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# THE LUBRIZOL CORPORATION

# Lubrizol

ANNUAL REPORT 1967

## DIRECTORS

Raymond Q. Armington  
*Chairman*  
The TRIAX Company

M. Roger Clapp  
*President*

J. N. Crawford  
*Vice President - Sales*

Henri P. Junod  
*Former Vice Chairman*  
Pickands Mather & Company

Thomas W. Mastin  
*Executive Vice President*  
*Vice President - Research and Development*

F. Alex Nason  
*Founder of the Company*  
*Chairman, Lake County National Bank*

John L. Palmer  
*Vice President - Engineering*

Karl H. Rudolph  
*President*  
The Cleveland Electric Illuminating Company

Kelvin Smith  
*Founder of the Company*  
*Honorary Chairman*

Vincent K. Smith  
*Founder of the Company*  
*President, EMD Components, Inc.*

Kent H. Smith  
*Founder of the Company*  
*Chairman, Council on Foundations, Inc.*

Ralph S. Tyler, Jr.  
*Vice Chairman and General Counsel*

A. O. Willey  
*Chairman and Chief Executive Officer*

J. M. Zlatoper  
*Vice President - Finance*  
*and Treasurer*

## OFFICERS

A. O. Willey  
*Chairman and Chief Executive Officer*

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*President*

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*Executive Vice President*  
*and Vice President - Research*  
*and Development*

J. N. Crawford  
*Vice President - Sales*

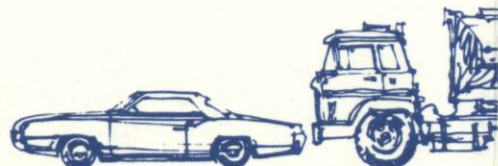
M. M. McGrew  
*Vice President - Manufacturing*

John L. Palmer  
*Vice President - Engineering*

Robert K. Williams  
*Vice President - Corporate Planning*  
*and Development*

J. M. Zlatoper  
*Vice President - Finance*  
*and Treasurer*

Douglas W. Richardson  
*Secretary*



## TRANSFER AGENTS

The National City Bank of Cleveland  
First National City Bank

## REGISTRARS

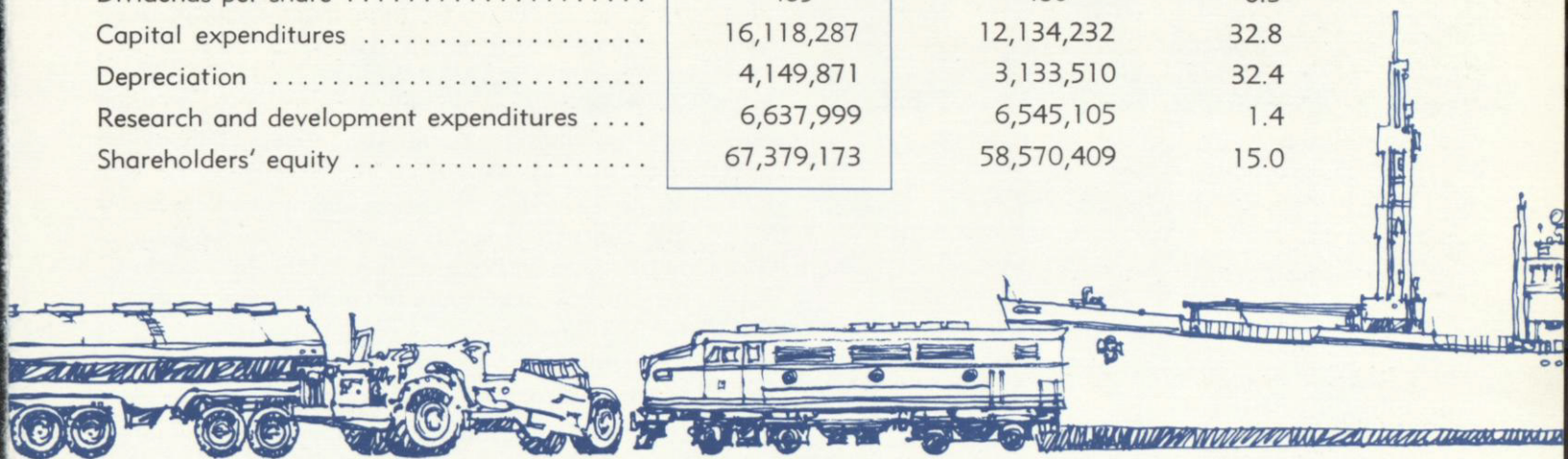
The Cleveland Trust Company  
Chemical Bank New York Trust Company

## ANNUAL MEETING

The annual meeting of shareholders will be held in the Lewis Room of the Sheraton-Cleveland Hotel, Public Square and Superior Avenue, Cleveland, Ohio at 2:30 p.m. on Monday, April 1. Shareholders will receive a notice of the meeting and proxy material on or about March 1.

## FINANCIAL HIGHLIGHTS

	1967	1966	% Increase (Decrease)
Revenues:			
Net sales .....	\$119,223,314	\$106,101,731	12.4
Royalties and fees .....	958,125	1,096,329	(12.6)
Total .....	120,181,439	107,198,060	12.1
Net income .....	12,391,180	11,145,896	11.2
Net income per share .....	2.52	2.28	10.5
Dividends per share .....	.85	.80	6.3
Capital expenditures .....	16,118,287	12,134,232	32.8
Depreciation .....	4,149,871	3,133,510	32.4
Research and development expenditures .....	6,637,999	6,545,105	1.4
Shareholders' equity .....	67,379,173	58,570,409	15.0



## THE COMPANY

The Lubrizol Corporation has long been a leader in the field of chemical additives for the petroleum industry. Lubrizol additives improve the performance of the lubricants and fuels used in all types of transportation equipment—in automobiles, trucks, buses, off-the-road equipment, diesel locomotives and ships, as well as in many industrial applications.

The company makes more than 300 additives which separately and in combination perform a number of different functions. In lubricating oils, additives increase the capability of the finished lubricants to limit engine wear and mechanical damage to moving parts. They reduce the tendency of lubricants to thin out in extreme heat and to thicken in cold. They inhibit the accumulation of harmful deposits on engine parts. They also add essential properties to gear lubricants, automatic transmission fluids and special hydraulic fluids. In gasoline and diesel fuels, Lubrizol additives provide characteristics that result in improved engine performance and reduced maintenance costs.

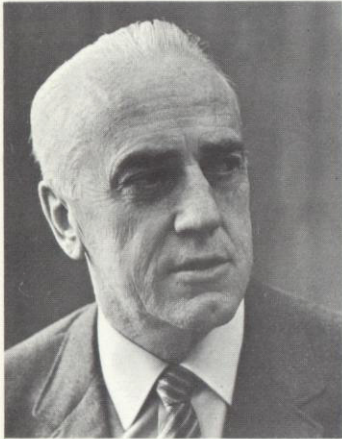
Founded in 1928, Lubrizol was a pioneer in the tech-

nology of petroleum additives. This is a highly complex field of chemistry in which the company has maintained its position of leadership largely through intensive research. The company's research and development activities include mechanical testing programs which also serve to demonstrate to customers the performance of the company's products. This development and sales promotion work is carried out in the company's mechanical testing laboratories as well as in over-the-road fleet test programs.

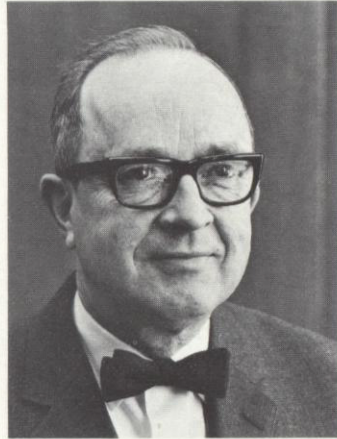
The company operates three manufacturing plants in the United States and six in other countries. It has seventeen wholly-owned subsidiaries, fifteen of them overseas; and also three affiliated companies, all outside the United States. It has sales and technical service offices or sales agents in twenty-nine countries throughout the world.

In recent years, Lubrizol has expanded its field of activity to areas of chemistry apart from additives with emphasis on new chemicals for the plastics and coatings industries.

## MESSAGE TO SHAREHOLDERS



A. O. Willey



M. Roger Clapp

The Lubrizol Corporation in 1967 maintained its steady growth in revenues and net income. At the same time it continued to build for the future.

Total revenues for the year were \$120,181,439, a gain of 12% over those of \$107,198,060 in 1966. Net income rose to \$12,391,180 compared with \$11,145,896 in the previous year, an increase of 11%. Net income per share was \$2.52 compared with \$2.28 in 1966.

In the last five years, revenues of the company have risen by 83% and net income by 125%. These gains reflect continuing increases in the demand for Lubrizol's complete line of petroleum additives both in the United States and in other countries throughout the world.

The results in 1967 reflect the continuation of programs which we feel have been and will be important in the years ahead. Among these are:

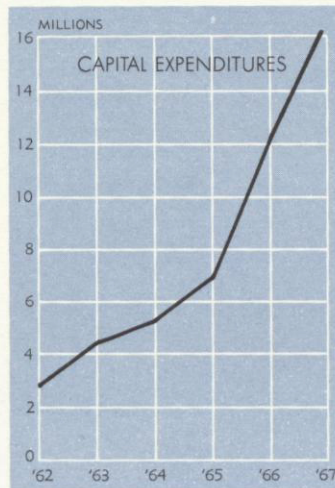
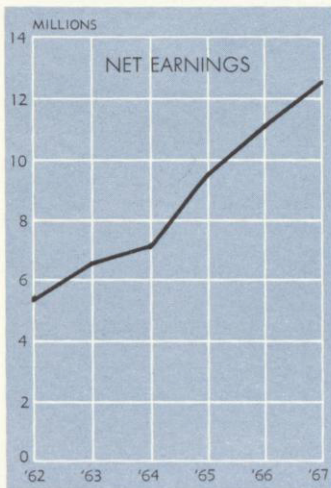
- The development of new and improved petroleum additive products to meet the sharply upgraded specifications of the automotive equipment manufacturers and the petroleum industry.
- The continued expansion of manufacturing facilities enabling the company to supply the increasing demand for petroleum additives.
- The continuation of a strong commitment to additive research.
- The search for new products apart from the additive field through an intensified polymer research program.

Activities in these programs will be discussed in more detail on subsequent pages of this report.

The expansion program in 1967 called for a new high in capital expenditures for the company with the amount exceeding \$16 million. This, combined with the expenditures made for expansion in 1966, brought the two-year total spent for this purpose to more than \$28 million. We believe that this investment will strengthen the research and production capabilities that enable us to meet the demands of a growing market. It is anticipated that capital expenditures will continue at a high level in 1968.

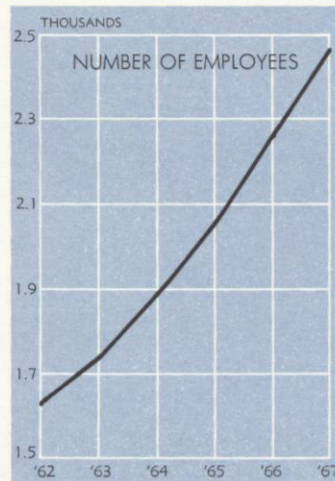
To assure the availability of funds for expansion, the company in July negotiated a revolving credit agreement with three banks providing for borrowings of up to \$15 million until 1969, with the option of converting to term loans due in installments to 1974. At the end of 1967 \$8,250,000 had been borrowed.

Along with expanded operations in recent years, the number of our employees has greatly increased. As shown



on one of the charts on this page, total employment in the last five years has risen from 1,628 in 1962 to 2,472 at the end of 1967, an increase of 52%. In 1967 alone, employment rose 9.8%.

The directors increased the regular quarterly dividend from 20 cents a share to 22½ cents a share for the last two quarters of 1967. This new rate increased the total payments for the year to 85¢ per share compared with 80¢ in 1966.



The year 1968 is an important milestone, marking the 40th anniversary of Lubrizol's founding. From a pioneer in a relatively new field of chemistry, the company has progressed in four decades to a position of international leadership in a technology of major importance. We are intent on strengthening our position in the additive field and on advancing in other fields of chemistry.

Our belief in a promising future for The Lubrizol Corporation is based not only upon a growing demand for the company's products but upon the ability and dedication of its employees.

*A. D. Willey*  
Chairman of the Board

*M. Roger Clapp*  
President

## NEW MARKET DEVELOPMENTS

The demand for petroleum additives is directly affected by improvements in mechanical equipment design which lead to changes in lubricant and fuel specifications. An example of this is the overall upgrading of automotive lubricant specifications in 1967 which has materially expanded the market for additive products.

In offering five-year or 50,000-mile warranties, the automobile manufacturers have assumed a new liability and in turn are recommending that higher quality lubricants be used to ensure efficient operation and to reduce the need for repairs. In some cases, owners' manuals and warranty terms stress that only high quality engine oils which meet the automobile manufacturers' specifications should be used. These new and improved lubricants require a high additive content.

Another major concern of the automobile industry in recent years has been the problem of air pollution and its effect on smog formation. This concern was pointed up by the recent establishment of Federal standards concerning emissions from motor vehicles. Beginning with the 1968 model vehicles, these standards include a prohibition against the discharge of crankcase emissions by cars and trucks powered by gasoline engines.



In order to comply with these regulations, manufacturers are equipping all 1968 models with a system called "positive crankcase ventilation" (PCV). The purpose of the PCV system is to return unburned hydrocarbons and other gases from the crankcase to the engine for further combustion. This prevents emissions into the atmosphere that would otherwise occur. Satisfactory operation of engines equipped with this system depends upon a small, carefully calibrated PCV valve. Lubricant and fuel additives are effective in preventing the clogging of this valve and in offsetting deposit and corrosion problems.

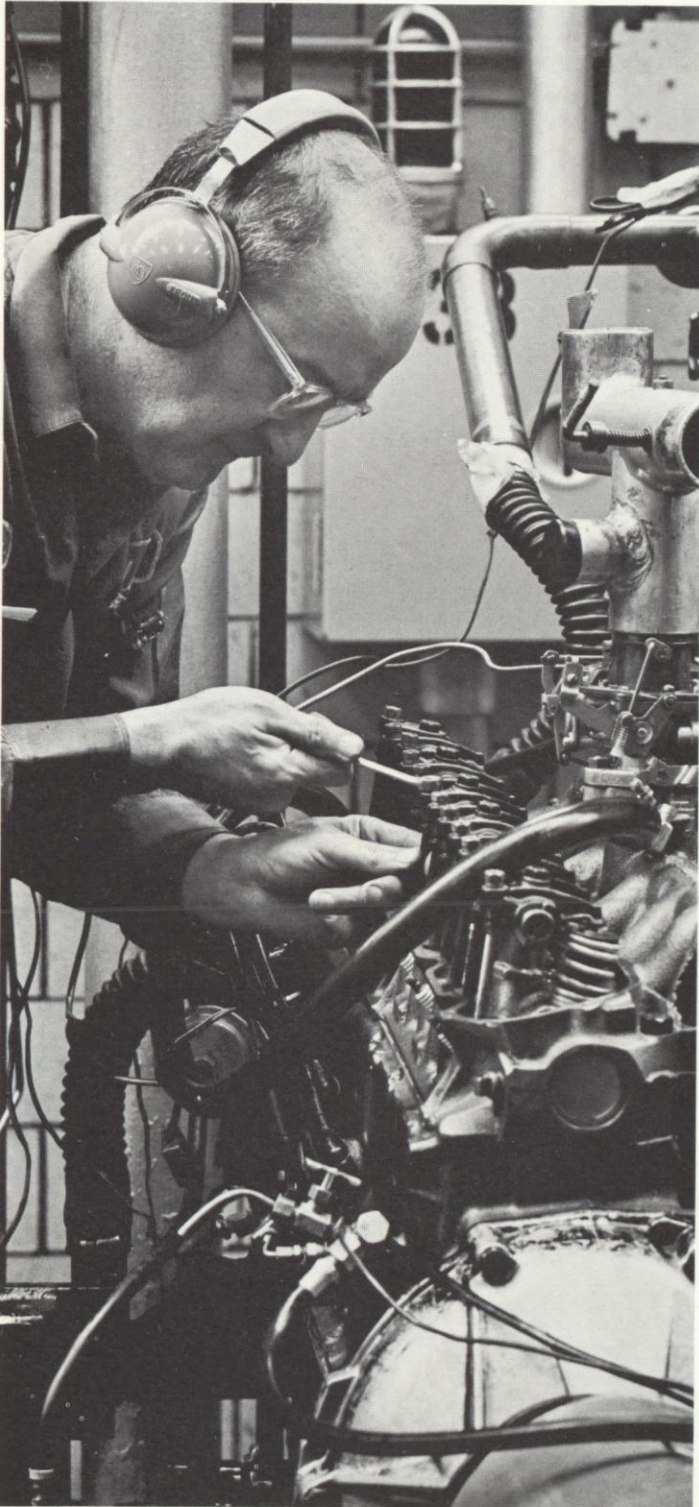
While Lubrizol's business prospects are improved by the opportunity to supply additives important to the successful operation of this anti-smog device, it should be understood that the additives themselves have no anti-smog effect.

In recent years a stimulating effect on the additive business has also resulted from the longer periods between oil changes recommended by automobile manufacturers. High quality lubricants containing more and improved additives make these extended oil changes possible.

Another favorable trend is provided by improvements in equipment requiring higher performance automatic transmission fluids and gear lubricants, in both of which chemical additives are indispensable.

All of these developments combined in 1967 to increase the demand for improved lubricants and to put new emphasis on the role of additives.





The development of new additives requires careful evaluation in Lubrizol's mechanical testing laboratories.

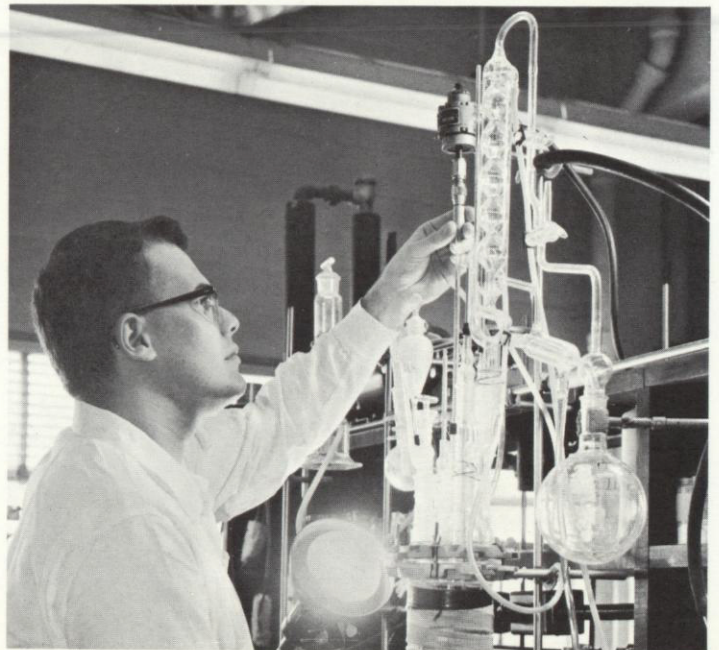
## PROGRESS IN FUEL ADDITIVES

Although Lubrizol has been regarded primarily as a supplier of additives for lubricants, the company for many years has also been a producer of additives for gasoline. In the last decade, Lubrizol has looked upon gasoline and diesel fuel markets as increasingly important areas for growth.

Lubrizol research has led to the development of improved multifunctional additives for gasoline which help to prevent carburetor icing and spark plug fouling, to keep carburetors clean and to maintain a high overall engine efficiency. Several major oil companies are now using Lubrizol's multifunctional gasoline additives with the result that the company has become one of the leading suppliers of products of this type.

In the diesel field, Lubrizol's smoke suppressant additive has continued to show promise. Field tests indicate that this additive has the capability not only to eliminate smoke, but also to reduce engine wear, improve mileage and cut overall maintenance costs. It is expected that sales of this product will continue to grow in 1968.

The development of these new additive products resulted from the company's continually expanding research and mechanical testing programs which reached their highest level in 1967.



The chemical laboratory is the focal point in additive development.



## GROWTH IN OVERSEAS MARKETS

Along with substantial growth in domestic sales, overseas markets continue to be very important to Lubrizol. In 1967, about 56% of the company's total sales were delivered in 63 countries outside the United States and Canada. It is anticipated that 1968 will bring an increased demand for our products abroad.

Lubrizol's widespread distribution throughout the free world provides a broad diversification of markets. This gives a substantial degree of stability to the company's business since an economic decline in one country may well be offset by an improvement in others.

## BALANCE OF PAYMENTS AND FOREIGN EXCHANGE

On November 18, 1967 the British Pound Sterling was devalued by 14.3% and related devaluation followed in the currencies of a few other countries in varying proportions. On December 29, 1967 the Brazilian Cruzeiro was devalued by approximately 18.5%. Fortunately these events had no material effect on the company's 1967 earnings.

The British and other devaluations increased the pressure on the United States Dollar and threatened to widen the country's unfavorable balance of payments. On January 1, 1968 President Johnson issued Executive Order No. 11387. This order, and the regulations issued in accordance with it, operate to restrict capital transfers by U.S. companies to subsidiaries and affiliates outside of the country and require repatriation of certain portions of their current earnings. Since the order and regulations are new and in the course of being interpreted, it is not possible at this time to forecast their effects on Lubrizol's overseas operations. However, the company may find it necessary to finance some of these operations by borrowing overseas at interest costs somewhat higher than would be charged in the United States.

Lubrizol's worldwide operations have consistently resulted in a favorable contribution to the U.S. balance of payments.



Lubrizol's plant at Rouen, France, is the company's largest manufacturing facility overseas.

## EXPANDING PRODUCTION FACILITIES

In 1967, new highs in production were established at all of the company's nine manufacturing plants.

These records were made possible by the completion of a number of new units in 1966. The expansion program continued through 1967, with several new facilities beginning operation during the year.

At the Lubrizol plant in Houston this program included construction of a new polybutene unit at a cost of \$2 million. It went on stream at a time when the world market for this important raw material was extremely tight. In comparison with the company's former dependence on outside sources, the new addition assures the company of a steadier supply at a substantial cost saving. Other construction work brought the total expenditure for expansion at the Houston plant to approximately \$7.2 million.

In another important expansion move, the company will begin construction in 1968 of manufacturing units on its newly-acquired property in the Bayport industrial complex 8 miles from the present Houston plant. This 237-acre site will have access to excellent rail and trucking facilities and to a new deepwater channel which will supplement the existing Houston Ship Channel.

At the Painesville, Ohio plant approximately \$2.3 million was spent on new facilities in 1967, including the completion of a unit for producing a highly alkaline detergent to reduce engine corrosion and wear. Construction of other units will continue at the Painesville plant in 1968.

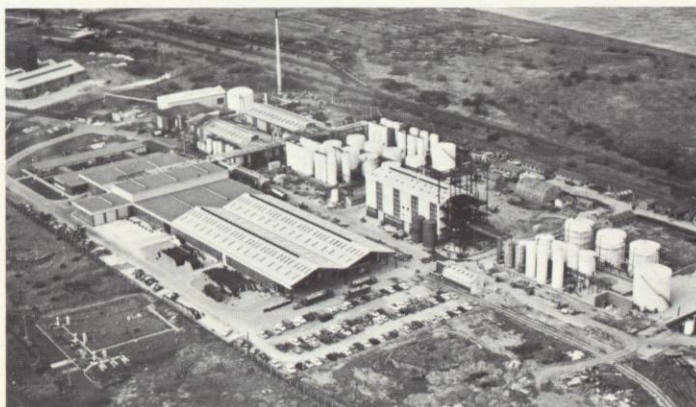
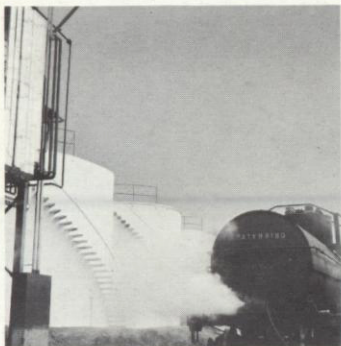
At Bromborough, near Liverpool, England, Lubrizol made a major addition to its plant with the construction of a \$2 million unit to produce a viscosity index improver.

Industrias Lubrizol S.A. de C.V., a joint venture with Mexican investors, began construction of a new plant near Monterrey, Mexico to help supply the growing Latin American market for additives. This will be a major installation capable of producing a number of important intermediates and finished products. Plant operations are scheduled to begin in the fall of 1968.

Construction was begun on a new plant near Bombay, India by Lubrizol India Limited, a new company owned jointly with the Government of India. Ground was also broken early in November by Lubrizol Española S.A. for a new plant in Huelva, Spain.

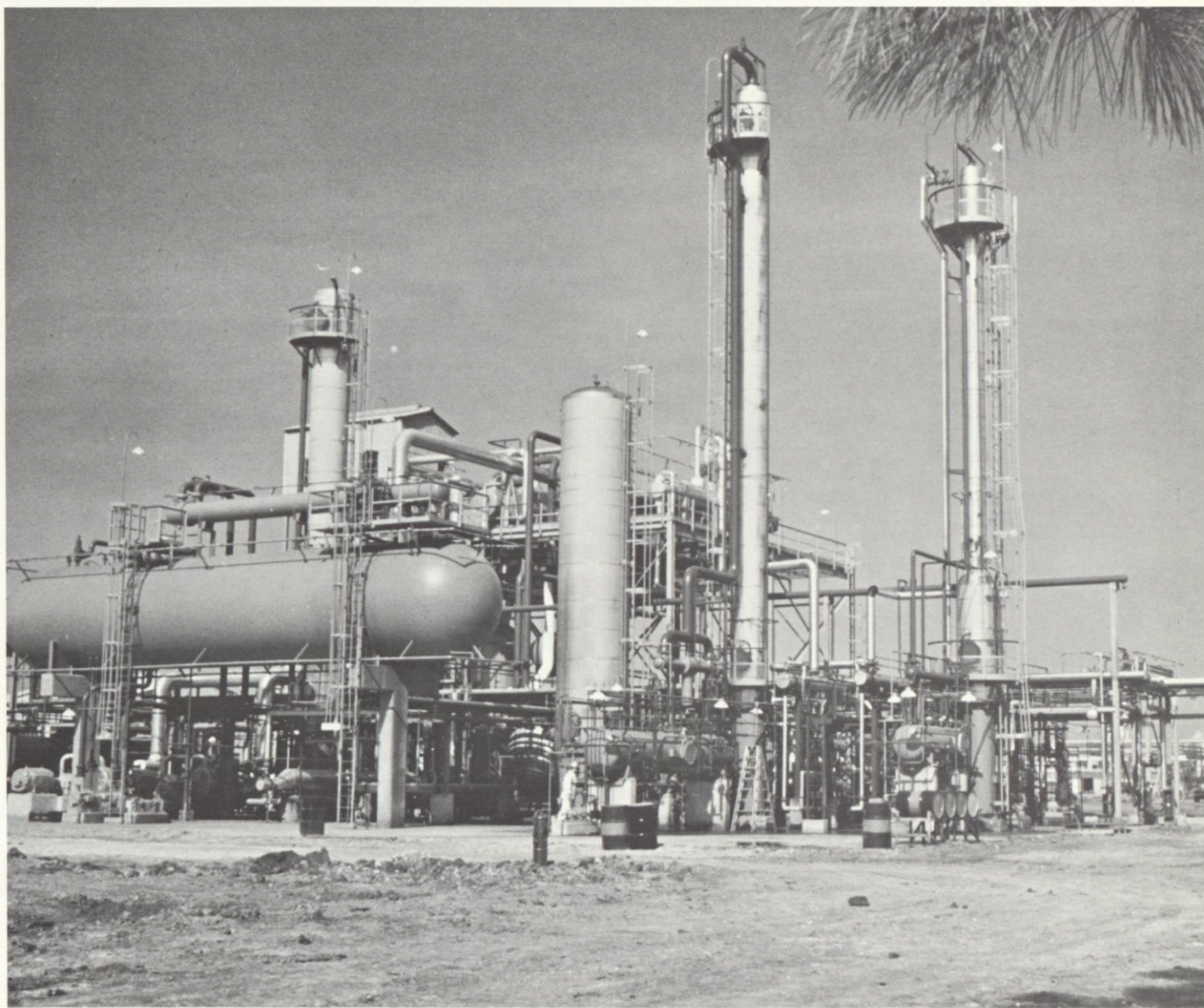
Nippon-Lubrizol Industries, Inc., a joint venture with Nippon Oils & Fats Co., Ltd. is completing a unit to manufacture dispersants at its plant in Taketoyo (near Nagoya), Japan.

Left — The company's plant at Painesville, Ohio, was substantially expanded in 1967. Right — Hindu priests assisted in ground-breaking ceremonies for the new plant in India.



A major facility for the production of a viscosity index improver was completed in 1967 at Bromborough, England.

With the continued enlargement of manufacturing facilities at Rouen, France in 1967, room for further expansion at this location became seriously limited. To permit future expansion the company has acquired approximately 32 acres of industrial land at Le Havre, about 40 miles from Rouen, with option on adjacent acreage, to assure adequate space for growth in manufacturing capacity to serve the European Common Market.



This new facility at Houston is providing polybutene, an important raw material for the manufacture of additives.

## DIVERSIFICATION THROUGH RESEARCH

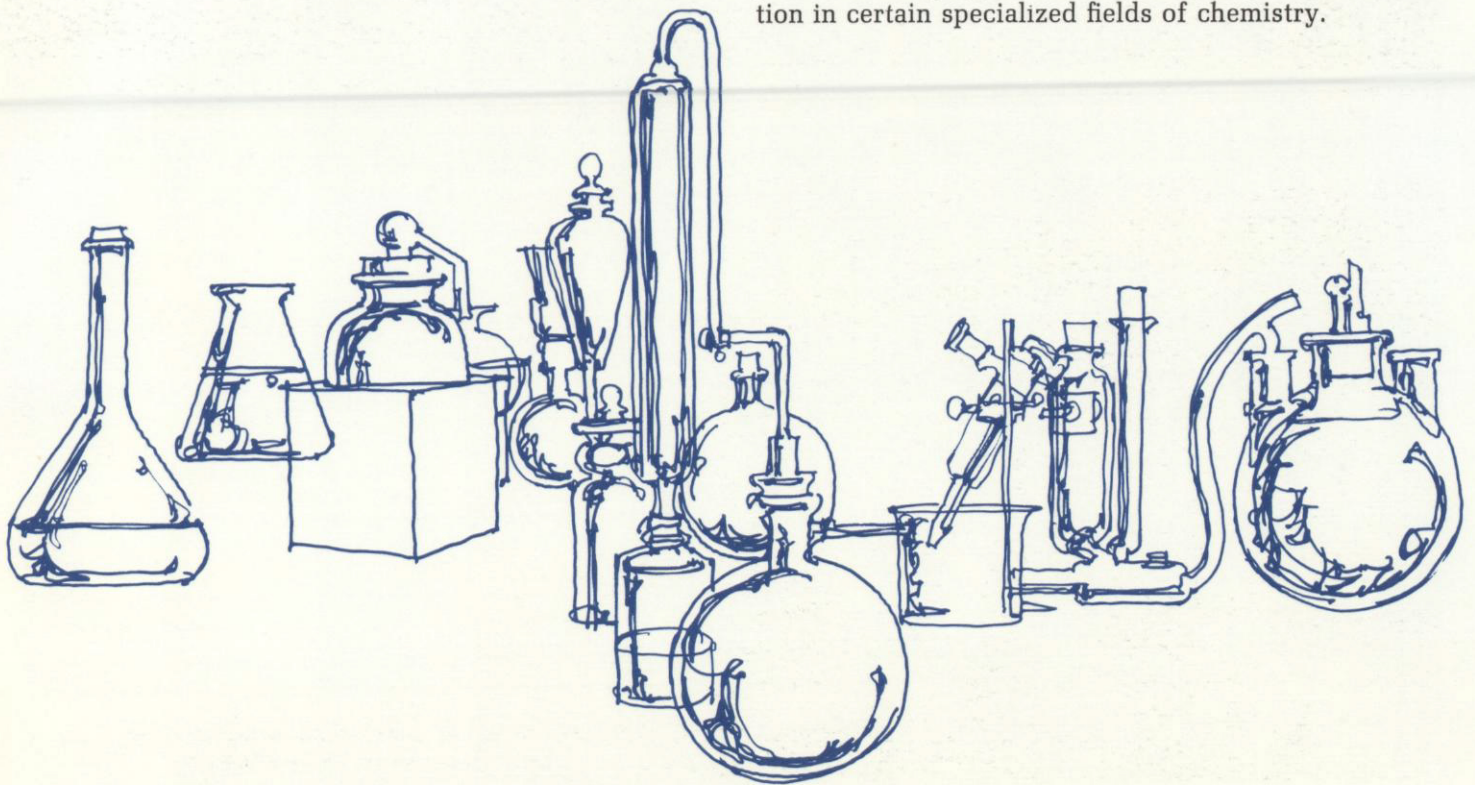
Lubrizol's long-term research program to diversify its products received an added impetus in 1967 when the new Polymer Research Laboratory was opened in Wickliffe.

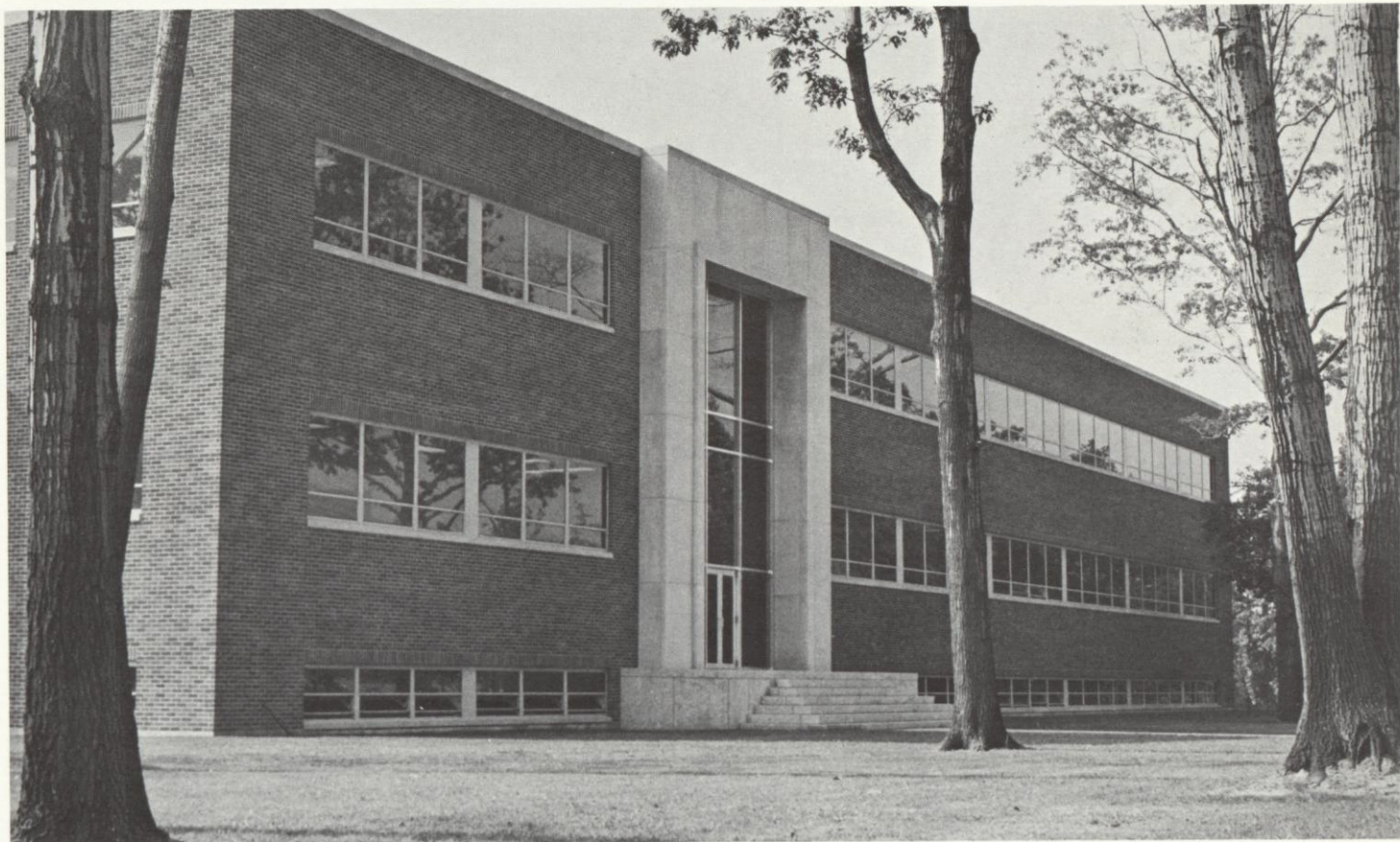
The polymer research program is directed toward the development of special chemicals in fields apart from Lubrizol's line of additives for the petroleum industry. Several of these products have been introduced to the commercial market. Others are being evaluated in a wide variety of industries and still others are in the development stage.

Under study both at the laboratory and in the field are applications for diacetone acrylamide (DAA), a unique vinyl monomer with many potential uses as a building block for plastics and coatings.

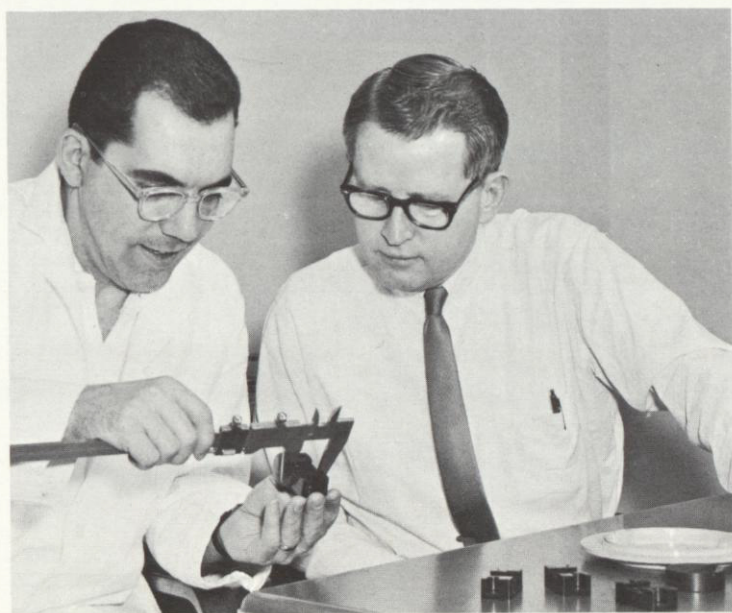
The company introduced in 1967 a family of three epoxy resin curing agents which have a wide range of possible applications in the plastics, coatings and adhesives fields.

It should be emphasized that the development and marketing of these and other products of the polymer research program are in a preliminary phase. The objective of the program is to make a long-range contribution in certain specialized fields of chemistry.





Development work in special chemicals apart from the additive field is being conducted at the new Polymer Research Laboratory.



Lubrizol scientists inspect plastic parts molded from experimental materials developed at the new laboratory.

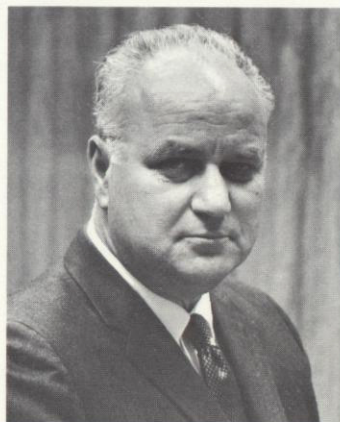
## MANAGEMENT



In January, 1967, Raymond Q. Armington, chairman of The TRIAX Company, was elected to the Lubrizol board of directors. Before joining TRIAX as president in 1960, he was general manager of the Euclid Division of General Motors Corporation and chairman of Euclid (Great Britain) Ltd., in Glasgow, Scotland. He was president of Euclid Road Machinery Company prior to its acquisition by General Motors. Mr. Armington is a director of six companies in addition to TRIAX and Lubrizol and brings to the company a wide range of management experience and capabilities.



In April, Ralph S. Tyler, Jr., was elected vice chairman of the company and has continued as general counsel. Mr. Tyler previously had served as vice president - international operations and general counsel. He became legal counsel for Lubrizol in 1962, was elected a director the following year and was elected vice president and general counsel in 1964. Before joining the company, he was a partner in the law firm of Squire, Sanders and Dempsey and in 1933 and 1934 served as special assistant counsel to the Federal Reserve Board in Washington, D.C.



Dr. Thomas W. Mastin was elected executive vice president of the company in September. Dr. Mastin has served as vice president - research and development since 1956 and will continue in that capacity in addition to assuming new responsibilities. He joined Lubrizol as a chemist in 1942 and was named director of the chemical research laboratories the following year, subsequently serving as director of the research and development division. He was elected a director of the company in 1957.

## CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

	Year ended December 31	
	1967	1966
Revenues:		
Net sales .....	\$119,223,314	\$106,101,731
Royalties and fees .....	958,125	1,096,329
Total .....	120,181,439	107,198,060
Costs and expenses:		
Cost of sales .....	77,541,396	68,030,537
Selling, administrative and research expenses .....	21,025,715	19,913,317
Total .....	98,567,111	87,943,854
Income from operations .....	21,614,328	19,254,206
Other income (expense):		
Interest .....	(344,400)	(161,378)
Other items — net .....	198,252	238,068
Income before taxes on income .....	21,468,180	19,330,896
Provision for taxes on income .....	9,077,000	8,185,000
Net income .....	12,391,180	11,145,896
Retained earnings, January 1 .....	40,089,220	32,880,275
Total .....	52,480,400	44,026,171
Less:		
Dividends (per share: 1967 — \$.85; 1966 — \$.80) .....	4,176,763	3,902,900
Excess of cost over stated value of treasury shares purchased .....	—	34,051
Total .....	4,176,763	3,936,951
Retained earnings, December 31 .....	\$ 48,303,637	\$ 40,089,220
Net income per share .....	\$2.52	\$2.28

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

**CONSOLIDATED**

December 31

**ASSETS**

	1967	1966
Current assets:		
Cash .....	\$ 4,322,831	\$ 4,695,702
Government and other short-term marketable securities — at lower of cost or market .....	8,102	280,189
Receivables:		
Customers .....	16,679,656	11,411,437
Other .....	2,103,006	1,835,324
Inventories — at cost (first-in first-out method) not in excess of market:		
Finished products .....	5,725,311	4,883,119
Products in process .....	7,237,571	6,107,925
Raw material and supplies .....	7,673,405	8,229,122
Prepaid expenses .....	1,079,901	1,065,023
Total current assets .....	44,829,783	38,507,841
Plant property — at cost:		
Land and improvements .....	5,347,197	3,338,421
Buildings and improvements .....	17,051,276	15,452,487
Machinery and equipment .....	41,518,938	32,528,565
Construction in progress .....	7,487,240	4,670,249
	71,404,651	55,989,722
Less accumulated depreciation .....	24,589,551	21,050,299
Plant property — net .....	46,815,100	34,939,423
Patents and trademarks — at cost less accumulated amortization .....	764,736	827,378
Other assets:		
Investments and advances .....	1,610,400	639,355
Miscellaneous .....	256,679	220,503
Total other assets .....	1,867,079	859,858
TOTAL .....	\$94,276,698	\$75,134,500



## BALANCE SHEET

	December 31	
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<u>1967</u>	<u>1966</u>
Current liabilities:		
Loans payable by foreign subsidiaries to banks .....	\$ 1,012,750	\$ 2,100,225
Accounts payable:		
Trade .....	6,935,832	6,566,702
Other .....	893,536	922,798
Accrued expenses:		
Income taxes .....	3,783,015	2,206,624
Other taxes .....	666,615	591,111
Employee compensation .....	2,082,629	1,808,263
Other .....	<u>745,555</u>	<u>640,027</u>
Total current liabilities .....	<u>16,119,932</u>	<u>14,835,750</u>
Notes payable to banks (Interest at prime rate — presently 6%) — Note 2 .....	<u>8,250,000</u>	<u>750,000</u>
Deferred cash grants from a foreign government (being amortized over the lives of the related assets acquired) .....	<u>1,398,625</u>	<u>—</u>
Deferred foreign income taxes — Note 3 .....	<u>1,128,968</u>	<u>978,341</u>
Shareholders' equity:		
Common shares without par value:		
Authorized — 10,000,000 shares in 1967 and 5,000,000 shares in 1966		
Outstanding — 4,922,983 shares in 1967 and 4,884,046 shares in 1966 (after deducting 22,863 treasury shares in both years) .....	19,075,536	18,481,189
Retained earnings .....	<u>48,303,637</u>	<u>40,089,220</u>
Total shareholders' equity .....	<u>67,379,173</u>	<u>58,570,409</u>
<b>TOTAL .....</b>	<u><u>\$94,276,698</u></u>	<u><u>\$75,134,500</u></u>

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

## NOTES TO FINANCIAL STATEMENTS — 1967

### 1. Principles of Consolidation

All subsidiaries are wholly-owned and consolidated.

The accounts of the subsidiaries located outside the United States have been translated into 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, 1967 follows:

	(In thousands of dollars)			
	England and Europe	Central and South America	Other	Total
Current assets .....	\$12,975	\$ 4,522	\$ 6,272	\$23,769
Current liabilities .....	5,389	442	370	6,201
Working capital .....	7,586	4,080	5,902	17,568
Plant property — net .....	13,874	456	671	15,001
Other assets .....	137	87	43	267
Deferred cash grants and income taxes ....	(2,442)	(86)	—	(2,528)
Net assets .....	\$19,155	\$ 4,537	\$ 6,616	\$30,308

### 2. Notes Payable to Banks

The company has a credit agreement with three banks under which it may borrow up to \$15,000,000 at the prime interest rate, on short-term notes renewable to February 1, 1969. It has the option to convert the notes outstanding at that date to term loans payable in ten equal semi-annual installments beginning August 1, 1969, with interest at  $\frac{1}{4}$  % over the prime rate.

### 3. Deferred Foreign Income Taxes

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

### 4. Employee Stock Options

At the beginning of the year options were outstanding to purchase 159,316 shares. During the year no options were granted, options for 2,723 shares were surrendered, and options for 38,937 shares were exercised. At the end of the year options were outstanding for 117,656 shares and options for 211,575 shares may be granted. The option price is the fair market value at the date of grant.

### 5. Retirement Plans

The company and some of its subsidiaries have non-contributory retirement plans for eligible hourly and salaried employees. The cost of these plans charged to 1967 operations was \$1,413,103. The practice is to fund accrued costs of the plans. At December 31, 1967, there was no unfunded past service cost, and pension fund assets exceeded the actuarially computed value of vested benefits.

### 6. Guarantee

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

### 7. Retained Earnings

At December 31, 1967, retained earnings included \$1,140,670 of capitalized earnings and statutory reserves of foreign subsidiaries.

## CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

	Year Ended December 31	
	1967	1966
<b>SOURCE OF FUNDS</b>		
Operations:		
Net income .....	\$12,391,180	\$11,145,896
Charges to operations not requiring an expenditure of funds:		
Depreciation .....	4,149,871	3,133,510
Deferred foreign income taxes .....	150,627	978,341
Other — net .....	(20,138)	78,351
Total .....	16,671,540	15,336,098
Borrowing under credit agreement .....	7,500,000	750,000
Increase (decrease) in accrued expenses .....	2,031,789	(690,252)
Increase in accounts payable .....	339,868	1,999,370
Cash grants from a foreign government .....	1,472,881	—
Proceeds from stock options exercised .....	594,347	388,460
Decrease in cash and marketable securities .....	644,958	4,353,746
Total .....	\$29,255,383	\$22,137,422
<b>APPLICATION OF FUNDS</b>		
Capital expenditures .....	\$16,118,287	\$12,134,232
Dividends on common shares .....	4,176,763	3,902,900
Increase in receivables and inventories .....	6,952,022	5,007,946
Decrease in loans payable by foreign subsidiaries to banks .....	1,087,475	865,615
Treasury shares purchased .....	—	40,795
Investments in affiliated companies .....	983,770	130,222
Other — net .....	(62,934)	55,712
Total .....	\$29,255,383	\$22,137,422

### 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, 1967 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, 1967 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, 1968

*Haskins & Sells*

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

	1967	1966
Current assets .....	\$ 44,829,783	\$ 38,507,841
Current liabilities .....	16,119,932	14,835,750
Working capital .....	28,709,851	23,672,091
Plant property— at cost .....	71,404,651	55,989,722
Accumulated depreciation .....	(24,589,551)	(21,050,299)
Other assets (less minority interest for 1962 and prior years) .....	2,631,815	1,687,236
Total .....	78,156,766	60,298,750
Less:		
Long-term debt .....	8,250,000	750,000
Deferred cash grants .....	1,398,625	—
Deferred foreign income taxes .....	1,128,968	978,341
Net assets — Shareholders' equity .....	<u>\$ 67,379,173</u>	<u>\$ 58,570,409</u>

**CONSOLIDATED STATEMENT OF INCOME**

Revenues:		
Net sales .....	\$119,223,314	\$106,101,731
Royalties and fees .....	958,125	1,096,329
Total .....	120,181,439	107,198,060
Costs and expenses .....	98,713,259	87,867,164
Income before taxes on income .....	21,468,180	19,330,896
Provision for taxes on income .....	9,077,000	8,185,000
Income before deduction of minority interest .....	12,391,180	11,145,896
Less minority interest .....	—	—
Net income .....	<u>\$ 12,391,180</u>	<u>\$ 11,145,896</u>

**OTHER DATA**

Capital expenditures .....	\$ 16,118,287	\$ 12,134,232
Depreciation .....	4,149,871	3,133,510
Number of employees at end of year .....	2,472	2,252
Number of shareholders at end of year .....	5,469	5,228
Common shares outstanding at end of year .....	4,922,983	4,884,046
Shareholders' equity per share at end of year .....	\$13.69	\$11.99
Net income per share .....	2.52	2.28
Dividends per share .....	.85	.80

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

<u>1965</u>	<u>1964</u>	<u>1963</u>	<u>1962</u>	<u>1961</u>	<u>1960</u>	<u>1959</u>	<u>1958</u>
\$37,791,020	\$33,362,430	\$29,592,317	\$25,011,148	\$20,780,139	\$19,154,287	\$18,913,114	\$14,973,639
<u>13,392,247</u>	<u>10,910,607</u>	<u>10,554,765</u>	<u>8,047,575</u>	<u>5,952,525</u>	<u>6,785,690</u>	<u>7,562,624</u>	<u>5,336,581</u>
24,398,773	22,451,823	19,037,552	16,963,573	14,827,614	12,368,597	11,350,490	9,637,058
44,684,728	39,079,092	34,174,913	30,328,143	27,820,065	25,625,796	22,607,107	19,079,535
(18,625,433)	(16,788,472)	(14,720,247)	(12,864,755)	(10,954,575)	(9,283,749)	(7,788,249)	(6,505,758)
<u>1,521,698</u>	<u>2,027,329</u>	<u>2,230,218</u>	<u>1,786,317</u>	<u>925,809</u>	<u>1,257,583</u>	<u>1,560,218</u>	<u>1,342,302</u>
51,979,766	46,769,772	40,722,436	36,213,278	32,618,913	29,968,227	27,729,566	23,553,137
1,000,000	2,000,000	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
<u>\$50,979,766</u>	<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>
\$92,019,801	\$78,713,525	\$71,687,103	\$65,601,605	\$61,373,492	\$58,803,719	\$57,906,060	\$46,946,875
<u>490,458</u>	<u>27,483</u>	<u>7,740</u>	—	—	—	—	—
92,510,259	78,741,008	71,694,843	65,601,605	61,373,492	58,803,719	57,906,060	46,946,875
75,890,016	65,883,799	59,763,071	55,343,159	52,643,400	50,290,514	47,307,273	40,533,704
16,620,243	12,857,209	11,931,772	10,258,446	8,730,092	8,513,205	10,598,787	6,413,171
<u>7,020,000</u>	<u>5,795,765</u>	<u>5,291,559</u>	<u>4,518,584</u>	<u>3,992,421</u>	<u>3,851,056</u>	<u>5,161,283</u>	<u>3,069,983</u>
9,600,243	7,061,444	6,640,213	5,739,862	4,737,671	4,662,149	5,437,504	3,343,188
—	—	55,982	243,524	284,797	272,392	367,314	187,574
<u>\$ 9,600,243</u>	<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>
\$ 6,712,924	\$ 5,301,575	\$ 4,399,363	\$ 2,887,310	\$ 2,483,831	\$ 3,175,013	\$ 3,750,051	\$ 1,235,357
2,717,407	2,391,836	2,333,629	2,249,923	1,936,145	1,634,624	1,412,357	1,345,574
2,066	1,899	1,730	1,628	1,546	1,483	1,392	1,204
4,385	3,968	1,014	718	637	344	214	184
4,857,598	4,846,018	4,850,820	4,850,820	4,865,220	4,878,720	4,896,720	4,781,565
\$10.49	\$9.24	\$8.39	\$7.47	\$6.70	\$6.14	\$5.66	\$4.93
1.98	1.46	1.36	1.13	.92	.90	1.04	.66
.70	.55	.43	.36	.36	.33	.33	.25



## THE LUBRIZOL CORPORATION

### MANUFACTURING PLANTS

- Wickliffe, Ohio
- Painesville, Ohio
- Houston, Texas
- Sydney, Australia
- Niagara Falls, Canada
- Bromborough, England
- Rouen, France
- Taketoyo, Japan
- Monterrey, Mexico

### SUBSIDIARIES

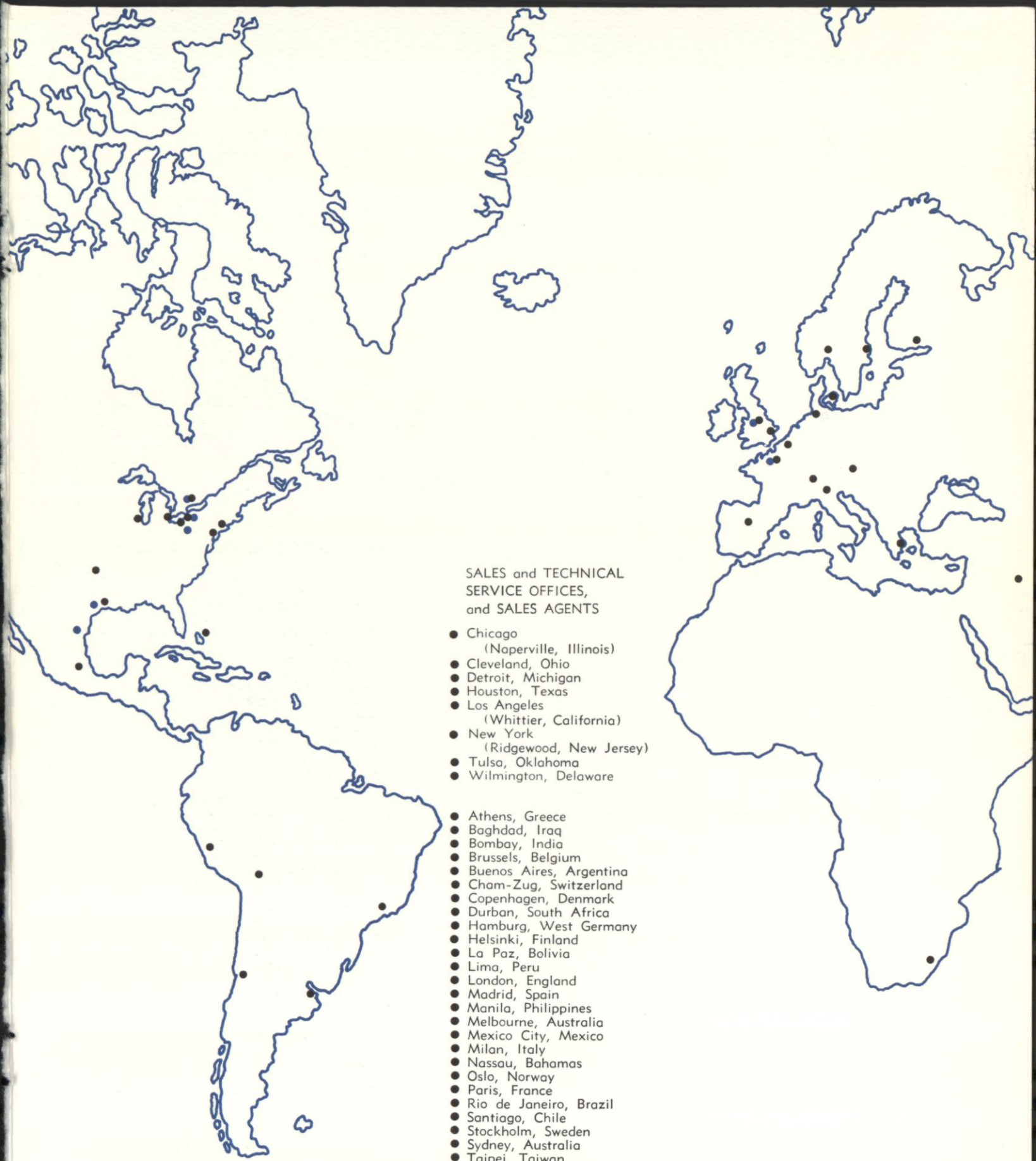
- Cleveland Industrial Research, Inc.
- Lubrizol Management, Inc.
- Lubrizol A.G. — (Switzerland)
- Lubrizol do Brasil, Limitada
- Lubrizol of Canada, Ltd.
- Lubrizol Espanola S.A.
- Lubrizol Far East, Inc. — (Philippines)
- Lubrizol France
- Lubrizol G.m.b.H. — (Germany)
- Lubrizol Great Britain Limited
- Lubrizol International S.A.—(Bahamas)
- 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)

### RESEARCH and TESTING LABORATORIES

- Wickliffe, Ohio
- Hazelwood, near Derby, England



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and SALES AGENTS

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**Lubrizol<sup>®</sup>**

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