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**The Lubrizol Corporation**  
**Annual Report**  
**Nineteen Hundred Sixty Nine**

## FINANCIAL HIGHLIGHTS

	<u>1969</u>	<u>1968</u>	<u>% Increase</u>
Total revenues . . . . .	\$165,661,635	\$150,565,073	10.0
Net income . . . . .	17,858,732	16,552,697	7.9
Net income per share . . . . .	1.79	1.67	7.2
Dividends per share . . . . .	.57½	.47½	21.1
Capital expenditures . . . . .	13,172,709	12,289,764	7.2
Depreciation . . . . .	6,150,700	5,193,074	18.4
Research and development expenditures . . . .	8,334,504	7,278,439	14.5
Shareholders' equity . . . . .	93,232,110	79,824,632	16.8

### GENERAL OFFICES:

29400 Lakeland Boulevard, Wickliffe, Ohio 44092

### MAIL ADDRESS:

Box 3057, Cleveland, Ohio 44117

### TELEPHONE:

(216) 943-4200

Common Shares of The Lubrizol Corporation are listed on the New York Stock Exchange under the symbol LZ.

### 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 6, 1970.

## THE COMPANY

The Lubrizol Corporation is recognized throughout the world as a leader in the development, manufacture and sale of chemicals for use in lubricants and fuels. These chemicals are supplied to petroleum refiners and marketers who incorporate them into finished products for consumption in power generation and transmission equipment used in passenger cars, trucks, buses, off-the-road equipment and railroad and marine diesels. They also are important components of petroleum products used in industrial applications.

These chemical additives enhance the performance of petroleum products by contributing properties not otherwise present or by improving already existing properties. Their contributions to modern living are not generally known; however, their availability and continued improvement have made possible advances in the design and efficiency of engines, tools and mechanical equipment that could not otherwise have been achieved.

To motorists this has meant more powerful passenger car engines with longer periods between oil changes and reduced maintenance. Additives have made possible automatic transmissions which shift gears smoothly and rapidly. They also have been important in the development of gears for rear axles which are able to transmit the high power of modern engines. To operators of trucks, buses, road building equipment and other machinery, additives make equally important contributions to extended life and low-cost, efficient service.

Through active research, Lubrizol has been able to improve the products offered to its petroleum industry customers. Cooperation with these customers and the manufacturers of transportation equipment is continuing to provide still better products for the future.

Lubrizol offers unique chemical products for other industries. These include specialty monomers, resins and other chemicals which improve processing, handling and performance of plastic products in service. The company also offers chemicals used to provide adherent, rust-resistant surfaces for sheet metal prior to painting.

# Lubrizol®

## 1969 ANNUAL REPORT

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## DIRECTORS

Raymond Q. Armington  
Chairman of the Board  
The TRIAX Company

M. Roger Clapp  
President and Chief Executive Officer

J. N. Crawford  
Vice President - Sales

Henri P. Junod  
Former Vice Chairman  
Pickands Mather & Company

Thomas W. Mastin  
Executive Vice President

F. Alex Nason  
Founder of the Company  
Former Chairman of the Board

John L. Palmer  
Vice President - Engineering

Karl H. Rudolph  
President  
The Cleveland Electric Illuminating Company

Hubert H. Schneider  
Partner  
Schneider, Smeltz, Huston & Bissell

Kelvin Smith  
Founder of the Company  
Honorary Chairman of the Board

Ralph S. Tyler, Jr.  
Chairman of the Board

A. O. Willey  
Consultant to the Company  
Former Chairman of the Board

J. M. Zlatoper  
Vice President - Finance

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Kent H. Smith, Honorary Director  
Founder of the Company

Vincent K. Smith, Honorary Director  
Founder of the Company

## OFFICERS

Ralph S. Tyler, Jr.  
Chairman of the Board

M. Roger Clapp  
President and  
Chief Executive Officer

Thomas W. Mastin  
Executive Vice President

J. N. Crawford  
Vice President - Sales

James B. Irwin  
Vice President - Marketing

W. M. LeSuer  
Vice President - Research  
and Development

M. M. McGrew  
Vice President -  
Manufacturing

John L. Palmer  
Vice President -  
Engineering

J. R. Stitt  
Vice President - Sales

Robert K. Williams  
Vice President - Corporate  
Planning and Development

J. M. Zlatoper  
Vice President - Finance

Harry Kaye  
Treasurer

Douglas W. Richardson  
Secretary

## 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 Servicios Technicos, S. de R.L.

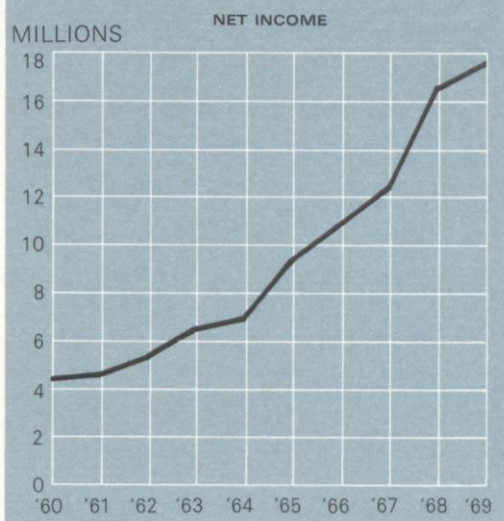
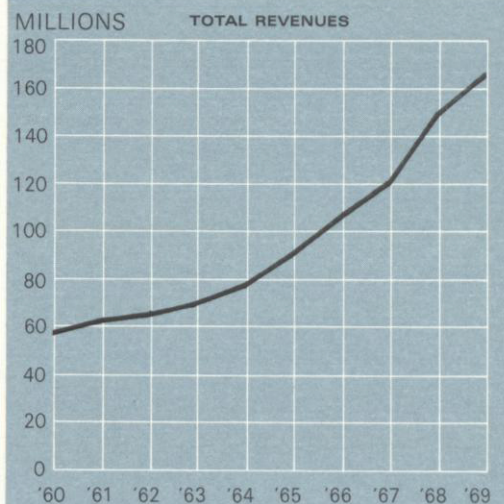
Lubrizol South Africa (Pty.) Limited

## AFFILIATES

Industrias Lubrizol, S.A. de C.V. - (Mexico)

Lubrizol India Limited

Nippon-Lubrizol Industries, Inc. - (Japan)



### TRANSFER AGENTS

The National City Bank of Cleveland  
623 Euclid Avenue  
Cleveland, Ohio 44114

First National City Bank  
111 Wall Street  
New York, New York 10015

### REGISTRARS

The Cleveland Trust Company  
916 Euclid Avenue  
Cleveland, Ohio 44101

Chemical Bank  
20 Pine Street  
New York, New York 10015

### DIVIDEND DISBURSING AGENT

The National City Bank of Cleveland  
623 Euclid Avenue  
Cleveland, Ohio 44114

## MESSAGE TO SHAREHOLDERS



*M. Roger Clapp  
president*

*Ralph S. Tyler, Jr.  
chairman of the board*

In 1969, Lubrizol achieved gains in both revenues and net income for the ninth consecutive year, thus culminating a decade of growth with the best year in its 41-year history.

Total revenues in 1969 were \$165,661,635 and net income was \$17,858,732. Revenues increased 10% and net income 7.9% over 1968.

Total dividends for the year amounted to \$5,741,426 or 57½ cents per share. Commencing with the June payment, the quarterly dividend rate was increased 20%, from 12½ cents per share to 15 cents per share, making 1969 the seventh consecutive year in which dividends have been increased. Quarterly dividends were commenced in December 1935 and have been paid without interruption ever since, except for the third quarter of 1945. Accordingly, the December 10, 1969 payment was Lubrizol's 97th consecutive quarterly dividend.

During the second and third quarters, the company experienced accelerating cost increases, resulting in some lower-

ing of profit margins. To meet this situation, beginning in August 1969, the company announced general price increases for petroleum additives for domestic and most world markets. The price increases, averaging 4% to 5%, were effective on various dates from early September to January 1, 1970. This was Lubrizol's first general price increase in many years.

Capital expenditures for 1969 were \$13.2 million, compared with \$12.3 million for 1968. In 1969, as in 1968, about three-fourths of these expenditures were in the United States. Increased earnings and depreciation charges provided funds for these expenditures and for reduction of bank loans. Lubrizol's borrowings under its 1967 bank credit agreement were reduced to \$6,000,000 at December 31, 1969, compared with \$7,950,000 at the beginning of the year.

Analysis of the company's financial situation indicated no current or near future need for the full \$15,000,000 available under the credit agreement. Accordingly, in December, the amount available under the agreement was reduced to \$7,500,000 and at February 1, 1970 that amount was converted to term loans payable in ten equal semi-annual installments, beginning August 1, 1970, with interest at ¼% over the prime rate in effect from time to time.

In executive changes made during the year, James B. Irwin was elected vice president - marketing, W. M. LeSuer, vice president - research and development, and J. R. Stitt, vice president - sales. Harry Kaye was elected treasurer. J. N. Crawford, the company's senior marketing executive since 1965, announced his retirement as a vice president and director of the company, effective in April 1970.

In April 1969, Vincent K. Smith, a founder of the company and a director since 1928, retired from the Board. Mr. Smith had served as corporate secretary and legal counsel during the company's early years and, from 1959 to 1962, was vice president - personnel and public relations.

### **A Decade of Growth**

During the past ten years, Lubrizol has experienced remarkable growth. Total revenues increased 186%, net income 252%.

Growth rate expressed in terms of earnings per share, compounded, has averaged 13% per year.

Major expansion projects outside the United States included acquisition of the minority interests in Lubrizol Great Britain Limited and in Lubrizol France, formation of joint venture companies in India, Japan and Mexico, and construction of new plants in Australia, England, France, India, Japan, Mexico and Spain.

In the United States during the same period, investment in manufacturing plant at Deer Park, Texas and at Painesville, Ohio was increased fivefold. Improvement was made throughout the period in manufacturing, research and testing facilities centered at Wickliffe, Ohio. The new Polymer Research Laboratory at that location was constructed and equipped at a cost of \$1,923,000. The Bayport, Texas plant site was purchased and its development into a major manufacturing facility was initiated.

Keeping pace with the growing demand for petroleum products in world markets, 15 new sales and technical service offices were opened. Significant milestones were the achievement of \$100 million in total revenues in 1966 and \$150 million in total revenues in 1968.

Another important development of the past ten years was the transformation of the company from a privately held to a publicly held corporation. At the end of 1960, Lubrizol had 344 shareholders; by the end of 1969, the number was 6,752, a twentyfold increase. This change, which broadened the market for Lubrizol shares, was brought about through a series of steps which began early in the decade. In 1960, the company's Articles were amended to provide for the first freely transferable shares. Public offerings were made by shareholder groups in 1964 and again in 1966 involving, in aggregate, the equivalent of over 1,500,000 present shares. In an additional step, in August 1966, Lubrizol shares were listed on the New York Stock Exchange.

During the decade, as a result of stock splits in 1964 (6 for 1), 1966 (3 for 2) and 1968 (2 for 1), the shares were split the equivalent of 18 for 1.

#### **Outlook for the Future**

There can be little question that man's concern with his environment will have an important bearing on the company's future with anti-pollution requirements affecting both markets and operations.

Automotive vehicles are recognized as major contributors to atmospheric pollution and the automotive industry has made important changes in design of engines and accessories to reduce noxious emissions of vehicles leaving the factory. Unfortunately, much of the improvement can be nullified by the accumulation of deposits which interfere with proper operation of the pollution-reducing systems.

Traditionally, Lubrizol has endeavored to improve the operation and extend the life of transportation equipment.

A number of Lubrizol's crankcase lubricant additives are helpful in preventing varnish and other deposits from forming on PCV valves, carburetors and other essential engine parts. If these parts malfunction due to such deposits, then one result is a gradual increase in smog-producing ingredients of the engine exhaust gases.

In a similar manner, Lubrizol's dispersant additives for gasoline supplement the role played by the lubricant additives. The combination of properly formulated crankcase lubricants and gasolines, if used throughout the life of a modern automobile engine, will result in more efficient operation of this complex piece of machinery.

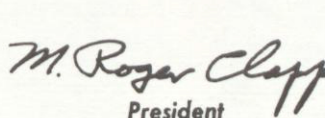
The company expects to make further contributions in this area and will remain alert to developments in government and industry for opportunities for future productive endeavors.

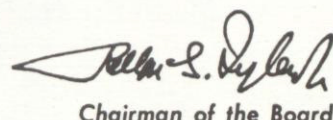
Prevention of pollution of air and water will continue to have high priority in Lubrizol operations. Effluent and emission control standards are frequently upgraded and new facilities and equipment must be installed on a continuing basis to maintain high standards. Currently, work is well under way at the Deer Park, Texas plant to install additional waste-water treatment facilities at a cost of \$2.25 million. Although costs are high, projects of this nature must nevertheless be recognized as part of the corporation's responsibilities as a good citizen.

Good citizenship is a broad, regular, daily practice of most corporations and Lubrizol is a leader in this regard. The extensive activities of the business community in sponsoring and carrying out work directed at the general welfare and well-being of the community-at-large are sometimes underestimated. At Lubrizol, part of this work is carried out by the corporation, part by the many employees who help support and actively participate in projects of a civic and charitable nature. An important part is also centered in The Lubrizol Foundation which receives its principal support from the corporation.

The Lubrizol Foundation was established in 1952 for the purpose of contributing to charitable, educational and scientific activities and institutions. A copy of the Foundation's annual report may be obtained by writing to The Lubrizol Foundation, Box 3057, Cleveland, Ohio 44117.

The future, unlike the past, does not lend itself to convenient summation. Challenging opportunities present themselves both for today and tomorrow. Lubrizol and its people are in the business of making a success of these, and the continued loyalty and support of its shareholders and customers make this possible.

  
President

  
Chairman of the Board

March 2, 1970

## RESEARCH AND ENGINEERING



*John L. Palmer*  
vice president - engineering

*W. M. LeSuer*  
vice president  
research and development

Lubrizol was founded on the belief that chemicals could be used to improve petroleum products. Research and development were an essential part of that concept and, throughout the years, the company has maintained a strong commitment in that area. In 1969, research and development expenditures were \$8.3 million, and in the past ten years the amount spent on those activities has been over \$60 million.

The company's research activities are centered at its headquarters at Wickliffe, Ohio, a suburb of Cleveland. From these laboratories come new products and new applications of established products. The company's success in research is demonstrated by the fact that 40% of the consolidated sales in 1969 were accounted for by products developed during the past five years. Lubrizol currently holds 275 U.S. patents as well as many patents in other countries.

Research, development and product testing staff of Lubrizol and its subsidiaries consists of nearly 700 people.

Since research is a continuous and, in many instances, long-term process, it is not feasible to divide the accomplishments into annual segments. However, certain projects which received special attention in the past year are worth mentioning. Development work on the company's new viscosity index improver continued. Other research projects included work on new motor oil detergents which reduce combustion chamber deposits and thus help overcome the problem of pre-ignition and resultant piston burning; development of an improved heat and color stabilizer for vinyl plastics; and refinement of the process for manufacturing diacetone acrylamide (DAA), the company's reactive vinyl monomer. This latter activity was carried out in the Pilot Plant, a semi-works facility which is part of the Research and Development Division located at Wickliffe.

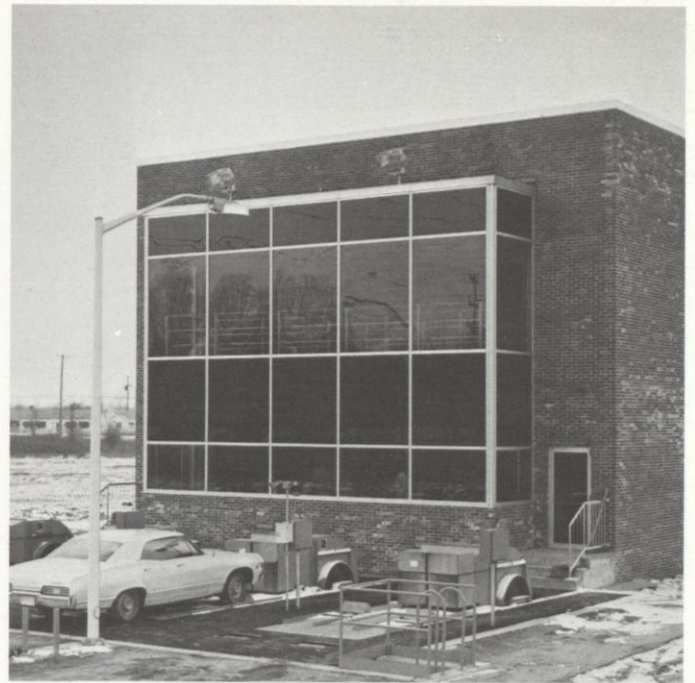
Closely related to the additive research activities is the work of the Engineering Division where products are tested and proven in laboratory engines as well as in fleet tests. This testing is of two types: (a) research testing to develop new and improved additives and (b) performance testing to evaluate customers' lubricants and fuels formulated with Lubrizol additives. The company's principal mechanical laboratory is located at Wickliffe, Ohio and similar facilities specializing in additive performance in European engines are located at Hazelwood, England. Standard production line engines which have been instrumented for test purposes as well as laboratory engines are used. Equipment also is available for testing lubricants in transmissions and rear axles.

At the Wickliffe mechanical testing laboratory, an electronic data acquisition system monitors all tests, scanning each control point and recording a log of test conditions at regular intervals. This automated system has proven



successful both from the standpoint of test reliability and repeatability and, in 1969, installation of a similar system at the Hazelwood laboratory commenced.

In 1969, construction began on an important addition to the Wickliffe test facilities. This equipment, called a mileage accumulator, consists of four, one-lane tracks on which vehicles are mounted to simulate road testing by means of electronic control equipment housed in an adjoining building. Precise load and speed conditions are reproduced. The accumulator supplies the close control found in the laboratory, meanwhile eliminating setbacks due to adverse weather, road hazards or individual driver variables, and thus will be an important tool in the company's testing activities starting in 1970.



*Vehicles at the company's new mileage accumulator are mounted on tracks to simulate road tests by means of electronic control equipment housed in the building shown.*

*Research and development activities are centered at the company's general offices at Wickliffe, Ohio.*



## MANUFACTURING AND MARKETING



*Paul L. Carll*  
assistant division head  
manufacturing

*M. M. McGrew*  
vice president - manufacturing

To provide customers with optimum service from diversified locations, Lubrizol has 13 manufacturing plants in nine countries. Four of these plants are in the United States. The others are located in important market areas throughout the world: Australia, Canada, England, France (two plants), India, Japan, Mexico and Spain.

Uniform high quality is maintained by a control laboratory at each location and these activities are coordinated by a principal quality control laboratory at Wickliffe, Ohio.

Major construction projects were undertaken at several locations during 1969, and regular maintenance and modernization programs were carried out at virtually every plant.

The Deer Park, Texas plant, Lubrizol's largest, has seen continuous expansion since startup in 1951. During 1969, two new units were brought on-stream to increase dispersant and detergent manufacturing capacity. New bulk material handling facilities, a more modern and extensive

quality control laboratory and a new personnel building were completed. For future expansion, an additional 25 acres were acquired, bringing total acreage at this site to 91. Part of this property will be used for additional rail siding capacity to alleviate present congestion. Other plans for the property include installation of new drum loading facilities and construction of additional warehouse capacity.

At the Bayport, Texas plant, construction of facilities to manufacture diacetone acrylamide (DAA) began. These facilities, scheduled for completion late this year, will be the company's first major installation for the manufacture of a product which is not in the petroleum additive field. Also at Bayport, facilities for production of Lubrizol's new viscosity index improver were completed. Other units currently planned for this site will supplement production of the nearby Deer Park plant.

At the Painesville, Ohio plant, new detergent capacity was completed. Equipment was added to other units to increase their productivity, and additional facilities to treat plant effluent were completed.

The new LeHavre plant of Lubrizol France went into operation during the third quarter of 1969. The first unit is producing a component for heavy-duty gear lubricant additives.

In Spain, the new Huelva plant of Lubrizol Espanola S.A., completed at the end of 1968, began operations and is currently supplying customers in that area. In India, the Bombay plant of Lubrizol India Limited, also completed in 1968, has made the transition from startup to volume production. In Japan, the additive market continues to grow and Nippon-Lubrizol Industries, Inc. initiated plans to expand its facilities.

In keeping with the growing need for customer service, the marketing organization has been expanded in various parts of the world. This group now consists of 219 people in 30 countries. During 1969, Lubrizol products were supplied to customers in 69 countries. 56% of the company's sales were outside the U.S. and Canada.

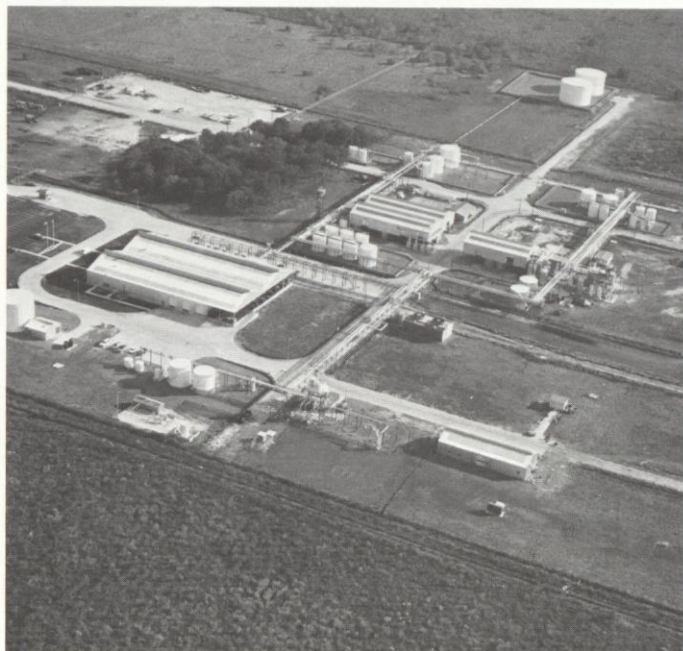
To meet continuing keen competition, a number of new products have been introduced. One of these materials is a line of motor oil additives which will reduce combus-

tion chamber deposits, a perennial enemy of high-output engines. Progress is being made in gaining acceptance of Lubrizol's new automatic transmission fluid additives. These have the advantage of containing all necessary components, including viscosity index improver, in a single package. In addition, marketing emphasis on dispersant-detergent additives for gasoline is showing tangible results.

A special task force consisting of sales, technical service and development personnel has been given the responsibility of increasing Lubrizol's share of the growing market for additives for industrial lubricants.

In other developments during the past year, the Chemical Product Sales group, centered in Wickliffe, was expanded to include marketing of metal finishing chemicals. As restructured, the group consists of a Polymer Chemicals Department responsible for marketing products such as DAA, and a Metal Finishing Chemicals Department responsible for sales and technical service work in that field.

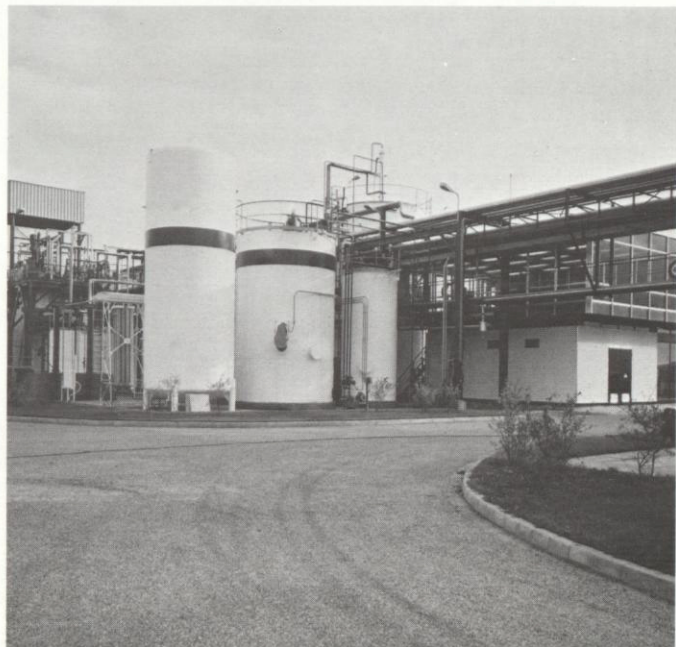
*Lubrizol's Bayport, Texas plant site currently is being developed into a major facility.*



*James B. Irwin  
vice president - marketing*

*J. R. Stitt  
vice president - sales*

*Lubrizol France began production in 1969 at its new LeHavre plant.*



## EMPLOYEE AND SHAREHOLDER INFORMATION



*Thomas W. Mastin*  
executive vice president

*Gordon B. Cameron*  
division head - personnel

At year-end, 2,799 people were employed by Lubrizol and subsidiary companies, nearly twice the number in 1960. Approximately two-thirds of these men and women reside in the United States and, with a total employment of slightly more than 1,000 people, the Wickliffe, Ohio plant, offices and laboratories account for the greatest number.

As indicated by the chart shown below, one of every four employees is engaged in research, development or product testing work. Since most of the company's activities are technical in nature, the need for a high percentage of employees with scientific and technical training can readily be appreciated.

Statistics available for employees in the United States indicate approximately one of every five has a college degree. Over 110 have done graduate work, including 90 with advanced degrees.

### EMPLOYEE CLASSIFICATION

#### Manufacturing

1557

#### Research, Development and Testing

691

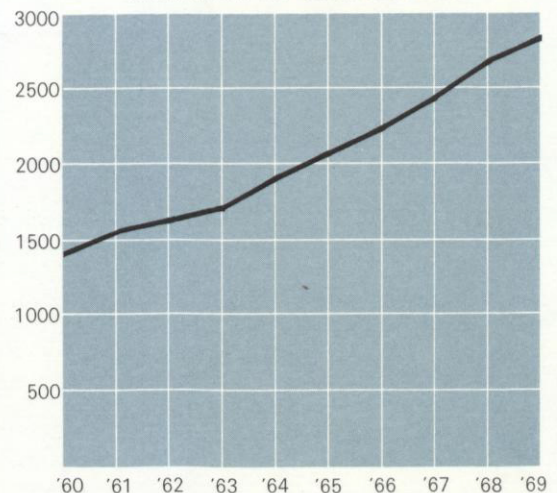
#### Sales

219

#### General and Administrative

332

### NUMBER OF EMPLOYEES



At the end of 1969, the number of shareholders of record was approaching the 7,000 mark, a sizeable increase from the number ten years ago and 75% higher than five years ago.

Common Shares are the only class of shares issued and the total of these outstanding at December 31, 1969 was 10,040,052. At the April 1969 Annual Meeting, 2,000,000 shares of Serial Preferred Stock were authorized and the authorized number of Common Shares was increased from 10,000,000 to 25,000,000.

Currently there are Lubrizol shareholders in 45 states of the United States of America and in 13 other countries. More than 750 employees are shareholders and the shareholder list includes approximately 300 banks and trust companies, 165 security dealers and more than 5,200 individuals.

A table showing distribution of shares among various shareholder classifications is provided below.



*Robert K. Williams  
vice president - corporate  
planning and development*

*Douglas W. Richardson  
secretary*

### SHAREHOLDER CLASSIFICATION

	<u>Percent of Shares Held</u>
INDIVIDUALS . . . . .	33%
BANKS AND TRUST COMPANIES . . . . .	31
DIRECTORS AND OFFICERS . . . . .	18
EMPLOYEES AND EMPLOYEES' PROFIT SHARING TRUST . . . . .	9
SECURITY DEALERS . . . . .	5
INSTITUTIONAL INVESTORS . . . . .	4

## FINANCIAL



*J. M. Zlatoper*  
vice president - finance

*Harry Kaye*  
treasurer

Lubrizol has adopted the equity method of accounting, in place of the cost method, for carrying its investments in its three overseas affiliates: Nippon-Lubrizol Industries, Inc. (Japan), 45% owned; Industrias Lubrizol, S.A. de C.V. (Mexico), 40% owned; and Lubrizol India Limited (India), 49% owned. Accordingly, there has been included in the Consolidated Statement of Income and Retained Earnings for 1969 as "Equity in earnings of affiliated companies" the sum of \$834,851, substantially all of which was earned in 1969. This amount represents Lubrizol's percentage of ownership of the earnings of these affiliates. In the Consolidated Balance Sheet for 1969, attention is called to "Investments in affiliated companies" in the amount of \$2,157,074, which is the sum of Lubrizol's investment at cost in the stock of the three affiliates plus its share of the unremitted earnings. This accounting method was adopted because of the substantial ownership in the affiliates, the close relation-

ship of their businesses with that of the company, the company's technical assistance agreements with the affiliates and the company's representation on the board of directors of each affiliate.

At the new Bayport, Texas plant, placed in operation during the year, the company incurred pre-production expenses of approximately \$400,000 after taxes, all of which were charged to operations and not deferred.

The United States income tax surcharge of 10% amounted to about \$1,200,000 for 1969, equal to 12 cents per share, compared with \$1,300,000 for 1968, equal to 13 cents per share. For 1970, the effective rate of surtax has been reduced to 2½% (5% for the six-month period ending June 30, 1970).

The United States investment tax credit was terminated as of April 18, 1969. The company's investment tax credit for 1969, which as in the past was applied as a reduction of current income tax expense, was \$550,852, the equivalent of 5½ cents per share, compared with \$593,000, the equivalent of 6 cents per share, for 1968. The company will have no material investment tax credit carry-over for 1970.

The company incurred no material losses from the changes in valuation of three currencies in which it had significant transactions. The French franc was devalued 11.1% on August 8, 1969 and the German mark was increased in value 9.3% on October 24, 1969. The Brazilian cruzeiro had a series of devaluations totaling 12% in 1969, compared with devaluations totaling 29% in 1968.

In 1969, Lubrizol again made a substantial favorable contribution to the United States balance of payments—larger than in any prior year. The past year was the fifth in which the United States Government has had controls over direct investments in other countries, three under a voluntary program and two under Presidential order. Lubrizol, subject to these controls for the last four years, has fully complied without any material adverse effect on overseas expansion programs or any material increase in interest costs for borrowed money or in liability for United States income taxes.

## CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

	Year ended December 31	
	1969	1968
Revenues:		
Net sales .....	\$162,530,305	\$149,391,177
Royalties and fees .....	3,131,330	1,173,896
Total .....	165,661,635	150,565,073
Costs and expenses:		
Cost of sales .....	107,591,028	94,570,355
Selling, administrative and research expenses .....	24,368,450	22,784,346
Total .....	131,959,478	117,354,701
Income from operations .....	33,702,157	33,210,372
Other income (expense):		
Equity in earnings of affiliated companies—Note 2 .....	834,851	
Interest .....	(667,250)	(603,606)
Other items—net .....	309,974	252,931
Income before taxes on income .....	34,179,732	32,859,697
Provision for taxes on income .....	16,321,000	16,307,000
Net income .....	17,858,732	16,552,697
Retained earnings, January 1 .....	60,154,657	48,303,637
Total .....	78,013,389	64,856,334
Less dividends (per share: 1969 — \$.57½; 1968 — \$.47½) .....	5,741,426	4,701,677
Retained earnings, December 31 .....	\$ 72,271,963	\$ 60,154,657
Net income per share .....	\$1.79	\$1.67

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

## CONSOLIDATED BALANCE SHEET

December 31

### ASSETS

#### Current assets:

	1969	1968
Cash .....	\$ 7,296,848	\$ 7,270,072
Receivables:		
Customers .....	23,033,148	22,047,514
Other .....	2,582,718	1,444,149
Inventories— at cost (first-in first-out method) not in excess of market:		
Finished products .....	6,123,430	6,578,481
Products in process .....	8,268,591	7,814,352
Raw material and supplies .....	8,001,863	9,356,759
Prepaid expenses .....	2,132,128	2,006,557
Total current assets .....	57,438,726	56,517,884

#### Plant property— at cost:

Land and improvements .....	8,128,439	6,526,673
Buildings and improvements .....	20,739,386	18,958,539
Machinery and equipment .....	62,250,520	52,445,699
Construction in progress .....	3,455,358	4,500,132
Total .....	94,573,703	82,431,043

Less accumulated depreciation .....	34,270,858	28,949,686
Plant property—net .....	60,302,845	53,481,357

Patents and trademarks — at cost less accumulated amortization ...	640,693	702,469
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#### Other assets:

Investments in affiliated companies — Note 2 .....	2,157,074	1,353,845
Loan to affiliated company .....	880,000	1,100,000
Miscellaneous .....	269,676	353,471
Total other assets .....	3,306,750	2,807,316

TOTAL .....	\$121,689,014	\$113,509,026
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December 31

**LIABILITIES AND SHAREHOLDERS' EQUITY**

Current liabilities:

	1969	1968
Current portion of long-term debt .....	\$ 600,000	
Loans payable by overseas subsidiaries to banks .....	1,149,945	\$ 1,012,750
Accounts payable:		
Trade .....	7,259,784	7,917,663
Other .....	964,083	980,635
Accrued expenses:		
Income taxes .....	5,990,575	9,123,928
Other taxes .....	836,351	868,951
Employee compensation .....	2,571,522	2,396,635
Other .....	844,419	711,595
Total current liabilities .....	<u>20,216,679</u>	<u>23,012,157</u>
Long-term debt—Note 3 .....	<u>5,400,000</u>	<u>7,950,000</u>
Deferred cash grants from a foreign government (being amortized over the lives of the related assets acquired) .....	<u>1,471,228</u>	<u>1,441,262</u>
Deferred foreign income taxes—Note 4 .....	<u>1,368,997</u>	<u>1,280,975</u>
Shareholders' equity—Notes 5 and 6:		
Serial preferred stock without par value		
Authorized and unissued—2,000,000 shares		
Common shares without par value:		
Authorized—25,000,000 shares		
Outstanding—10,040,052 shares in 1969 and 9,916,022 shares in 1968 (after deducting 22,863 treasury shares in both years) ..	20,960,147	19,669,975
Retained earnings .....	72,271,963	60,154,657
Total shareholders' equity .....	<u>93,232,110</u>	<u>79,824,632</u>
TOTAL .....	<u>\$121,689,014</u>	<u>\$113,509,026</u>

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

## NOTES TO FINANCIAL STATEMENTS — 1969

### 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, 1969 follows:

	(In thousands of dollars)			
	England and Europe	Central and South America	Other	Total
Current assets .....	\$16,792	\$5,030	\$10,660	\$32,482
Current liabilities .....	7,811	2,455	3,251	13,517
Working capital .....	8,981	2,575	7,409	18,965
Fixed assets .....	15,778	370	938	17,086
Other assets .....	79	7	923	1,009
Deferred foreign income and income taxes	(2,840)			(2,840)
Net assets .....	<u>\$21,998</u>	<u>\$2,952</u>	<u>\$ 9,270</u>	<u>\$34,220</u>

### 2. Investments in Affiliated Companies

The company's investments in less than majority-owned affiliates, formerly carried at cost, have been adjusted to reflect the equity in the net book assets of these affiliates, the effect of which is discussed on page 14 under "Financial."

### 3. Long-term Debt

Under its amended credit agreement with three banks, the company on February 1, 1970 converted \$7,500,000 (the amount outstanding under the agreement on that date) to term loans payable in ten equal semi-annual installments beginning August 1, 1970, with interest at  $\frac{1}{4}\%$  over the prime rate in effect from time to time.

### 4. Depreciation

Depreciation of \$6,150,700 was computed using the straight-line, sum of the years-digits and declining-balance methods, at rates based on the useful lives of the assets. The same methods were used for financial reporting and income taxes except in the case of some foreign subsidiaries. As to those subsidiaries, the income taxes related to the differences have been deferred to future years.

### 5. Capital Shares

On April 10, 1969 the company filed Amended Articles of Incorporation authorizing 2,000,000 shares of serial preferred stock without par value and increasing the authorized number of common shares without par value from 10,000,000 to 25,000,000. The serial preferred stock is issuable at the discretion of the board of directors in one or more series.

### 6. Employee Stock Options

At the beginning of the year options were outstanding to purchase 188,766 shares. During the year options for 9,000 shares were granted and options for 124,030 shares were exercised for a total consideration of \$1,290,172 which was credited to the common shares capital account. At December 31, 1969, options were outstanding for 73,736 shares and options for 389,850 shares were available for grant. The option price is the fair market value at the date of grant.

### 7. Retirement Plans

The company and some of its subsidiaries have retirement plans for hourly and salaried employees. The cost of these plans charged to 1969 operations was \$1,756,631. The practice is to fund accrued costs of the plans. There was no unfunded past service cost and pension fund assets exceeded the actuarially computed value of vested benefits.

## CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

Year ended December 31

### SOURCE OF FUNDS

Operations:

	1969	1968
Net income .....	\$17,858,732	\$16,552,697
Charges to operations not requiring funds:		
Depreciation .....	6,150,700	5,193,074
Other — net .....	(18,884)	84,749
Total .....	23,990,548	21,830,520
Decrease (increase) in inventories .....	1,355,708	(3,858,525)
Proceeds from stock options exercised .....	1,290,172	594,439
Cash grants from foreign governments .....	198,648	187,616
Other — net .....	378,745	461,397
Total .....	\$27,213,821	\$19,215,447

### APPLICATION OF FUNDS

Capital expenditures .....	\$13,172,709	\$12,289,764
Dividends on common shares .....	5,741,426	4,701,677
Repayment of bank borrowings .....	1,812,805	300,000
Increase in receivables .....	2,124,203	4,709,001
Increase in investments in affiliated companies .....	803,229	59,989
Loan to affiliated company .....		1,100,000
Decrease (increase) in accounts payable .....	674,431	(1,068,930)
Decrease (increase) in accrued expenses .....	2,858,242	(5,823,295)
Increase in cash .....	26,776	2,947,241
Total .....	\$27,213,821	\$19,215,447

## 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, 1969 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, 1969 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 (except for the change, which we approve, referred to in note 2 to the financial statements) on a basis consistent with that of the preceding year.

Cleveland, Ohio  
February 24, 1970

*Haskins & Sells*

## TEN YEAR SUMMARY

	1969	1968	1967
<b>CONSOLIDATED STATEMENT OF INCOME</b>			
Revenues:			
Net sales .....	\$162,530,305	\$149,391,177	\$119,223,314
Royalties and fees .....	3,131,330	1,173,896	958,125
Total .....	165,661,635	150,565,073	120,181,439
Costs and expenses less other income .....	131,481,903	117,705,376	98,713,259
Income before taxes on income .....	34,179,732	32,859,697	21,468,180
Provision for taxes on income .....	16,321,000	16,307,000	9,077,000
Income before deduction of minority interest .....	17,858,732	16,552,697	12,391,180
Less minority interest .....	—	—	—
Net income .....	<u>\$ 17,858,732</u>	<u>\$ 16,552,697</u>	<u>\$ 12,391,180</u>
<b>CONSOLIDATED STATEMENT OF FINANCIAL POSITION</b>			
Current assets .....	\$ 57,438,726	\$ 56,517,884	\$ 44,829,783
Current liabilities .....	20,216,679	23,012,157	16,119,932
Working capital .....	37,222,047	33,505,727	28,709,851
Plant property— at cost .....	94,573,703	82,431,043	71,404,651
Accumulated depreciation .....	(34,270,858)	(28,949,686)	(24,589,551)
Other assets .....	3,947,443	3,509,785	2,631,815
Total .....	101,472,335	90,496,869	78,156,766
Less:			
Long-term debt .....	5,400,000	7,950,000	8,250,000
Deferred cash grants .....	1,471,228	1,441,262	1,398,625
Deferred foreign income taxes .....	1,368,997	1,280,975	1,128,968
Net assets— Shareholders' equity .....	<u>\$ 93,232,110</u>	<u>\$ 79,824,632</u>	<u>\$ 67,379,173</u>
<b>OTHER DATA</b>			
Capital expenditures .....	\$ 13,172,709	\$ 12,289,764	\$ 16,118,287
Depreciation .....	6,150,700	5,193,074	4,149,871
Number of employees at end of year .....	2,799	2,646	2,472
Number of shareholders at end of year .....	6,752	6,230	5,469
Common shares outstanding at end of year .....	10,040,052	9,916,022	9,845,966
Shareholders' equity per share at end of year .....	\$9.29	\$8.05	\$6.84
Return on average shareholders' equity .....	21%	22%	20%
Net income per share .....	\$1.79	\$1.67	\$1.26
Dividends per share .....	.57½	.47½	.42½

NOTE: The number of shares and per share amounts have been adjusted to give retroactive effect to stock splits, 6 for 1 in 1964, 3 for 2 in 1966 and 2 for 1 in 1968.

<u>1966</u>	<u>1965</u>	<u>1964</u>	<u>1963</u>	<u>1962</u>	<u>1961</u>	<u>1960</u>
\$106,101,731	\$92,019,801	\$78,713,525	\$71,687,103	\$65,601,605	\$61,373,492	\$58,803,719
1,096,329	490,458	27,483	7,740	—	—	—
<u>107,198,060</u>	<u>92,510,259</u>	<u>78,741,008</u>	<u>71,694,843</u>	<u>65,601,605</u>	<u>61,373,492</u>	<u>58,803,719</u>
87,867,164	75,890,016	65,883,799	59,763,071	55,343,159	52,643,400	50,290,514
<u>19,330,896</u>	<u>16,620,243</u>	<u>12,857,209</u>	<u>11,931,772</u>	<u>10,258,446</u>	<u>8,730,092</u>	<u>8,513,205</u>
8,185,000	7,020,000	5,795,765	5,291,559	4,518,584	3,992,421	3,851,056
<u>11,145,896</u>	<u>9,600,243</u>	<u>7,061,444</u>	<u>6,640,213</u>	<u>5,739,862</u>	<u>4,737,671</u>	<u>4,662,149</u>
—	—	—	55,982	243,524	284,797	272,392
<u>\$ 11,145,896</u>	<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>
\$ 38,507,841	\$37,791,020	\$33,362,430	\$29,592,317	\$25,011,148	\$20,780,139	\$19,154,287
14,835,750	13,392,247	10,910,607	10,554,765	8,047,575	5,952,525	6,785,690
<u>23,672,091</u>	<u>24,398,773</u>	<u>22,451,823</u>	<u>19,037,552</u>	<u>16,963,573</u>	<u>14,827,614</u>	<u>12,368,597</u>
55,989,722	44,684,728	39,079,092	34,174,913	30,328,143	27,820,065	25,625,796
(21,050,299)	(18,625,433)	(16,788,472)	(14,720,247)	(12,864,755)	(10,954,575)	(9,283,749)
<u>1,687,236</u>	<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>60,298,750</u>	<u>51,979,766</u>	<u>46,769,772</u>	<u>40,722,436</u>	<u>36,213,278</u>	<u>32,618,913</u>	<u>29,968,227</u>
750,000	1,000,000	2,000,000	—	—	—	—
—	—	—	—	—	—	—
<u>978,341</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
<u>\$ 58,570,409</u>	<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>
\$ 12,134,232	\$ 6,712,924	\$ 5,301,575	\$ 4,399,363	\$ 2,887,310	\$ 2,483,831	\$ 3,175,013
3,133,510	2,717,407	2,391,836	2,333,629	2,249,923	1,936,145	1,634,624
2,252	2,066	1,899	1,730	1,628	1,546	1,483
5,228	4,385	3,968	1,014	718	637	344
<u>9,768,092</u>	<u>9,715,196</u>	<u>9,692,036</u>	<u>9,701,640</u>	<u>9,701,640</u>	<u>9,730,440</u>	<u>9,757,440</u>
\$6.00	\$5.25	\$4.62	\$4.20	\$3.73	\$3.35	\$3.07
20%	20%	17%	17%	16%	14%	15%
\$1.14	\$.99	\$.73	\$.68	\$.57	\$.46	\$.45
.40	.35	.27¾	.21¼	.18	.18	.16¾

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