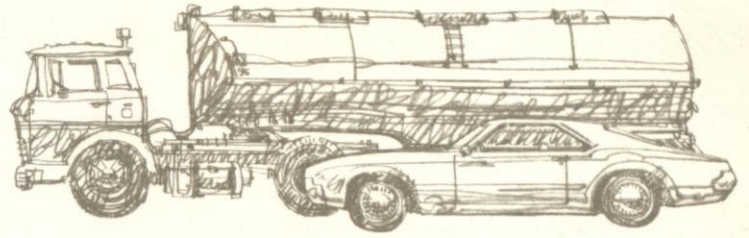


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THE LUBRIZOL CORPORATION / ANNUAL REPORT 1966

12

## DIRECTORS AND OFFICERS

### DIRECTORS

M. Roger Clapp	Karl H. Rudolph
James N. Crawford	Kelvin Smith
Henri P. Junod	Kent H. Smith
Thomas W. Mastin	Vincent K. Smith
F. Alex Nason	Ralph S. Tyler, Jr.
John L. Palmer	Arthur O. Willey
Joseph M. Zlatoper	

### OFFICERS

Arthur O. Willey	<i>Chairman of Board and Chief Executive Officer</i>
M. Roger Clapp	<i>President</i>
Douglas W. Richardson	<i>Secretary</i>
Joseph M. Zlatoper	<i>Vice President - Finance and Treasurer</i>
James N. Crawford	<i>Vice President - Sales</i>
Thomas W. Mastin	<i>Vice President - Research and Development</i>
M. M. McGrew	<i>Vice President - Manufacturing</i>
John L. Palmer	<i>Vice President - Engineering</i>
Robert K. Williams	<i>Vice President - Corporate Planning and Development</i>
Ralph S. Tyler, Jr.	<i>Vice President - International Operations and General Counsel</i>

### ANNUAL MEETING OF SHAREHOLDERS

The annual meeting of shareholders will be held at the Statler Hilton Hotel, Cleveland, Ohio on Monday, April 3, 1967 at 2:30 P.M. On or about March 10, shareholders will receive a notice of the meeting and proxy material.

## THE COMPANY

The Lubrizol Corporation is recognized as a world leader in the field of chemical additives for petroleum products. Used in motor oils, transmission and hydraulic fluids, gear lubricants and fuels, additives developed and manufactured by Lubrizol bring longer life

and more efficient operation to modern automotive equipment.

The company's products are manufactured in nine plants strategically located to serve customers throughout the free world.

FINANCIAL HIGHLIGHTS	1966	1965	% Increase Over 1965
Revenues:			
Net sales .....	<b>\$106,101,731</b>	\$ 92,019,801	15.3
Royalties and fees .....	<b>1,096,329</b>	490,458	123.5
Total .....	<b>107,198,060</b>	92,510,259	15.9
Net income .....	<b>11,145,896</b>	9,600,243	16.1
Net income per share .....	<b>2.28</b>	1.98	15.2
Dividends per share .....	<b>.80</b>	.70	14.3
Capital expenditures .....	<b>12,134,232</b>	6,712,924	80.8
Depreciation .....	<b>3,133,510</b>	2,717,407	15.3
Research and development expenditures .....	<b>6,545,105</b>	5,651,439	15.8
Shareholders' equity .....	<b>58,570,409</b>	50,979,766	14.9

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A. O. Willey

M. Roger Clapp

## MESSAGE TO SHAREHOLDERS

Throughout its 39-year history, Lubrizol has shown a strong pattern of growth in revenues and earnings.

In 1966 our total revenues were \$107,198,060 and net earnings \$11,145,896, both representing gains of 16% over 1965. This growth compares favorably with the 10% average annual increase in the company's business during the last decade. The results for 1966 reflect a continuing improvement throughout our entire product line and worldwide market areas.

The future of the company will depend upon how effectively it keeps pace with the rapidly changing technology in the industries with which it is associated and upon how well it serves the growing markets of the world.

Providing for future expansion requires that a substantial percentage of earnings be reinvested in the business for the purpose of increasing our manufacturing capacity and continuing our research to develop new and improved products.

In 1966 capital expenditures of \$12,134,232 for these purposes were financed entirely from funds generated internally. Approximately 59% of this amount was spent for facilities in the United States and the balance abroad.

The rapid increase in sales in recent years has made it necessary to expand our manufacturing facilities for producing established product lines as well as new products. In addition, new installations to produce raw materials formerly purchased have been required in order to reduce costs and assure supplies. A carry-over of unfinished construction from 1966 and expenditures for new projects for which approval is expected will again result in a major investment for expansion in the coming year.

A long-range commitment to develop new and improved additives through research has been a key to Lubrizol's success. In 1966 our expenditures for research and development increased by 16% to

\$6,545,105. The major effort was toward new and improved additives for use in petroleum products. However, in keeping with plans announced in 1965 to diversify our product lines, we have engaged a highly competent staff to work in the area of polymers, coatings and adhesives. Their work is carried on in the recently completed laboratory.

Initial listing of Lubrizol common shares on the New York Stock Exchange on August 22, 1966 was another important step in the company's progress. The effect of this event, together with the three-for-two stock split and secondary offering earlier in the year, broadened ownership and widened the market for the company's stock. As of December 31, 1966 there were 5,228 shareholders compared with 4,385 a year ago. Ownership is spread throughout forty-three states and in ten countries abroad.

To familiarize some of the newer members of the Lubrizol family with the company's early history, we

have included on pages 6 and 7 of this report a brief story about our founders and the part they played in Lubrizol's growth.

The company's achievements in 1966 are a direct reflection of the awareness of responsibility, dedication to service and application of talent by over 2,200 Lubrizol employees in twenty-seven countries. We are intent on continuing this progress in 1967 and hope that you share our confidence in Lubrizol's sustained growth.

*A. D. Willey*  
Chairman of the Board

*M. Roger Clapp*  
President



Kent H. Smith

F. Alex Nason

Kelvin Smith

Vincent K. Smith

## THE FOUNDERS—THEIR ACHIEVEMENT

The character and philosophy of The Lubrizol Corporation began to emerge when the company was formed on July 31, 1928.

At that time, the entire company was made up of its six founders and directors. They were F. Alex Nason, Frank A. Nason, Kent H. Smith, Kelvin Smith, Vincent K. Smith and Thomas W. James.

They were individualists, strongly oriented in engineering, with the vision to see the potential of a new company in a little known field — the field of specialized lubricants for automobiles. Each of the founders respected the capabilities and contributions of the others and this recognition of individual capability and responsibility remains an important guideline of the company.

It was Alex Nason's knowledge of the lubricant field and the friendship of his former classmate at Case, Kelvin Smith, that formed the cornerstone of the new concern, which was initially called the Graphite Oil Products Company. Its first product was a graphite

oil applied under pressure from a patented lubricator designed by the company for the reduction of spring and body friction and noise.

Mr. Nason assumed responsibility for sales and marketing with the assistance of Mr. James. As the company's first president, Kent Smith began to formulate many of the management policies and standards that guide the company today. As a lawyer, Vincent Smith drew up the articles of incorporation and served as secretary and later as a vice president. Frank Nason engaged in the manufacture of the product and kept the accounts of the young company.

In its second year, the company developed a new break-in oil called Lubri-Zol to reduce hazards in the early operation of the new automotive engines of the time. This product, like others developed by the company, contained chemical additives. It found a wide acceptance and led to the acquisition of extensive patents in the additive field.

With the rapid advances in automotive technology,

the founders foresaw the need for other lubricants to withstand the destructive forces of higher loads.

It was Dr. Carl F. Prutton of the Case Chemical Engineering Department and Kelvin Smith who, as chemical engineers, undertook the program of research and testing that led to the development of new lubricants containing chemical additives to meet these growing demands. From their insistence upon exhaustive testing under actual operating conditions to prove the value of the new lubricants, evolved the high standards of product performance that prevail in the company today. This, along with Mr. Nason's concern for customer service, led to the close relationship between development, testing and sales that enables Lubrizol to meet the individual requirements of each customer.

In the late 1930's the founders and officers made a decision that was to alter the future course of the company. Lubrizol's additive containing lubricants were competing for the same markets that were served by its additive customers. To eliminate this conflict, Lub-

rizol's retail lubricant business was sold and thereafter the company limited its activity to the production and marketing of the additives.

As a pioneer in the additive field, the company assumed a position of leadership based upon the depth of its knowledge of lubricants and lubricant chemistry and the quality of its product line and customer service. The company still occupies this position of leadership.

In its encouragement of individual capability, in the soundness of its management policies, its search for product excellence and its continuing commitment to research, The Lubrizol Corporation today reflects to a great degree the philosophy and achievement of its founders.



Plans are studied for a new unit at Lubrizol's Houston plant.

## MANUFACTURING

New production records were established in 1966 by all of our manufacturing facilities, both in this country and overseas. Particularly busy were our plants at Painesville, Ohio and Houston, Texas. In addition to participating in the general increase in the production of finished products, these plants were the sole production points for important intermediate materials used in other Lubrizol plants throughout the world.

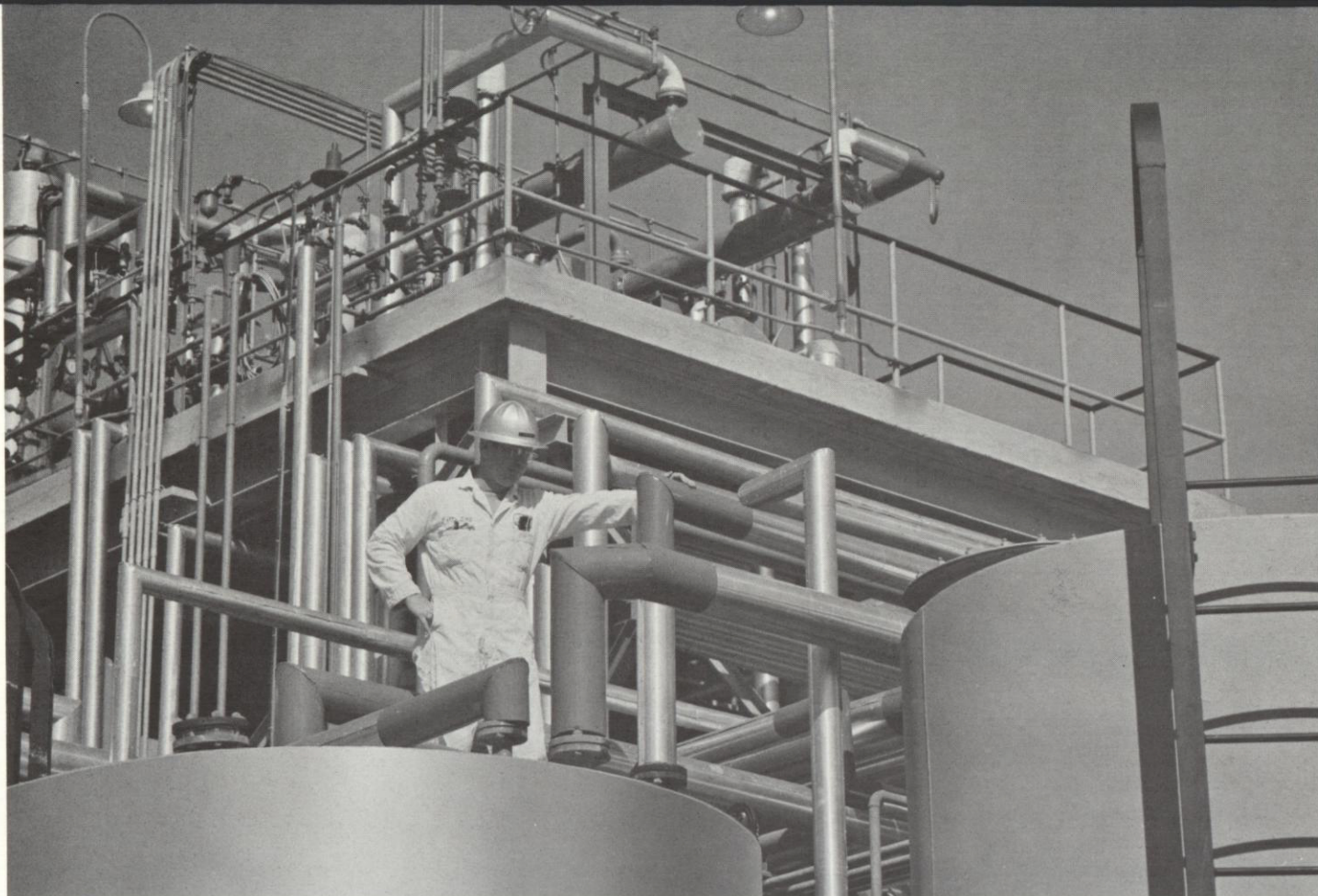
Earlier in this report, reference was made to the major allocation of capital in 1966 for the expansion of our manufacturing capacity. The largest single expansion of plant facilities took place at Houston where expenditures for the year exceeded the original cost of the plant. A large unit was installed to produce an entirely new additive for heavy duty diesel engine oil. As an improvement over one of our older products, it will strengthen our position in this important additive market.

Additional capacity has been required for several of our more important production intermediates. The heavy demand for a new additive used in gear lubricants has made it necessary to increase production capacity for one of the key components by more than 100%.

While a large part of our overall expansion program has been necessary to increase capacity or to provide for new products, a number of new installations have been aimed at lowering costs. An example is a unit under construction at Houston for the production of one of our most important raw materials. The market supply of this material is limited, and the new unit will not only lower our present cost but will protect us from shortages in the future.

At Painesville plant expansion in 1966 included installation of facilities to produce a number of new and improved lubricant additives and components. A part





A new series of additives for heavy duty diesel engine oils is produced using this recently completed manufacturing unit.

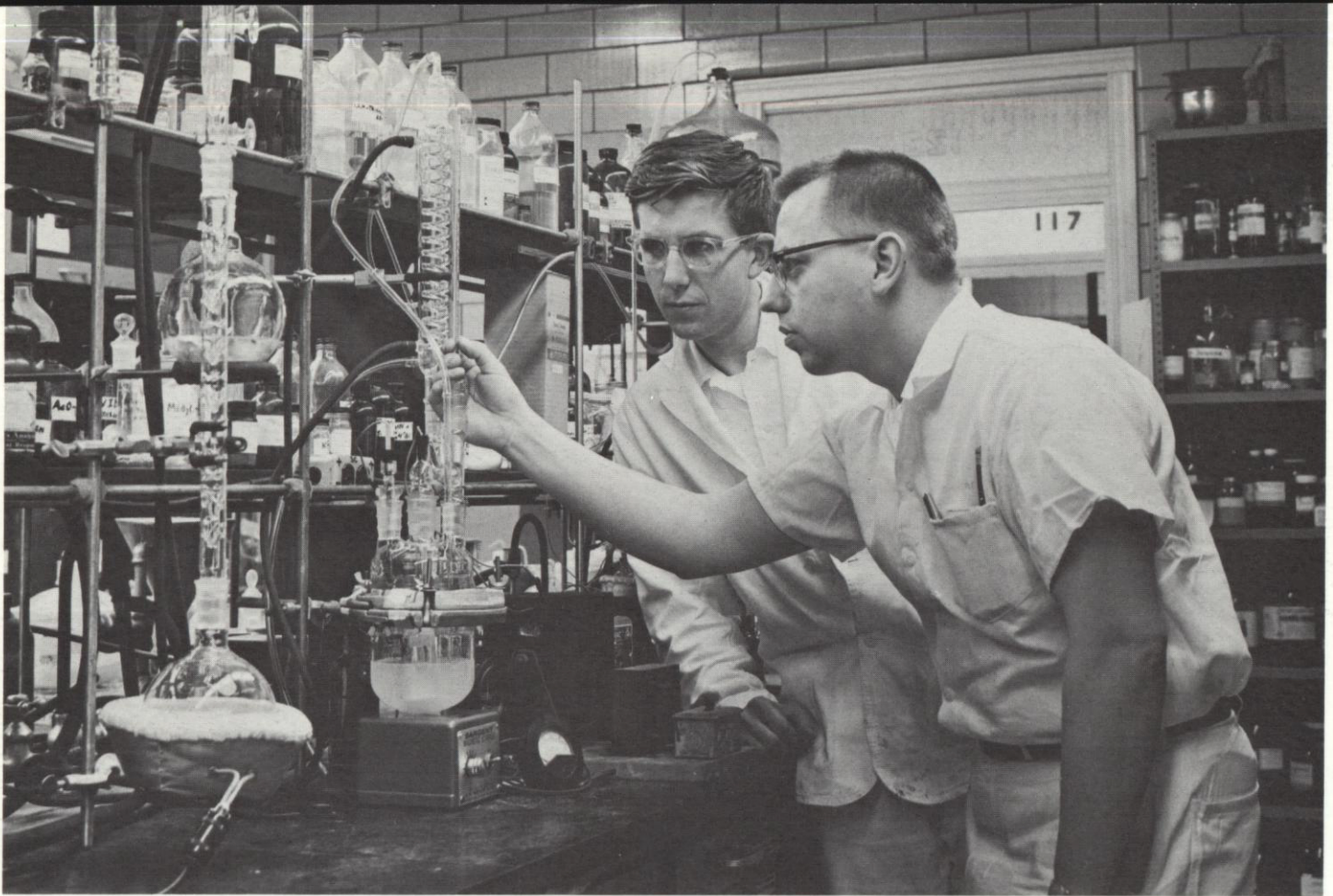
of this program was the construction of a new building to house chemical manufacturing equipment of a general character for the manufacture of low volume products, including those aimed at uses outside the petroleum additive field.

This was the second year of operation for the plant at Bromborough, England. Since the initial installations for our larger volume products were planned to allow for growth, the only manufacturing expansion necessary was for raw material storage and minor equipment modifications. Early in the year construction of a major installation was begun to produce a component widely used in motor oils and transmission fluids. The facility will go into operation late in 1967 and will be our first unit in Europe to manufacture this type of product.

The largest Lubrizol plant outside the United States is at Rouen, France. This has been one of our fastest

growing plants in recent years because of rapidly expanding sales in the European Common Market. In 1966 the expansion at Rouen included additional capacity for our existing products and the installation of a unit to manufacture a critical raw material.

Ground was broken in December for the new manufacturing plant in Monterrey, Mexico which is scheduled for completion by the middle of 1968. This plant will be operated by Industrias Lubrizol S.A. de C.V., a company owned jointly by Lubrizol and Mexican interest.



Research, development and testing provide Lubrizol customers with new or improved products.

## RESEARCH, DEVELOPMENT AND ENGINEERING

Lubrizol's continuing effort to provide customers with new and improved products, through intensive research and development in the highly technical field of petroleum additive chemistry, achieved important results in 1966.

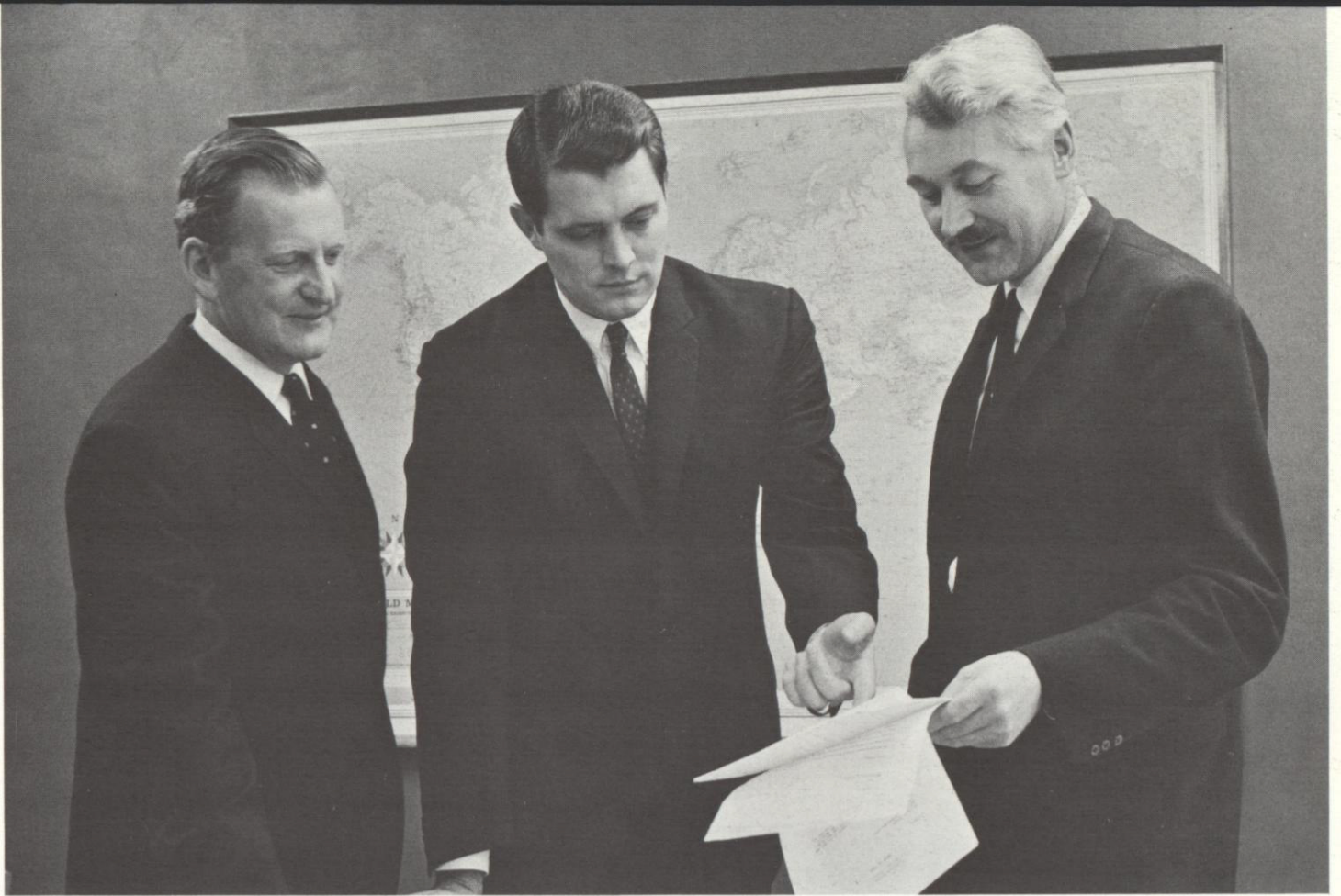
The year brought to a successful conclusion a two-year program to develop an additive for automatic transmission fluids which satisfies the exacting requirements of one of the large automobile manufacturers. We anticipate that this new transmission fluid will be widely accepted both for factory fill and for service station distribution in the United States and overseas.

Continued emphasis is being placed upon motor oil and gasoline additives to meet the increasingly stringent requirements of the manufacturers of passenger cars, trucks and busses, and stationary engines. Attention is also being directed to additives which improve operation of diesel engines for commercial and agricultural applications.

These developments have required increased effort on the part of the mechanical testing department of our engineering division. To increase the capacity and improve the accuracy of its equipment, the department in Wickliffe is installing an electronic computer which will be the nerve center of a half-million dollar automatic test-monitoring and data-acquisition system. When completed, this system will be one of the finest of its kind.

Our mechanical testing department has continued to carry on extensive field tests as a final step in product evaluation. In 1966 Lubrizol equipment logged more than fourteen million miles in over-the-road tests on cars, trucks and busses. Twelve thousand hours of field-test operation in off-highway construction equipment were also carried out.

All of our test programs must be coordinated with the demands of new equipment designs and the specific marketing strategies of our petroleum industry customers. By close cooperation with our customers,



Lubrizol sales and technical service centers are located in every major petroleum marketing area in the world.

## SALES

Lubrizol technical service engineers perform a valuable service which is important to the success of the company's sales program.

A year ago, we announced plans for a new research laboratory. The building is now complete and will house the forty scientists and technicians who have been employed for a broadly-based polymer research program. While this program is only in its preliminary stages, early results are encouraging as evidenced by industry interest in a vinyl monomer that has many unique characteristics. This monomer is being evaluated by more than two hundred companies and shows promise for use in transparent films, plywood coatings, membranes for water treatment, and in other interesting applications.

Trial applications of products resulting from this research, in areas new to Lubrizol, are being promoted actively by a new market development group.

Due to the rapid rise in living standards and in per capita car population in many foreign countries, our rate of growth abroad was greater than that in the more highly developed and stable market of the United States. We expect this trend to continue for some time as we increase our market penetration in foreign countries and as the economic conditions in these countries improve. Examples of overseas markets in which notable gains were made in 1966 are Italy, Brazil and Japan.

Both in the United States and overseas, design changes in motor vehicles are continuing to increase the need for additive containing fuels and lubricants. Car manufacturers are placing greater emphasis on lubricants with better dispersancy, while manufacturers of diesel trucks and off-highway vehicles continue to press for additives which will help prevent troubles frequently associated with increased power output, for example, piston-ring sticking and scuffing. Similar trends are observed in the fields of transmis-



Operating management of The Lubrizol Corporation from left to right: John L. Palmer, James N. Crawford, Ralph S. Tyler, Jr. (standing), Joseph

## SALES (continued)

sion fluids and gear lubricants.

Several major petroleum companies have, after extensive field tests, adopted Lubrizol gasoline treatments for their branded gasolines. Additional additive sales have developed in the fuel oil field. A number of large marketers have started bulk-treating their diesel fuels with our smoke suppressant additive and have successfully proved that there is a growing market for this type of premium diesel fuel. While the Lubrizol smoke suppressant is highly effective in reducing the amount of black smoke and soot often emitted by automotive diesels, particularly at high loads, it should be noted that this additive is not suitable for use in gasoline engines and therefore would not substantially inhibit smog in cities. It, nevertheless, can play an important part in efforts to alleviate air pollution by reducing sooty deposits such as those which damage buildings, both outside and inside, along highways with heavy traffic. It may also contribute to traffic safety by reducing the smoke from the exhaust of a heavy truck which would otherwise impair visibility

for a passing vehicle.

In August, a regional sales office was opened in Houston to provide improved service for our growing number of customers in that area. Steps were also taken to increase our sales coverage in the eastern areas of the United States.

A new rustproofing agent for protection against corrosion of surfaces in inaccessible places and on the underside of motor vehicles has attracted favorable attention both in this country and overseas.

Substantial gains were made by our International Rustproof Division (IRCO) with sales of IRCO microcrystalline zinc phosphate and related products to the appliance and small parts industries contributing most of the increase.

A separate group was organized with responsibility for marketing our new stabilizers and thixotropic agents to the plastic industry. This group will also be responsible for selling other new products showing promise during the market development phase.



M. Zlatoper, Douglas W. Richardson, Arthur O. Willey, M. Roger Clapp, Thomas W. Mastin, M. M. McGrew, Gordon B. Cameron, and Robert K. Williams.

## MANAGEMENT REVIEW

The year saw the retirement of Kelvin Smith as chairman of the board. Mr. Smith, who was one of the company's founders and had served as vice president - research and development from 1943 to 1951 and as president from 1951 to 1962, was named honorary chairman of the board. He will continue in an advisory capacity as a consultant and a director.

Arthur O. Willey, president and chief executive officer since 1962, was elected chairman of the board and continues as chief executive officer.

Succeeding Mr. Willey as president is M. Roger Clapp, executive vice president since 1964. Before his election as executive vice president, Mr. Clapp served successively as head of the mechanical testing department, general manager of the Houston plant and vice president - manufacturing.

Two new directors, Henri Pell Junod and James N. Crawford, were elected to our board in 1966. Mr. Junod is retired vice chairman of the board and a director of Pickands Mather & Co. Mr. Crawford is Lubri-

zol's vice president - sales. He joined the company in 1955, serving in the management of our overseas sales operations. He was named general sales manager in 1964 and was elected a vice president the following year.

Ralph S. Tyler, Jr., vice president and general counsel since 1964, was elected general counsel and vice president - international operations.

Joseph M. Zlatoper, who had served as our treasurer since 1961, was elected vice president - finance and treasurer. He has been with Lubrizol since 1936.

Elected to the new position of vice president - corporate planning and development was Robert K. Williams, previously executive assistant to the president and assistant head of engineering.

Gordon B. Cameron, who joined the company in 1965, was appointed head of the personnel division.



Availability of financial, sales and manufacturing data is speeded by use of Lubrizol's computer system.

## FINANCIAL REVIEW

Revenues in 1966 were \$107,198,060, 16% higher than revenues of \$92,510,259 in 1965.

Net income in 1966 was \$11,145,896, also 16% higher than in 1965. Both were new records and represent the sixth consecutive annual gain in revenues and net income.

Earnings per share for 1966 were \$2.28 compared with \$1.98 in 1965.

The company continues to invest a substantial part (\$1.48 per share) of its earnings for financing its continuing growth. The balance (\$.80 per share) was paid as dividends to the shareholders. These dividends were 14% higher than in 1965.

The number of common shares outstanding increased from 4,857,598 to 4,884,046 during the year. The increase represented the excess of shares issued on exercise of employee stock options over shares purchased by the company and held in the treasury.

The company again made a substantial favorable contribution to the United States balance of payments. The payments received during the year for exports together with remittances from abroad for dividends, royalties, and fees set a new high.

Other 1966 items of note are:

— Expenditures for plant and equipment were \$12,134,232, an all-time high, and 81% more than in the previous year.

— Depreciation charged to income was \$3,133,510, compared with \$2,717,407 in 1965.

— Working capital on December 31 was \$23,672,091, a decrease of \$726,682 during the year, the result of higher expenditures for plant and equipment. (See page 19 for a statement of source and application of funds.)

— Shareholders' equity was \$58,570,409 at year-end, an increase of \$7,590,643 during the year.

## CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

	Year ended December 31	
	1966	1965
<b>Revenues:</b>		
Net sales .....	<b>\$106,101,731</b>	\$92,019,801
Royalties and fees .....	<b>1,096,329</b>	490,458
Total .....	<b><u>107,198,060</u></b>	<u>92,510,259</u>
<b>Costs and expenses:</b>		
Cost of sales .....	<b>68,164,958</b>	57,868,132
Selling, administrative and research expenses .....	<b>19,913,317</b>	18,366,500
Total .....	<b><u>88,078,275</u></b>	<u>76,234,632</u>
Income from operations .....	<b>19,119,785</b>	16,275,627
Other income credits — net .....	<b>211,111</b>	344,616
Income before taxes on income .....	<b>19,330,896</b>	16,620,243
Provision for taxes on income .....	<b>8,185,000</b>	7,020,000
Net income .....	<b>11,145,896</b>	9,600,243
Retained earnings, January 1 .....	<b>32,880,275</b>	26,835,499
Total .....	<b><u>44,026,171</u></b>	<u>36,435,742</u>
<b>Less:</b>		
Dividends (per share: 1966 — \$.80; 1965 — \$.70) .....	<b>3,902,900</b>	3,398,777
Excess of cost over stated value of treasury shares purchased .....	<b>34,051</b>	156,690
Total .....	<b><u>3,936,951</u></b>	<u>3,555,467</u>
Retained earnings, December 31 .....	<b><u>\$ 40,089,220</u></b>	<u>\$32,880,275</u>
Net income per share .....	<b><u>\$2.28</u></b>	<u>\$1.98</u>

The notes to financial statements on Page 18 are an integral part of this statement.

## CONSOLIDATED

ASSETS	December 31	
	1966	1965
Current assets:		
Cash .....	\$ 4,695,702	\$ 4,269,676
Government and other short-term marketable securities — at lower of cost or market .....	280,189	5,059,961
Receivables:		
Customers .....	11,411,437	9,618,715
Other .....	1,835,324	1,430,170
Inventories — at cost (first-in first-out method) not in excess of market:		
Finished products .....	4,883,119	4,149,299
Products in process .....	6,107,925	6,228,969
Raw material and supplies .....	8,229,122	6,031,828
Prepaid expenses .....	1,065,023	1,002,402
Total current assets .....	38,507,841	37,791,020
Plant property—at cost:		
Land and improvements .....	3,338,421	3,106,431
Buildings and improvements .....	15,452,487	13,255,959
Machinery and equipment .....	32,528,565	25,666,344
Construction in progress .....	4,670,249	2,655,994
	55,989,722	44,684,728
Less accumulated depreciation .....	21,050,299	18,625,433
Plant property—net .....	34,939,423	26,059,295
Patents and trademarks—at cost less accumulated amortization .....	827,378	890,266
Other assets:		
Investments and advances .....	639,355	401,556
Miscellaneous .....	220,503	229,876
Total other assets .....	859,858	631,432
	\$75,134,500	\$65,372,013



## BALANCE SHEET

LIABILITIES AND SHAREHOLDERS' EQUITY	December 31	
	1966	1965
Current liabilities:		
Notes payable by foreign subsidiaries to banks .....	\$ 2,100,225	\$ 1,965,840
Accounts payable:		
Trade .....	6,566,702	4,909,593
Other .....	922,798	580,537
Accrued expenses:		
Income taxes .....	2,206,624	3,604,768
Other taxes .....	591,111	496,097
Employee compensation .....	1,808,263	1,608,335
Other .....	640,027	227,077
Total current liabilities .....	<u>14,835,750</u>	<u>13,392,247</u>
Long-term debt:		
Notes payable to banks (Interest at prime rate — presently 6%) — Note 5 ..	750,000	—
4½ % note payable by foreign subsidiary to bank .....	—	1,000,000
Total long-term debt .....	<u>750,000</u>	<u>1,000,000</u>
Deferred foreign income taxes — Note 6 .....	<u>978,341</u>	<u>—</u>
Shareholders' equity — Note 2:		
Common shares without par value:		
Authorized — 5,000,000 shares		
Outstanding — 4,884,046 shares in 1966 and 4,857,598 shares in 1965 (after deducting 22,863 and 21,663 treasury shares respectively) .....	18,481,189	18,099,491
Retained earnings .....	<u>40,089,220</u>	<u>32,880,275</u>
Total shareholders' equity .....	<u>58,570,409</u>	<u>50,979,766</u>
	<u>\$75,134,500</u>	<u>\$65,372,013</u>

The notes to financial statements on Page 18 are an integral part of this statement.

## NOTES TO FINANCIAL STATEMENTS

### 1. Principles of Consolidation

All subsidiaries are wholly-owned and consolidated.

The accounts of the subsidiaries located outside the United States have been translated in United States dollars as follows: Property, related depreciation, and inventories at rates in effect at the time of acquisition; other assets and liabilities, at rates in effect at year-end; other income accounts, at average rates for the year. No significant gains or losses resulted from translation of foreign currencies.

A summary of net assets of subsidiaries located outside the United States and Canada at December 31, 1966 follows:

	(In thousands of dollars)			
	England and Europe	Central and South America	Other	Total
Current assets .....	\$11,811	\$ 3,783	\$ 6,049	\$21,643
Current liabilities .....	6,166	578	429	7,173
Working capital .....	5,645	3,205	5,620	14,470
Fixed assets .....	11,870	455	686	13,011
Other assets .....	130	84	45	259
Deferred foreign income taxes .....	(892)	(86)	—	(978)
Net assets .....	\$16,753	\$ 3,658	\$ 6,351	\$26,762

Notes payable of \$2,100,000 included above are guaranteed by the company.

### 2. Employee Stock Option Plans

At the beginning of the year options were outstanding to purchase 196,872 shares. During the year no options were granted, options for 9,308 shares were surrendered, and options for 28,248 shares were exercised. At the end of the year options were outstanding for 159,316 shares and options for 211,575 shares may be granted under the plans.

The option price per share was the fair market value on the date of grant with respect to all options.

### 3. Common Shares

On April 25, 1966 the Board of Directors approved a three-for-two split of its issued and outstanding common shares effected in the form of a 50% stock dividend. Retroactive effect has been given to the stock split in the accompanying financial statements and these notes.

### 4. Depreciation

Depreciation included in costs and expenses amounted to \$3,133,510 in 1966 and \$2,717,407 in 1965.

### 5. Credit Agreement

The company has a credit agreement with two banks under which it may borrow up to \$6,000,000 evidenced by notes maturing January 3, 1969, with interest at the prime rate in effect at the beginning of each calendar quarter.

### 6. Deferred Foreign Income Taxes

The foreign income taxes deferred to future years result principally from differences between depreciation taken for book and tax purposes.

### 7. Guarantee

The company has guaranteed 45% of a \$1,400,000 note payable to a bank, issued by the company's 45%-owned Japanese affiliate, Nippon-Lubrizol Industries, Inc.

### 8. Retained Earnings

At December 31, 1966 retained earnings included \$1,023,970 of capitalized earnings and statutory reserves of foreign subsidiaries.

## CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

	Year ended December 31	
	1966	1965
<b>SOURCE OF FUNDS:</b>		
Operations:		
Net income .....	\$11,145,896	\$ 9,600,243
Charges to operations not requiring an expenditure of funds:		
Depreciation .....	3,133,510	2,717,407
Deferred foreign income taxes .....	978,341	—
Other .....	78,351	361,983
Total .....	15,336,098	12,679,633
Borrowing under credit agreement .....	750,000	—
Increase in accounts payable .....	1,999,370	1,268,436
Proceeds from stock options exercised .....	388,460	196,970
Decrease (increase) in cash and marketable securities .....	4,353,746	(1,320,489)
Total .....	\$22,827,674	\$12,824,550
<b>APPLICATION OF FUNDS:</b>		
Capital expenditures .....	\$12,134,232	\$ 6,712,924
Dividends on common shares .....	3,902,900	3,398,777
Increase in receivables and inventories .....	5,007,946	2,899,171
Decrease in notes payable by foreign subsidiaries to banks .....	865,615	50,226
Decrease (increase) in accrued expenses .....	690,252	(587,974)
Treasury shares purchased .....	40,795	188,442
Investments in affiliated companies .....	130,222	34,550
Other — net .....	55,712	128,434
Total .....	\$22,827,674	\$12,824,550

### ACCOUNTANTS' OPINION

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

We have examined the consolidated balance sheet of The Lubrizol Corporation and its subsidiaries as of December 31, 1966 and the related consolidated statements of income and retained earnings and of source and application of funds 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 statements present fairly the financial position of the companies at December 31, 1966 and the results of their operations and the source and application of their funds 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  
February 27, 1967

*Haskins & Sellers*

TEN YEAR

	<u>1966</u>	<u>1965</u>
<b>CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT END OF YEAR</b>		
Current assets .....	\$ 38,507,841	\$37,791,020
Current liabilities .....	<u>14,835,750</u>	<u>13,392,247</u>
Working capital .....	23,672,091	24,398,773
Plant property — net .....	34,939,423	26,059,295
Other assets (less minority interest) .....	<u>1,687,236</u>	<u>1,521,698</u>
Total .....	<u>60,298,750</u>	<u>51,979,766</u>
Less:		
Long-term debt .....	750,000	1,000,000
Deferred foreign income taxes .....	<u>978,341</u>	—
Net assets — Shareholders' equity .....	<u>\$ 58,570,409</u>	<u>\$50,979,766</u>
<b>CONSOLIDATED STATEMENT OF INCOME FOR THE YEAR</b>		
Revenues:		
Net sales .....	\$106,101,731	\$92,019,801
Royalties and fees .....	<u>1,096,329</u>	<u>490,458</u>
Total .....	107,198,060	92,510,259
Costs and expenses .....	<u>87,867,164</u>	<u>75,890,016</u>
Income before taxes on income .....	19,330,896	16,620,243
Provision for taxes on income .....	<u>8,185,000</u>	<u>7,020,000</u>
Income before deduction of minority interest .....	11,145,896	9,600,243
Less minority interest .....	—	—
Net income .....	<u>\$ 11,145,896</u>	<u>\$ 9,600,243</u>
<b>OTHER DATA</b>		
Capital expenditures .....	\$ 12,134,232	\$ 6,712,924
Depreciation .....	3,133,510	2,717,407
Number of employees at end of year .....	2,252	2,066
Number of shareholders at end of year .....	5,228	4,385
Common shares outstanding at end of year .....	4,884,046	4,857,598
Shareholders' equity per share at end of year .....	\$11.99	\$10.49
Net income per share .....	2.28	1.98
Dividends per share .....	.80	.70

NOTE: The number of shares and per share amounts have been adjusted to give retroactive effect to stock splits, six-for-one in 1964 and three-for-two in 1966.

## SUMMARY

1964	1963	1962	1961	1960	1959	1958	1957
\$33,362,430	\$29,592,317	\$25,011,148	\$20,780,139	\$19,154,287	\$18,913,114	\$14,973,639	\$12,446,773
10,910,607	10,554,765	8,047,575	5,952,525	6,785,690	7,562,624	5,336,581	4,953,381
22,451,823	19,037,552	16,963,573	14,827,614	12,368,597	11,350,490	9,637,058	7,493,392
22,290,620	19,454,666	17,463,388	16,865,490	16,342,047	14,818,858	12,573,777	12,802,565
2,027,329	2,230,218	1,786,317	925,809	1,257,583	1,560,218	1,342,302	1,568,265
46,769,772	40,722,436	36,213,278	32,618,913	29,968,227	27,729,566	23,553,137	21,864,222
2,000,000	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
<u>\$44,769,772</u>	<u>\$40,722,436</u>	<u>\$36,213,278</u>	<u>\$32,618,913</u>	<u>\$29,968,227</u>	<u>\$27,729,566</u>	<u>\$23,553,137</u>	<u>\$21,864,222</u>
\$78,713,525	\$71,687,103	\$65,601,605	\$61,373,492	\$58,803,719	\$57,906,060	\$46,946,875	\$47,658,922
27,483	7,740	—	—	—	—	—	—
78,741,008	71,694,843	65,601,605	61,373,492	58,803,719	57,906,060	46,946,875	47,658,922
65,883,799	59,763,071	55,343,159	52,643,400	50,290,514	47,307,273	40,533,704	40,955,421
12,857,209	11,931,772	10,258,446	8,730,092	8,513,205	10,598,787	6,413,171	6,703,501
5,795,765	5,291,559	4,518,584	3,992,421	3,851,056	5,161,283	3,069,983	3,387,672
7,061,444	6,640,213	5,739,862	4,737,671	4,662,149	5,437,504	3,343,188	3,315,829
—	55,982	243,524	284,797	272,392	367,314	187,574	38,465
<u>\$ 7,061,444</u>	<u>\$ 6,584,231</u>	<u>\$ 5,496,338</u>	<u>\$ 4,452,874</u>	<u>\$ 4,389,757</u>	<u>\$ 5,070,190</u>	<u>\$ 3,155,614</u>	<u>\$ 3,277,364</u>
\$ 5,301,575	\$ 4,399,363	\$ 2,887,310	\$ 2,483,831	\$ 3,175,013	\$ 3,750,051	\$ 1,235,357	\$ 3,277,506
2,391,836	2,333,629	2,249,923	1,936,145	1,634,624	1,412,357	1,345,574	1,237,414
1,899	1,730	1,628	1,546	1,483	1,392	1,204	1,250
3,968	1,014	718	637	344	214	184	149
4,846,018	4,850,820	4,850,820	4,865,220	4,878,720	4,896,720	4,781,565	4,829,265
\$9.24	\$8.39	\$7.47	\$6.70	\$6.14	\$5.66	\$4.93	\$4.53
1.46	1.36	1.13	.92	.90	1.04	.66	.68
.55	.43	.36	.36	.33	.33	.25	.28



# THE LUBRIZOL CORPORATION

## SUBSIDIARIES

Addex Manufacturing Company  
Cleveland Industrial Research, Inc.  
Lubrizol Management, Inc.

Lubrizol A.G.—(Switzerland)  
Lubrizol do Brasil, Limitada  
Lubrizol of Canada, Ltd.  
Lubrizol France  
Lubrizol G.m.b.H.—(Germany)

Lubrizol Great Britain Limited  
Lubrizol International S.A.  
Lubrizol Australia (a branch)  
Lubrizol Italiana S.p.A.  
Lubrizol Japan, Ltd.  
Lubrizol Limited—(England)  
Lubrizol de Mexico, S. de R.L.  
Lubrizol Scandinavia AB  
Lubrizol South Africa (Pty.) Limited

## AFFILIATES

Industrias Lubrizol S.A. de C.V.—(Mexico)  
Lubrizol India Limited  
Nippon-Lubrizol Industries, Inc.—(Japan)

## MANUFACTURING PLANTS

Wickliffe, Ohio  
Painesville, Ohio  
Houston, Texas

Sydney, Australia  
Niagara Falls, Canada  
Bromborough, England

Rouen, France  
Taketooyo, Japan  
Monterrey, Mexico

## RESEARCH and TESTING LABORATORIES

Wickliffe, Ohio

Hazelwood, near Derby, England

## SALES and TECHNICAL SERVICE OFFICES, and SALES AGENTS

Chicago (Naperville, Illinois)  
Cleveland, Ohio  
Detroit, Michigan  
Houston, Texas  
Los Angeles (Whittier, California)  
New York (Ridgewood, New Jersey)  
Tulsa, Oklahoma

Athens, Greece  
Baghdad, Iraq  
Bombay, India  
Brussels, Belgium  
Buenos Aires, Argentina  
Copenhagen, Denmark  
Durban, South Africa  
Hamburg, West Germany  
Helsinki, Finland

La Paz, Bolivia  
Lima, Peru  
London, England  
Madrid, Spain  
Melbourne, Australia  
Mexico City, Mexico  
Milan, Italy  
Nassau, Bahamas  
Oslo, Norway  
Paris, France  
Rio de Janeiro, Brazil  
Santiago, Chile  
Stockholm, Sweden  
Sydney, Australia  
Taipei, Taiwan  
Tokyo, Japan  
Toronto, Canada  
Vienna, Austria

## TRANSFER AGENTS

The National City Bank of Cleveland  
First National City Bank

## REGISTRARS

The Cleveland Trust Company  
Chemical Bank New York Trust Company

**Lubrizol<sup>®</sup>**

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