

Lubrizol

CORPORATION

ANNUAL REPORT
TO
STOCKHOLDERS

1960

CLEVELAND 17, OHIO



THE LUBRIZOL CORPORATION

Cleveland 17, Ohio

DIRECTORS

*F. Alex Nason, *Chairman*

*M. Roger Clapp	*Ray J. Ozmun
*R. J. Ferree	*Kelvin Smith
David K. Ford	Kent H. Smith
*T. L. Holland	*Vincent K. Smith
*T. W. Mastin	*A. O. Willey

**Members of Executive Committee*

OFFICERS

Kelvin Smith, *President*
A. O. Willey, *Executive Vice-President*
M. Roger Clapp, *Vice-President, Manufacturing*
R. J. Ferree, *Vice-President, Finance*
T. L. Holland, *Vice-President, Sales*
T. W. Mastin, *Vice-President, Research and Development*
F. Alex Nason, *Vice-President, Foreign Operations*
Vincent K. Smith, *Vice-President, Personnel and Public Relations*
Ray J. Ozmun, *Secretary-Treasurer*
Vincent K. Smith, *Assistant Secretary*
J. M. Zlatoper, *Assistant Treasurer*

Registrar and Transfer Agent

The National City Bank of Cleveland

P. O. Box 5756

Cleveland 1, Ohio

President's Message

Effect of Current Recession.

The current recession has had significantly less effect on our business than that of 1957-58. During the earlier period our principal domestic customers drastically reduced their inventories and the volume of their orders, perhaps more so than was normal for most businesses at that time. In addition to the fact that economists are agreed on the present set-back being a milder one, it has also had a less-than-normal effect on Lubrizol business because our customers have not repeated the drastic reductions in inventories and rate of buying that occurred during 1957 and 1958. Furthermore, the expansion of our foreign sales has continued at a rate to make up somewhat for the temporary slowing down of our domestic business.

Costs.

On the other hand, our costs have continued to go up like those of most other companies in spite of effective efforts to find less expensive raw materials and more efficient ways of using them. We hope that, by the time our volume of domestic sales has returned to normal (and "normal" for us means a substantial increase over prior years), our efforts to reduce those costs which are susceptible to reduction will have offset increases in the others.

Research.

One kind of expenditure has been intentionally increased, that is our outlay for research. We have begun to make use of our expanded research building facilities by adding to our research staff as fast as we can find qualified personnel. We believe that the added output of research has enabled us to maintain our competitive position and will give us the opportunity to improve it in the future.

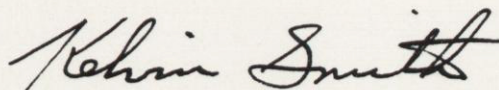
Sales.

Another kind of effort which has helped us to lessen the effect of the recession has been that carried on by our Sales Division to add new customers to our list, and new kinds of products to those being sold established customers.

* * * *

The net effect of the items discussed above during the first part of this recession has been to make our profits substantially less than forecast at the beginning of the year, principally because of a lower volume of sales than had been expected. We have reason now to believe that the opposite will be true for the balance of the recession period; in other words, that our profits for the first half of 1961 will be better than we anticipated at the close of 1960.

April 14, 1961



President,

Consolidated Statement of Income

	Year ended December 31	
	<u>1960</u>	<u>1959</u>
Net sales	\$52,398,717	\$50,967,035
Cost of goods sold <i>(including \$1,527,899 depreciation)</i>	<u>33,614,756</u>	<u>32,614,971</u>
Gross profit	\$18,783,961	\$18,352,064
Selling, administrative, and research expenses	<u>11,640,614</u>	<u>10,067,700</u>
Income from operations	\$ 7,143,347	\$ 8,284,364
Other income:		
Income from British operations (Note 1)	634,833	795,648
Settlement of licensing agreement claim		500,000
Miscellaneous	<u>71,454</u>	<u>109,105</u>
Income before provision for taxes on income	\$ 7,849,634	\$ 9,689,117
Provision for taxes on income (Note 2)	<u>4,013,237</u>	<u>4,404,244</u>
Income before minority interest	\$ 3,836,397	\$ 5,284,873
Less minority interest in current earnings of French subsidiary	<u>77,821</u>	<u>88,232</u>
Net income	<u>\$ 3,758,576</u>	<u>\$ 5,196,641</u>

The accompanying notes to financial statements on page 7 are an integral part of this statement.

Consolidated Statement of Financial

Working Capital	December 31	
	<u>1960</u>	<u>1959</u>
Current assets:		
Cash	\$ 1,470,558	\$ 2,702,042
Marketable securities—at lower of cost or market	4,101,085	5,653,342
Receivables:		
Customers	3,002,221	2,459,976
Other (including \$1,457,783 from Banco do Brasil)	1,732,351	339,182
Inventories—at cost not in excess of market:		
Finished products	1,756,655	1,472,989
Products in process	1,731,803	1,229,525
Raw materials and supplies	3,481,704	3,975,650
Prepaid expenses	620,413	559,289
Total current assets	<u>\$17,896,790</u>	<u>\$18,391,995</u>
Less current liabilities:		
Accounts payable:		
Trade	\$ 1,692,643	\$ 1,804,512
Other	557,306	574,022
Accrued expenses:		
Federal income taxes (Note 2)	2,279,613	2,832,207
Other taxes	337,242	248,888
Commitment to profit sharing trust	13,211	483,806
Royalties	295,480	256,852
Salaries, wages, and commissions	452,644	389,159
Other	155,327	71,928
Total current liabilities	<u>\$ 5,783,466</u>	<u>\$ 6,661,374</u>
Working capital	<u>\$12,113,324</u>	<u>\$11,730,621</u>

The accompanying notes to financial statement

Position, December 31, 1960 and 1959

Net Assets and Stockholders' Investment	December 31	
	1960	1959
Working capital (brought forward)	<u>\$12,113,324</u>	<u>\$11,730,621</u>
Investments and miscellaneous assets:		
Cash surrender value of life insurance	\$ 241,768	\$ 228,051
Lubrizol Great Britain, Ltd. (Note 1)	277,204	5,014
Other	188,767	149,374
Total investment and miscellaneous assets	<u>\$ 707,739</u>	<u>\$ 382,439</u>
Plant property—at cost:		
Land and improvements	\$ 1,722,862	\$ 1,501,785
Buildings and improvements	8,374,350	7,265,841
Machinery and equipment	14,036,464	12,080,646
Construction in progress	741,619	1,113,217
Total	<u>\$24,875,295</u>	<u>\$21,961,489</u>
Less accumulated depreciation and amortization	8,777,674	7,397,207
Plant property—net	<u>\$16,097,621</u>	<u>\$14,564,282</u>
Patents and trade marks—at cost less		
\$106,343 accumulated amortization	\$ 1,116,841	\$ 1,117,024
Total	<u>\$30,035,525</u>	<u>\$27,794,366</u>
Less minority interest in French subsidiary	344,502	306,555
Net assets—Stockholders' investment	<u>\$29,691,023</u>	<u>\$27,487,811</u>
Stockholders' investment:		
Capital stock—par value \$1 a share (Note 3)	\$17,940,440	\$18,005,181
Retained earnings	11,750,583	9,482,630
Total stockholders' investment	<u>\$29,691,023</u>	<u>\$27,487,811</u>

s on page 7 are an integral part of this statement.

Consolidated Statement of Retained Earnings

Retained earnings, January 1, 1960	\$ 9,482,630
Net income	3,758,576
Excess of January 1, 1960 book value over cost of 55% interest in British subsidiary (Note 1)	<u>244,476</u>
Total	\$13,485,682
Less:	
Cash dividends—\$3 a share	\$ 1,629,840
Excess of cost over stated value of capital stock retired	<u>105,259</u>
Total	\$ <u>1,735,099</u>
Retained earnings, December 31, 1960	<u>\$11,750,583</u>

Opinion of Independent Certified Public Accountants

To the Stockholders and Board of Directors of The Lubrizol Corporation:

We have examined the consolidated statement of financial position of The Lubrizol Corporation and its subsidiaries as of December 31, 1960 and the related consolidated statements of income and retained earnings 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, the accompanying consolidated statement of financial position and consolidated statements of income and retained earnings present fairly the financial position of the companies at December 31, 1960 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.

Cleveland, Ohio
April 14, 1961

HASKINS & SELLS

Notes to Financial Statements

1. Principles of Consolidation

The consolidated financial statements include all the Company's subsidiaries except a 55% owned British company. Beginning January 1, 1960, the interest in the British company was carried at net book value as shown by the financial statements of the subsidiary.

A summary of the net assets at December 31, 1960 of companies outside United States and Canada is as follows:

Working capital	\$3,609,393
Property—net	1,622,671
Other assets (including equity in British company)	<u>313,698</u>
Total	\$5,545,762
Less minority interest remainder	<u>344,502</u>
Total	<u><u>\$5,201,260</u></u>

2. Federal Income Taxes

The Internal Revenue Service is examining the income tax returns of the Company for 1957, 1958, and 1959. No formal proposal has been made by the examiner, but it appears from informal conferences that the Internal Revenue Service may take the position that a substantial portion of foreign income is subject to U.S. income tax. In the opinion of management, adequate provision has been made in the financial statements for all taxes which will be payable.

3. Capital Stock

A summary of capital stock authorized and outstanding at December 31, 1960 is as follows:

	<u>Number of Shares</u>	
	Authorized	Outstanding
Common shares	800,000	203,248
Class A shares	150,240	150,240
Class B shares	73,503	
Class C shares	338,832	<u>188,592</u>
Total		<u><u>542,080</u></u>

All classes of stock have equal rights except Class B shares which are non-voting. Transfers of Class A shares are restricted and the Company has the option to purchase such shares at a formula price in certain instances; they are convertible into Class C shares at the option of the holder. Class C shares are freely transferable, but are callable by the Company at the Class A formula price plus a premium. Common shares were authorized in November, 1960; they are not callable and are freely transferable. Class A, B, and C shares are convertible into Common shares at the option of the holder.

At March 31, 1961, Common shares comprised approximately 90% of the Company's outstanding stock.

THE LUBRIZOL CORPORATION AND PRINCIPAL SUBSIDIARIES

Parent Company

The Lubrizol Corporation
P. O. Box 3057
Cleveland 17, Ohio

Plant Locations

WICKLIFFE PLANT

29400 Lakeland Blvd.
Wickliffe, Ohio

HOUSTON PLANT

Tidal Road
Deer Park, Texas

PAINESVILLE PLANT

Blackbrook Road
Painesville, Ohio

Domestic and Canadian Corporations

International Rustproof Corporation
1061 East 260th Street,
Euclid, Ohio

Cleveland Industrial Research
1296 East 260th Street
Euclid, Ohio

Lubrizol of Canada, Ltd.
Thorold Stone Road
Niagara Falls, Ontario

Foreign Operations

Lubrizol France, S. A.
122 Avenue des Champs-Elysees
Paris 8^e, France

Lubrizol de Mexico, S. de R. L.
Apartado 2044
Monterrey, N. L., Mexico

Lubrizol Great Britain, Ltd.
Thorn House,
London W. C. 2, England

Lubrizol G. m. b. H.
Burchardstrasse 1,
Hamburg 1, West Germany

Lubrizol International, S. A.
P. O. Box 323,
Nassau, The Bahamas

Lubrizol do Brasil, Ltda.
Avenida 13 de Maio, 23 - S/729
Rio de Janeiro, Brazil

Lubrizol Australia
28 River Street
North Lidcombe,
New South Wales, Australia

Lubrizol Japan, Ltd.
103 Mitsui Building Annex
Muromachi, Nihonbashi,
Tokyo, Japan

