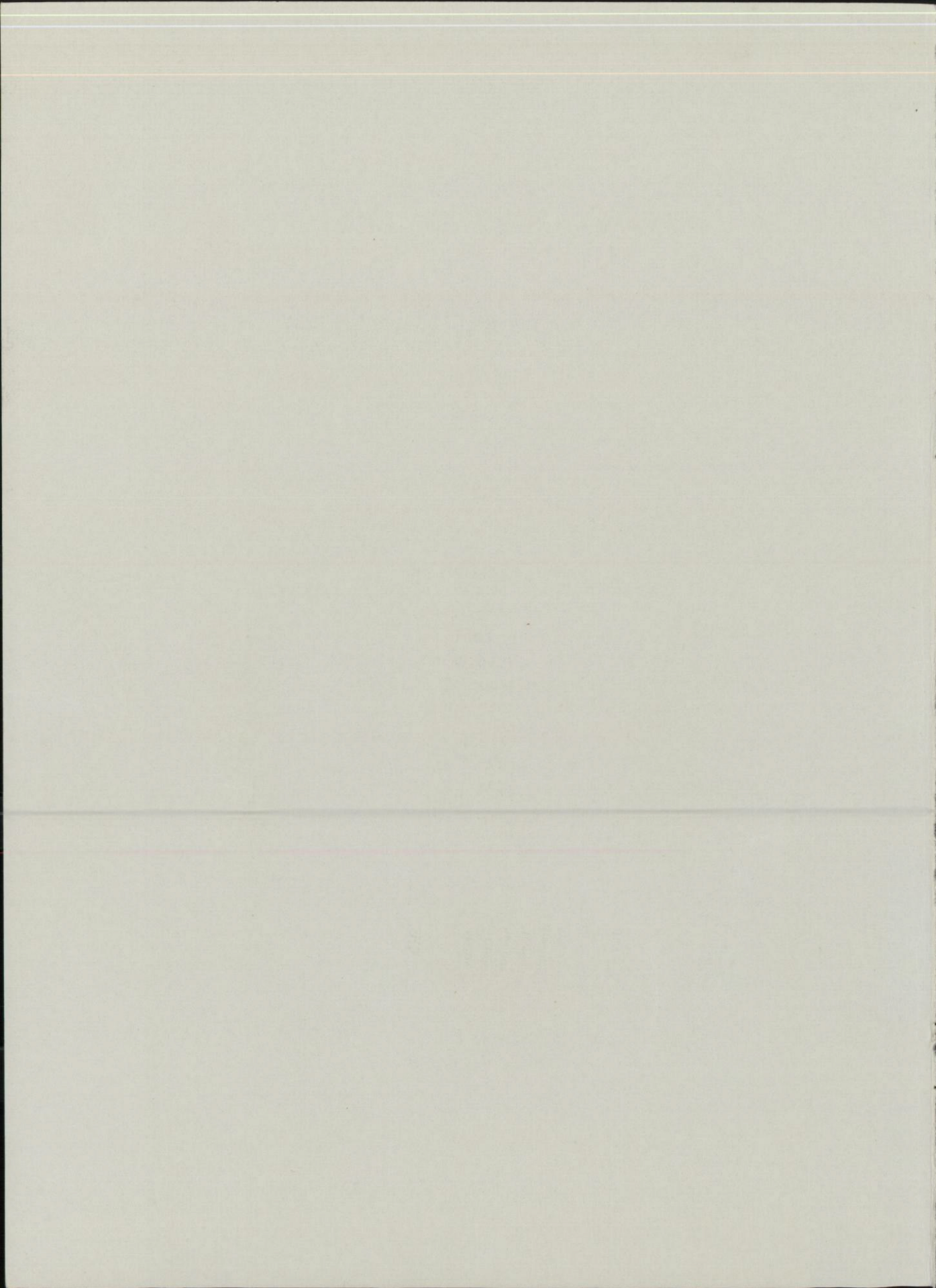


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# THE LUBRIZOL CORPORATION

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*Annual Report for 1961*



## Lubrizol in Brief

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Lubrizol develops, produces and markets chemicals used in lubricants. These chemicals, called additives, are used in large quantities by the petroleum industry in producing finished lubricants.

Additives give a lubricant new properties that oil alone cannot provide. They also improve desirable properties that oil does possess.

In determining the design of engines, transmissions and rear axles, automotive engineers rely on the particular lubricating characteristics that are possible through the use of additives. The types of chemicals that Lubrizol produces have thus become necessities in the performance of present-day cars, trucks and heavy off-the-road equipment.

Lubrizol was established in 1928 and has been a pioneer in the development of lubricant additives. The company today plays a leading role in the worldwide production of these chemicals, and in the extensive research and testing that are necessary for continuing advances in the field.

Lubrizol has modern production plants at Wickliffe and Painesville, Ohio, at Houston, Texas, and in six foreign countries. Sales and technical service offices are maintained in 24 cities throughout the world. Research and testing laboratories are at Wickliffe and at Hazelwood, near Derby, England.

## President's Message

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An increase in the number of Lubrizol shareholders during 1961, from 344 to 637, prompts me to express for the management a word of welcome to our many new partners.

In the light of business in general during 1961, this corporation had a relatively satisfactory year.

The increase in consolidated sales, over 5% as compared with 1960, depended to a considerable degree on the efforts that have been made to increase sales abroad. Of the total volume of Lubrizol products sold world-wide, the proportion which went to overseas customers during the year continued to increase and was well above one-third. Opportunities for further gains in foreign sales are extensive and justify plans to give added attention to those areas. We are therefore continuing to build up the organization charged with promoting overseas sales. At the same time further strengthening of the domestic sales effort is underway.

### Highlights

	<u>1961</u>	<u>Per Cent Increase Over 1960</u>
Sales . . . . .	\$55,204,922	5.3%
Net income . . . . .	4,824,503	28.4
Net income per share . . . . .	8.92	28.7
Dividends per share . . . . .	3.25	8.3

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The increase in income over 1960, amounting to about 28%, may be misleading in view of substantial unusual and non-recurring items which were included in both 1960 and 1961. In 1960, the effect of such items was to reduce income and in 1961, to increase it. The overall effect of excluding these items in both years would be to make the change in net income of no significance. Our experience, like that of all other domestic corporations, shows that many expenses keep going up in spite of all efforts to hold them down, thus partly offsetting the higher gross profit coming from increased sales. A more important item of increased expense, however, has been caused by expansion of manufacturing, service, and sales facilities in the company's primary field of business. We believe these added facilities will pay off in the near future by improving our competitive advantage as the market increase is realized.

Your attention should be directed to the continuing emphasis on research and development which made possible the effectiveness of newly-developed products in retaining business in certain areas and expanding it in others. It is noteworthy that personnel engaged in the research and development activity represent about a third of those employed by the corporation and its subsidiaries.

Every business factor of which we are aware would indicate a still more satisfactory year in 1962. To help accomplish this, much of the expansion program referred to above has reached completion and has put us in position to handle the significant increases in volume which are anticipated.

March 30, 1962

KELVIN SMITH  
*President*

## Consolidated Statement of Financial Position

	December 31	
WORKING CAPITAL	1961	1960
Current assets:		
Cash . . . . .	\$ 1,916,643	\$ 1,470,558
Marketable securities—at lower of cost or market . . .	4,248,510	4,101,085
Receivables:		
Customers . . . . .	3,707,436	3,002,221
Other . . . . .	660,996	1,732,351
Inventories—at cost not in excess of market:		
Finished products . . . . .	1,694,215	1,756,655
Products in process . . . . .	3,165,163	1,731,803
Raw materials and supplies . . . . .	3,667,625	3,481,704
Prepaid expenses . . . . .	578,478	620,413
Total current assets . . . . .	19,639,066	17,896,790
Less current liabilities:		
Accounts payable:		
Trade . . . . .	1,778,017	1,692,643
Other . . . . .	359,438	557,306
Accrued expenses:		
Federal income taxes (Note 2) . . . . .	1,496,771	2,279,613
Other taxes . . . . .	352,050	337,242
Commitment to profit sharing trust . . . . .	179,378	13,211
Royalties . . . . .	117,254	295,480
Salaries, wages, and commissions . . . . .	544,793	452,644
Other . . . . .	61,701	155,327
Total current liabilities . . . . .	4,889,402	5,783,466
Working capital . . . . .	\$14,749,664	\$12,113,324

*The notes to financial statements on Pages 7 and 8 are an integral part of this statement.*

NET ASSETS AND STOCKHOLDERS' INTEREST	December 31	
	1961	1960
Working capital (brought forward) . . . . .	\$14,749,664	\$12,113,324
Investments and miscellaneous assets:		
Cash surrender value of life insurance . . . . .	253,714	241,768
Lubrizol Great Britain, Ltd. (Note 1) . . . . .	199,129	277,204
Other . . . . .	112,812	188,767
Total investment and miscellaneous assets . . . . .	<u>565,655</u>	<u>707,739</u>
Plant property—at cost:		
Land and improvements . . . . .	2,020,909	1,722,862
Buildings and improvements . . . . .	8,906,511	8,374,350
Machinery and equipment . . . . .	15,845,622	14,036,464
Construction in progress . . . . .	173,006	741,619
Total . . . . .	<u>26,946,048</u>	<u>24,875,295</u>
Less accumulated depreciation and amortization . . . . .	<u>10,360,353</u>	<u>8,777,674</u>
Plant property—net . . . . .	<u>16,585,695</u>	<u>16,097,621</u>
Patents and trade marks—at cost less \$115,192 accumulated amortization . . . . .	<u>1,119,301</u>	<u>1,116,841</u>
Less minority interest in French subsidiary . . . . .	(401,402)	(344,502)
Net assets—Stockholders' interest . . . . .	<u>\$32,618,913</u>	<u>\$29,691,023</u>
Stockholders' interest:		
Capital stock—\$1 par value (Note 3):		
Class C—authorized and outstanding, 7,651 shares . . . . .	\$ 247,595	\$ 6,103,046
Common—authorized 800,000 shares; outstanding 532,929 shares . . . . .	17,643,183	11,837,394
Capitalized earnings and statutory reserves of foreign sub- sidiaries . . . . .	877,197	813,219
Retained earnings . . . . .	13,850,938	10,937,364
Total stockholders' interest . . . . .	<u>\$32,618,913</u>	<u>\$29,691,023</u>

## Consolidated Statement of Income and Retained Earnings

	Year ended December 31	
	1961	1960
Net sales . . . . .	\$55,204,922	\$52,398,717
Cost of goods sold (Note 4) . . . . .	34,527,632	33,614,756
Gross profit . . . . .	20,677,290	18,783,961
Selling, administrative, and research expenses (Note 4) . . . . .	13,227,137	11,640,614
Income from operations . . . . .	7,450,153	7,143,347
Other income:		
Income from British operations (Note 1) . . . . .	680,161	634,833
Miscellaneous . . . . .	6,194	71,454
Income before provision for taxes on income . . . . .	8,136,508	7,849,634
Provision for taxes on income (Notes 2 and 5) . . . . .	3,204,776	4,013,237
Income before minority interest . . . . .	4,931,732	3,836,397
Less minority interest in current earnings of French subsidiary	107,229	77,821
Net income . . . . .	4,824,503	3,758,576
Retained earnings, January 1 . . . . .	10,937,364	8,721,958
Excess of January 1, 1960 book value over cost of 55% interest in British subsidiary (Note 1) . . . . .	—	244,476
Total . . . . .	15,761,867	12,725,010
Less:		
Cash dividends—\$3.25 per share in 1961 and \$3.00 per share in 1960 . . . . .	1,759,585	1,629,840
Excess of cost over stated value of capital stock retired . . . . .	87,366	105,259
Amount transferred to statutory reserves of foreign sub- sidiaries . . . . .	63,978	52,547
Total . . . . .	1,910,929	1,787,646
Retained earnings, December 31 . . . . .	\$13,850,938	\$10,937,364

*The notes to financial statements on Pages 7 and 8 are an integral part of this statement.*



# Notes to Financial Statements

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## 1. Principles of Consolidation

The following subsidiaries are included in the financial statements:

- Lubrizol of Canada, Limited
- Lubrizol France S. A.
- Lubrizol G. m. b. H. (German company)
- Lubrizol A. G. (Swiss company)
- Addex Manufacturing Company
- Cleveland Industrial Research, Inc.
- Lubrizol International S. A. (Venezuelan company)
- Lubrizol de Mexico S. de R. L.
- Lubrizol do Brasil, Limitada
- Lubrizol South Africa (Proprietary) Limited
- Lubrizol Australia (a branch of Lubrizol International)

All of the subsidiaries listed above are 100 per cent owned, with the exception of Lubrizol France, which is 80 per cent owned.

See Note 5 regarding the merger of International Rustproof Corporation with The Lubrizol Corporation.

The Company's 55% interest in the earnings of Lubrizol Great Britain, Ltd. is included in the consolidated statement of income and the Company's investment is stated at its net book value as shown by the accounts of the subsidiary. Lubrizol Japan, Ltd. has not been consolidated because withdrawal of its earnings is restricted.

A summary of the net assets at December 31, 1961 of companies outside the United States and Canada is as follows:

Working capital . . . . .	\$4,760,771
Property—net . . . . .	2,068,393
Other assets (including interest in British company) . . . . .	<u>231,036</u>
Total . . . . .	7,060,200
Less minority interest . . . . .	<u>401,402</u>
Remainder . . . . .	<u>\$6,658,798</u>

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**2. Federal Income Taxes**

The Internal Revenue Service has examined the Company's income tax returns through 1960. In the opinion of management, adequate provision has been made in the financial statements for all taxes which will be payable.

**3. Capital Stock**

The Company's Class C stock and Common stock have equal rights in earnings and assets. Class C shares are freely transferable but are callable by the Company at any time at a formula price plus a premium, and are convertible into Common stock on a share for share basis at the option of the holder. Common shares are freely transferable and are neither restricted nor callable.

**4. Depreciation**

Depreciation included in costs and expenses amounted to \$1,832,136 in 1961 and \$1,527,899 in 1960.

**5. Merger of International Rustproof Corporation**

International Rustproof Corporation, previously a wholly-owned subsidiary, was merged with The Lubrizol Corporation during the year. Its operations are being continued as a division of the Company. The income tax provision for the year was reduced by \$418,600 because the accumulated operating losses of International Rustproof Corporation were applied to reduce the taxable income of The Lubrizol Corporation. This reduction in income tax amounted to approximately \$.77 per share of stock outstanding.

## Accountants' Opinion

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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, 1961 and the related consolidated statement 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 statement of income and retained earnings present fairly the financial position of the companies at December 31, 1961 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.

HASKINS & SELLS

Cleveland, Ohio  
March 29, 1962

## Five Year Summary of Financial Data

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		<u>1961</u>
<p>CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT END OF YEAR</p>	Current assets . . . . .	\$19,639,066
	Current liabilities . . . . .	<u>4,889,402</u>
	Working capital . . . . .	14,749,664
	Plant property—net . . . . .	16,585,695
	Other assets (less minority interest) . . . . .	<u>1,283,554</u>
	Excess of assets over liabilities—Stockholders' interest . . . . .	<u><u>\$32,618,913</u></u>
<p>CONSOLIDATED STATEMENT OF INCOME FOR THE YEAR</p>	Net sales . . . . .	\$55,204,922
	Costs and expenses . . . . .	<u>47,068,414</u>
	Income before provision for taxes on income . . . . .	8,136,508
	Provision for taxes on income . . . . .	<u>3,204,776</u>
	Income before deduction of minority interest . . . . .	4,931,732
	Less minority interest . . . . .	<u>107,229</u>
Net income . . . . .	<u><u>\$ 4,824,503</u></u>	
<p>OTHER DATA</p>	Depreciation . . . . .	\$ 1,832,136
	Number of stockholders at end of year . . . . .	637
	Shares of Common stock outstanding . . . . .	540,580
	Stockholders' interest per share . . . . .	\$60.34
	Net income per share . . . . .	8.92
	Dividends paid per share . . . . .	3.25

1960	1959	1958	1957
\$17,896,790	\$18,391,995	\$14,828,445	\$12,697,888
5,783,466	6,661,374	4,942,064	4,581,197
12,113,324	11,730,621	9,886,381	8,116,691
16,097,621	14,564,282	12,291,823	12,570,773
1,480,078	1,192,908	1,140,031	1,120,111
<u>\$29,691,023</u>	<u>\$27,487,811</u>	<u>\$23,318,235</u>	<u>\$21,807,575</u>
\$52,398,717	\$50,967,035	\$42,025,647	\$43,594,968
44,549,083	41,277,918	36,224,976	36,902,238
7,849,634	9,689,117	5,800,671	6,692,730
4,013,237	4,404,244	2,723,389	3,218,153
3,836,397	5,284,873	3,077,282	3,474,577
77,821	88,232	41,729	14,410
<u>\$ 3,758,576</u>	<u>\$ 5,196,641</u>	<u>\$ 3,035,553</u>	<u>\$ 3,460,167</u>
\$ 1,527,899	\$ 1,312,299	\$ 1,266,258	\$ 1,169,058
344	214	184	149
542,080	544,080	531,285	536,585
\$54.77	\$50.52	\$43.89	\$40.64
6.93	9.55	5.71	6.45
3.00	3.00	2.25	2.50

# THE LUBRIZOL CORPORATION

CLEVELAND 17, OHIO

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## DIRECTORS

F. ALEX NASON, *Chairman*  
M. ROGER CLAPP  
RUSSELL J. FERREE  
DAVID K. FORD  
THOMAS L. HOLLAND

THOMAS W. MASTIN  
KELVIN SMITH  
KENT H. SMITH  
VINCENT K. SMITH  
ARTHUR O. WILLEY

## OFFICERS

F. ALEX NASON, *Chairman of the Board*  
KELVIN SMITH, *President*  
A. O. WILLEY, *Executive Vice-President*  
M. ROGER CLAPP, *Vice-President,*  
*Manufacturing and Foreign Operations*  
R. J. FERREE, *Vice-President, Finance*  
T. L. HOLLAND, *Vice-President, Sales*

T. W. MASTIN, *Vice-President, Research and*  
*Development*  
J. L. PALMER, *Vice-President, Engineering*  
VINCENT K. SMITH, *Secretary and Vice-*  
*President, Personnel and Public Relations*  
J. M. ZLATOPER, *Treasurer*  
D. W. RICHARDSON, *Assistant Secretary*

## REGISTRAR AND TRANSFER AGENT

The National City Bank of Cleveland  
P. O. Box 5756, Cleveland 1, Ohio

## MANUFACTURING PLANTS

Wickliffe, Ohio  
Painesville, Ohio  
Houston, Texas

Monterrey, Mexico  
Niagara Falls, Ontario, Canada  
Oldbury, England

Rio de Janeiro, Brazil  
Rouen, France  
Sydney, Australia

## RESEARCH AND TESTING LABORATORIES

Wickliffe, Ohio

Hazelwood, near Derby, England

## SALES AND TECHNICAL SERVICE OFFICES

Cleveland  
New York (Ridgewood, N. J.)  
Chicago (Naperville, Ill.)  
Los Angeles (Pasadena, Calif.)  
Tulsa, Oklahoma  
Athens, Greece  
Brussels, Belgium  
Buenos Aires, Argentina

Copenhagen, Denmark  
Durban, South Africa  
Hamburg, West Germany  
La Paz, Bolivia  
London, England  
Lucerne, Switzerland  
Melbourne, Australia  
Mexico City, Mexico

Milan, Italy  
Nassau, Bahamas  
Paris, France  
Rio de Janeiro, Brazil  
Stockholm, Sweden  
Tokyo, Japan  
Vienna, Austria  
Wellington, New Zealand

