMPANY and its wholly owned subsidiary THE GLIDDEN COMPANY, LTD., (California mining companies excluded) as at October 31, 1937, and of the statements of profit and loss and surplus for the year ended at that date. In connection therewith we examined or tested accounting records of the Companies and other supporting evidence, and obtained information and explanations from officers and employees of the Companies; we also made a general review of the accounting methods and of the operating and income accounts for the year, but we did not make a detailed audit of the transactions.

Based on our tests of prices used in the inventories, it is our opinion that the inventories are stated on the basis of the lower of cost or market prices except certain raw materials referred to in Note A to the balance sheet.

Property, plant and equipment are stated on the basis of cost or less, reduction having been made in 1932 to eliminate appreciation and to provide for further write-downs.

Officers of the Companies have expressed the opinion that pending lawsuits are of minor importance and that no material losses will result therefrom.

In our opinion, based upon our examination and excluding the California mining companies, the accompanying balance sheet and related statements of profit and loss and surplus fairly present the consolidated position of the Company and The Glidden Company, Ltd., at October 31, 1937, and the consolidated results from their operations for the year ended at that date. Further, it is our opinion that except for the inclusion of certain raw materials in inventories at cost which exceeded market price at October 31, 1937, as stated in Note A to the balance sheet, the statements have been prepared in accordance with accepted principles of accounting and on a basis consistent with the preceding year.

ERNST & ERNST
Certified Public Accountants

GLD002913

THE GLIDDEN COMPANY

CLEVELAND, OHIO

FACTORIES FROM COAST TO COAST
BRANCHES IN PRINCIPAL CITIES

Atlanta, Ga.
Bakersfield, Calif.
Baltimore, Md.
Berkeley, Calif.
Binghamton, N. Y.
Birmingham, Ala.
Boston, Mass.
Buffalo, N. Y.
Charlotte, N. C.
Chicago, Ill.
Cleveland, Ohio
Chico, Calif.
Collins, Ga.
Collinsville, Ill.
Dallas, Texas
Detroit, Mich.
Elmhurst, L. I., N. Y.
El Paso, Texas
Evansville, Ind.
Ft. Worth, Texas
Fresno, Calif.
Halifax, N. S.
Hammond, Ind.
Houston, Texas
Honolulu, T. H.
Jacksonville, Fla.
Knoxville, Tenn.
Los Angeles, Calif.
Long Island City, N. Y.
Louisville, Ky.
Miami, Fla.
Minneapolis, Minn.
Montreal, Canada
New Orleans, La.
Norwalk, Ohio
Oakland, Calif.
Oklahoma City, Okla.
Orlando, Fla.
Pittsburgh, Pa.
Portland, Ore.
Reading, Pa.
Sacramento, Calif.
San Antonio, Texas
San Francisco, Calif.
San Jose, Calif.
Scranton, Pa.
St. Louis, Mo.
St. Petersburg, Fla.
Stockton, Calif.
Tampa, Fla.
Toledo, Ohio
Toronto, Canada
Valdosta, Ga.
Washington, D. C.
Winnipeg, Canada
Wilkes Barre, Pa.
West Palm Beach, Fla.