

CLEVELAND PUBLIC LIBRARY
BUSINESS INF. BUR.
CORPORATION FILE

THE
LUBRIZOL
CORPORATION

ANNUAL REPORT

1962



THE LUBRIZOL CORPORATION

DIRECTORS

F. Alex Nason, *Chairman*
M. Roger Clapp
Russell J. Ferree
David K. Ford
Thomas L. Holland
Thomas W. Mastin
John L. Palmer
Kelvin Smith
Kent H. Smith
Vincent K. Smith
Arthur O. Willey
Joseph M. Zlatoper

OFFICERS

F. Alex Nason, *Chairman of the Board*
Arthur O. Willey, *President*
M. Roger Clapp, *Vice President,*
Manufacturing and Foreign Operations
Russell J. Ferree, *Vice President, Finance*
Thomas L. Holland, *Vice President, Sales*
Thomas W. Mastin, *Vice President,*
Research and Development
John L. Palmer, *Vice President,*
Engineering
Douglas W. Richardson, *Secretary*
Joseph M. Zlatoper, *Treasurer*

ABOUT LUBRIZOL

Although Lubrizol's products are seldom seen by the average consumer, they are in everyday use not only in the petroleum industry but also in a rapidly expanding group of other applications.

Lubrizol's principal products are added to lubricants and fuels to improve desirable properties or counteract undesirable ones. These can be grouped into four general categories.

1. ADDITIVES FOR MOTOR OIL.

This application includes the use in automobiles, trucks, farm equipment, and other machinery where lubricants are used, and is one which constitutes a relatively large volume of Lubrizol's business.

2. ADDITIVES FOR GEAR LUBRICANTS.

Products of this type are essential for the satisfactory performance of many gear systems in use today. In fact, the introduction of the newer, more efficient types of gearing over the past several years has been dependent upon the development of proper additives to meet lubrication requirements.

3. ADDITIVES FOR AUTOMATIC TRANSMISSION FLUIDS.

Automatic transmissions make heavy demands on the fluids used for their operation. The combination of many performance characteristics required makes carefully balanced additives essential to the proper functioning of these complex mechanisms.

4. SPECIAL PRODUCTS.

Lubrizol makes specialized additives for gasoline, diesel fuels and furnace oils. Also, a number of products have been developed which are being used in a broad range of other industries. These include additives for paints and plastics, rustproofing and corrosion preventive chemicals, and roofing products.

PRESIDENT'S MESSAGE

Nineteen sixty-two was a year of progress in every phase of Lubrizol's business. Earnings, as well as sales, set records. Substantial additions or improvements were installed at each of the company's ten plants. The plant in Australia reached complete operating status, plans for new manufacturing facilities in England were finalized, and full ownership of the sales and manufacturing operations in France was acquired. Progress in research and development resulted in several promising new products being introduced to the market. Credit for the overall excellent performance in 1962 goes to every division of the company and to the many employees who put extra effort into their work.

Results in the early months of the new year are likewise encouraging. Lubrizol's newer products are being well accepted by our customers, and there is every reason

at this writing to expect good results to continue throughout 1963.

It is interesting to note the progress that has taken place in Lubrizol's 35 years. Improvements in design of mechanical equipment have been made possible by the development and use of additives. Lubrizol has been a pioneer in this development. We have progressed from the original graphite lubricant used for the old fashioned leaf springs to the multi-functional additives of today.

We believe three factors are responsible for this success—the quality of our people, a dedication to technical excellence, and the philosophy of customer service reflected in every facet of our business.

A. W. Willey
President

April 3, 1963

HIGHLIGHTS	1962	<i>Per Cent Increase Over 1961</i>
Sales	\$65,601,605	6.9
Net income	5,496,338	13.9
Net income per share	10.20	14.4
Dividends declared per share	3.25	—

REPORT ON OPERATIONS

Net sales in 1962 were \$65,601,605, establishing a record for the fourth consecutive year. This figure is approximately 7% above sales of \$61,373,492 in 1961.

Net income in 1962 also set a record, at \$5,496,338 or \$10.20 a share, compared with \$4,824,503 or \$8.92 a share in 1961. Income in 1961 was increased by a non-recurring item of \$418,600, which amounted to \$.77 a share. No substantial non-recurring items were included in 1962. Income from operations in 1962 was thus approximately 25% higher than in 1961.

The steady increase in sales and income has been accompanied by constant plant improvements and expansions. Of these, the domestic and Canadian programs started or completed in 1962 include:

. . . expansion of the mechanical testing laboratory and fleet testing facilities at the Wickliffe plant,

. . . major manufacturing equipment additions at the Painesville plant,

. . . additional storage facilities and new manufacturing equipment at the Houston plant,

. . . a large expansion of the plant at Niagara Falls, Canada, to provide for manufacturing operations made possible by the

recent availability of suitable raw materials.

These programs have increased our ability to do more basic manufacturing—thus reducing costs—and to make products in greater volume.

LUBRIZOL ABROAD

Ten years ago, sales outside the United States and Canada accounted for about 10% of world-wide sales of Lubrizol products. In 1962, this proportion had increased to more than 40%. Lubrizol now has manufacturing plants in operation or under construction in England, France, Australia, Mexico, Brazil and South Africa.

A \$3,000,000 manufacturing plant is being constructed in England. When completed in 1965, the plant will serve customers principally in Great Britain and continental Europe.

In 1962, full ownership of Lubrizol France was attained by acquiring the remaining 20% outside interest in the company. A \$500,000 expansion of the French plant was completed and plans for further expansion are underway. This plant has been enlarged almost continuously since its construction in 1954.

Australia has become another growing market for Lubrizol products. In 1961 the company built manufacturing facilities in Sydney, becoming the only producer of additives on that continent. By providing an assured local source for these materials Lubrizol performs a valuable service to petroleum companies operating in Australia.

Lubrizol's operations in Mexico, Brazil, and South Africa were also expanded during 1962.

Lubrizol International Laboratories, known as "The Knowle," located at Hazelwood, near Derby in England, is an operation which corresponds to the Mechanical Testing Department at Wickliffe. It is there that engine tests are run to demonstrate the effectiveness of Lubrizol additives in European and other foreign equipment. This test work, conducted by a staff of 130, supplements the standard qualification tests conducted in the United States.

RESEARCH AND DEVELOPMENT

Lubrizol has more employees in research, development, and engineering than in any other area of company activity. One reason for this is that many development programs require at least five years of research. Sales

of a new product reach a peak within three or four years of its introduction. Thus, by the time a new material is put on the market, research and engineering are already at work to improve the product or develop a new and more effective one.

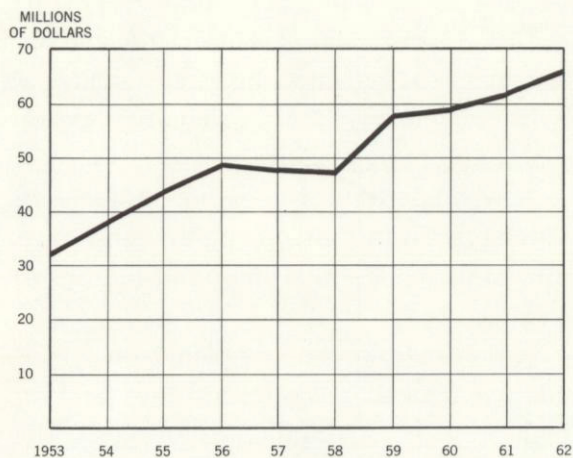
New additives for long-life motor oils, automatic transmission fluids, and gear lubricants made important contributions to sales last year.

In 1962 work was completed on a new additive used to make fire-resistant fluid for high-pressure hydraulic equipment. The fluids derive their fire-resistant properties from the high percentage of water which can be incorporated into the product.

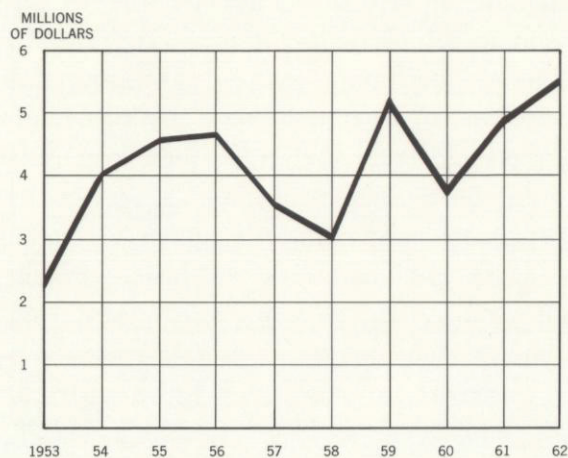
The work on fuel additives has been especially productive. New products in this area include diesel fuel additives which reduce clogging of the engine nozzles and a line of additives which improve stability of furnace fuels.

A sizeable group in the research division is concerned with the development of special products which include surface treatments for metal, plastic stabilizing agents, and improvers for paints used in the metal finishing industry. A line of organic protective coatings for metals was introduced during 1962 following development work by the special products group.

SALES



NET INCOME



FINANCE

Lubrizol remained in a strong financial position at the end of 1962. Working capital was \$16,963,573. Current assets at December 31 were \$25,011,148 or approximately three times current liabilities of \$8,047,575.

The financial statements of Lubrizol Great Britain, Limited have been consolidated for 1962. In past years, only the amounts of Lubrizol's equities in earnings and assets were included. In the ten-year summary, adjustments have been made for prior years so that all figures are comparable.

The amount spent for capital improvement and expansion programs in 1962 was

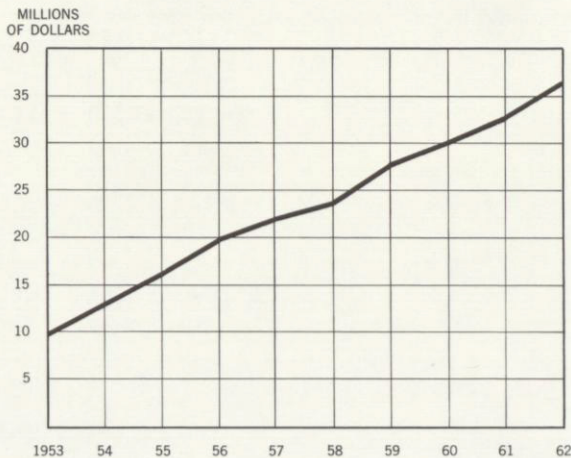
\$2,818,137 compared with \$2,538,530 in 1961.

Under the investment tax credit legislation passed in 1962, income taxes payable were reduced by \$57,979. However, this had no significant effect on net income for the year as the amount of the credit was regarded as a reduction of the cost of the new facilities in which the investment was made.

Depreciation for 1962 was \$2,193,777. Due to the depreciation procedures which have been followed, the new guidelines issued by the United States Treasury Department did not have any effect.

Dividends declared in 1962 amounted to \$3.25 per share, the same as for 1961. How-

STOCKHOLDERS' EQUITY

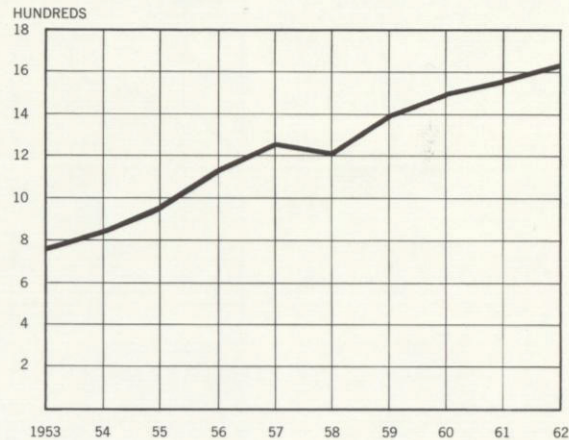


ever, the 1962 extra year-end dividend of \$.85 a share, included in this amount, was not paid until January 10, 1963.

OFFICERS AND DIRECTORS

Several key executive changes were made in 1962. Kelvin Smith, one of the founders of the company and president since 1951, retired as president but continues as a director and in an active capacity as a consultant. He was succeeded as president by Arthur O. Willey, who had been executive vice president since 1958. Mr. Willey joined Lubrizol in 1940 as director of research. He became

EMPLOYEES



vice president in charge of engineering in 1946 and a director in 1947.

Vincent K. Smith, also a founder, retired as secretary of the corporation and as vice president in charge of personnel and public relations, the office he had filled since its establishment in 1959. He, also, continues to serve the company as a director and consultant.

Douglas W. Richardson, assistant secretary since 1961, was elected secretary.

Two officers were added to the board of directors: Joseph M. Zlatoper, treasurer, who was first employed by Lubrizol in 1936; and John L. Palmer, vice president in charge of engineering, who joined Lubrizol in 1947.

TEN-YEAR SUMMARY OF FINANCIAL DATA

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT END OF YEAR

	<u>1962</u>	<u>1961</u>
Current assets	\$25,011,148	\$20,780,139
Current liabilities	<u>8,047,575</u>	<u>5,952,525</u>
Working capital	16,963,573	14,827,614
Plant property—net	17,463,388	16,865,490
Other assets (less minority interest)	<u>1,786,317</u>	<u>925,809</u>
Total	<u>36,213,278</u>	<u>32,618,913</u>
Long-term debt	—	—
Net assets—Stockholders' equity	<u>\$36,213,278</u>	<u>\$32,618,913</u>

CONSOLIDATED STATEMENT OF INCOME FOR THE YEAR

Net sales	\$65,601,605	\$61,373,492
Costs and expenses	<u>55,287,013</u>	<u>52,643,400</u>
Income before provision for taxes on income	10,314,592	8,730,092
Provision for taxes on income	<u>4,574,730</u>	<u>3,620,792</u>
Income before deduction of minority interest	5,739,862	5,109,300
Less minority interest	<u>243,524</u>	<u>284,797</u>
Net income	<u>\$ 5,496,338</u>	<u>\$ 4,824,503</u>

OTHER DATA

Capital expenditures	\$ 2,818,137	\$ 2,538,530
Depreciation	2,193,777	1,936,145
Number of employees at end of year	1,628	1,546
Number of stockholders at end of year	718	637
Shares of Common stock outstanding at end of year	538,980	540,580
Stockholders' equity per share at end of year	\$67.19	\$60.34
Net income per share	10.20	8.92
Dividends per share	3.25*	3.25

*Paid as four quarterly dividends of \$.60 each in 1962, plus a year-end extra dividend of \$.85 on January 10, 1963.

1960	1959	1958	1957	1956	1955	1954	1953
\$19,154,287	\$18,913,114	\$14,973,639	\$12,446,773	\$16,295,324	\$15,611,690	\$13,793,026	\$12,413,027
6,785,690	7,562,624	5,336,581	4,953,381	7,485,831	7,531,858	6,814,914	7,098,262
12,368,597	11,350,490	9,637,058	7,493,392	8,809,493	8,079,832	6,978,112	5,314,765
16,342,047	14,818,858	12,573,777	12,802,565	10,802,604	8,236,479	6,759,927	5,933,585
1,257,583	1,560,218	1,342,302	1,568,265	226,852	661,148	488,582	336,794
29,968,227	27,729,566	23,553,137	21,864,222	19,838,949	16,977,459	14,226,621	11,585,144
—	—	—	—	10,612	940,612	1,200,612	1,744,841
<u>\$29,968,227</u>	<u>\$27,729,566</u>	<u>\$23,553,137</u>	<u>\$21,864,222</u>	<u>\$19,828,337</u>	<u>\$16,036,847</u>	<u>\$13,026,009</u>	<u>\$ 9,840,303</u>
\$58,803,719	\$57,906,060	\$46,946,875	\$47,658,922	\$48,433,644	\$43,463,334	\$37,515,630	\$31,933,231
50,290,514	47,321,861	40,711,959	40,832,937	38,684,844	33,807,221	28,924,659	24,765,429
8,513,205	10,584,199	6,234,916	6,825,985	9,748,800	9,656,113	8,590,971	7,167,802
4,482,237	5,020,244	3,011,789	3,327,353	5,000,366	4,987,004	4,477,464	4,855,384
4,030,968	5,563,955	3,223,127	3,498,632	4,748,434	4,669,109	4,113,507	2,312,418
272,392	367,314	187,574	38,465	108,028	88,097	103,166	28,858
<u>\$ 3,758,576</u>	<u>\$ 5,196,641</u>	<u>\$ 3,035,553</u>	<u>\$ 3,460,167</u>	<u>\$ 4,640,406</u>	<u>\$ 4,581,012</u>	<u>\$ 4,010,341</u>	<u>\$ 2,283,560</u>
\$ 3,175,013	\$ 3,750,051	\$ 1,235,357	\$ 3,277,506	\$ 3,190,252	\$ 2,596,523	\$ 1,683,550	\$ 1,084,975
1,634,624	1,412,357	1,345,574	1,237,414	982,836	894,065	715,489	584,012
1,483	1,392	1,204	1,250	1,132	950	832	753
344	214	184	149	123	108	93	78
542,080	544,080	531,285	536,585	536,135	517,302	501,190	486,875
\$55.28	\$50.97	\$44.33	\$40.75	\$36.98	\$31.00	\$25.99	\$20.21
6.93	9.55	5.71	6.45	8.66	8.86	8.00	4.69
3.00	3.00	2.25	2.50	3.25	4.00	2.30	1.25

CONSOLIDATED STATEMENT OF
FINANCIAL POSITION

WORKING CAPITAL	December 31	
	1962	1961
Current assets:		
Cash	\$ 1,949,544	\$ 2,017,939
United States Government and other short-term marketable securities—at lower of cost or market	5,143,545	4,248,510
Receivables:		
Customers	5,661,673	4,471,648
Other	1,331,527	660,996
Inventories—at cost not in excess of market:		
Finished products	2,573,733	1,880,442
Products in process	3,169,884	3,254,501
Raw materials and supplies.	4,460,069	3,667,625
Prepaid expenses	721,173	578,478
Total current assets	25,011,148	20,780,139
Less current liabilities:		
Accounts payable:		
Trade	2,769,323	1,828,469
Other	1,236,221	359,438
Accrued expenses:		
Federal income taxes	2,674,233	2,509,442
Other taxes.	360,389	352,050
Commitment to profit sharing trust	279,328	179,378
Royalties.	106,988	117,254
Salaries and wages	541,930	544,793
Other	79,163	61,701
Total current liabilities.	8,047,575	5,952,525
Working capital.	\$16,963,573	\$14,827,614

The notes to financial statements on Pages 13 and 14 are an integral part of this statement.

NET ASSETS AND STOCKHOLDERS' EQUITY	December 31	
	1962	1961
Working capital (brought forward)	<u>\$16,963,573</u>	<u>\$14,827,614</u>
Miscellaneous assets:		
Deferred charges	410,455	—
Cash surrender value of life insurance	264,988	253,714
Other	231,789	117,121
Total miscellaneous assets	<u>907,232</u>	<u>370,835</u>
Plant property—at cost:		
Land and improvements	2,381,105	2,036,071
Buildings and improvements	9,704,408	9,259,454
Machinery and equipment	17,873,374	16,351,534
Construction in progress	369,256	173,006
Total	<u>30,328,143</u>	<u>27,820,065</u>
Less accumulated depreciation	<u>12,864,755</u>	<u>10,954,575</u>
Plant property—net	<u>17,463,388</u>	<u>16,865,490</u>
Patents and trademarks—at cost less \$122,507 accumulated amortization	<u>1,064,681</u>	<u>1,119,301</u>
Less minority interest in foreign subsidiaries	(185,596)	(564,327)
Net assets—Stockholders' equity	<u>\$36,213,278</u>	<u>\$32,618,913</u>
Stockholders' equity:		
Common stock—\$1 par value, 800,000 shares authorized; 538,980 shares outstanding (Note 2)	\$17,837,811	\$17,890,778
Capitalized earnings and statutory reserves of foreign subsidiaries . .	954,463	877,197
Retained earnings	17,421,004	13,850,938
Total stockholders' equity	<u>\$36,213,278</u>	<u>\$32,618,913</u>

The notes to financial statements on Pages 13 and 14 are an integral part of this statement.

CONSOLIDATED STATEMENT OF
INCOME AND RETAINED EARNINGS

	Year ended December 31	
	1962	1961
Net sales	\$65,601,605	\$61,373,492
Cost of goods sold (Note 3)	40,652,371	39,041,116
Gross profit	24,949,234	22,332,376
Selling, administrative and research expenses (Note 3)	14,599,904	13,739,291
Income from operations	10,349,330	8,593,085
Other income charges (credits)—net	34,738	(137,007)
Income before taxes on income	10,314,592	8,730,092
Provision for taxes on income	4,574,730	3,620,792
Income before minority interest	5,739,862	5,109,300
Less minority interest (Note 1)	243,524	284,797
Net income	5,496,338	4,824,503
Retained earnings, January 1	13,850,938	10,937,364
Total	<u>19,347,276</u>	<u>15,761,867</u>
Less:		
Dividends—\$3.25 per share	1,751,925	1,759,585
Excess of cost over stated value of capital stock retired	97,081	87,366
Amount transferred to statutory reserves of foreign subsidiaries	77,266	63,978
Total	<u>1,926,272</u>	<u>1,910,929</u>
Retained earnings, December 31	<u>\$17,421,004</u>	<u>\$13,850,938</u>

The notes to financial statements on Pages 13 and 14 are an integral part of this statement.

NOTES
TO FINANCIAL STATEMENTS

1. Principles of Consolidation

The following subsidiaries are included in the financial statements:

- Lubrizol of Canada, Limited
- Lubrizol France, S.A.
- Lubrizol Great Britain, Limited
- Lubrizol G.m.b.H.—(German company)
- Lubrizol A.G.—(Swiss company)
- Lubrizol Italiana, S.p.A.
- 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)
- Addex Manufacturing Company
- Cleveland Industrial Research, Inc.

All of the subsidiaries are wholly-owned except Lubrizol Great Britain, Limited in which the Company has a 55% interest. Lubrizol Great Britain, Limited is included in the consolidation for the first time, a change which has no effect on consolidated net income or retained earnings. Previously the Company's 55% interest in the earnings of this subsidiary was included with other income, and the investment was stated at the net asset value as shown by the accounts of the subsidiary. The 1961 amounts have been restated for the purpose of comparison.

At June 1, 1962, the 20% minority interest in Lubrizol France, S.A. was acquired by the Company.

Lubrizol Japan, Limited has not been consolidated because withdrawal of its earnings is restricted.

A summary of the net assets at December 31, 1962 of companies outside the United States and Canada (with the exception of Japan) is as follows:

Working capital	\$ 6,900,628
Property—net	2,969,000
Other assets	570,413
	<hr/>
Total	10,440,041
Less minority interest	185,596
	<hr/>
Remainder	<u>\$10,254,445</u>

2. Stock Options

An employees' restricted stock option plan was approved by the stockholders in 1962. The plan provides that prior to June 1, 1967, options for a period of not more than ten years may be granted to key employees to purchase up to 25,000 shares in aggregate of the Company's common stock at prices of not less than 95% of the fair market value at the time the options are granted.

At December 31, 1962, options had been granted for 13,350 shares at \$87 per share which was the fair market value at the time the options were granted. The options are exercisable at the rate of 20% per year beginning in 1963.

3. Depreciation and Investment Credit

Depreciation included in costs and expenses amounted to \$2,193,777 in 1962 and \$1,936,145 in 1961. An investment credit of \$57,979, relating to purchases of equipment, provided under the Revenue Act of 1962, has been applied against the cost of the equipment and will be taken into income over its useful life by means of reduced depreciation provisions.

ACCOUNTANTS' OPINION

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, 1962 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, 1962 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 (after the revision of the financial statements for that year as explained in Note 1).

HASKINS & SELLS

Cleveland, Ohio
March 15, 1963

THE LUBRIZOL CORPORATION

CLEVELAND 17, OHIO

MANUFACTURING PLANTS

Wickliffe, Ohio
Painesville, Ohio
Houston, Texas
Durban, South Africa
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

Chicago (Naperville, Ill.)
Cleveland
Los Angeles (Pasadena, Calif.)
New York (Ridgewood, N. J.)
Tulsa, Oklahoma
Athens, Greece
Auckland, New Zealand
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
Santiago, Chile
Stockholm, Sweden
Taipei, Taiwan
Tokyo, Japan
Vienna, Austria

REGISTRAR and TRANSFER AGENT

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

