FINAL
THIRTY-FIFTH ANNUAL REPORT
OF
Lee Rubber & Tire Corporation
FOR THE
FISCAL YEAR ENDED OCTOBER 31, 1950
DIRECTORS
1950
JAMES CARSTAIRS
ALBERT A. GARTHWAITE
ALBERT A. GARTHWAITE, Jr.
STANTON GRIFFIS
AMBROSE E. IMPEY
GEORGE S. MAHANA
THORPE NESBIT
DANIEL M. SHEAFFER
PAUL VAN ANDA

OFFICERS
President & General Manager
ALBERT A. GARTHWAITE
Vice-President
O. S. DOLLISON
General Manager, Republic Division
ERNEST M. IKIRT
Vice-President in Charge of Manufacturing, Lee Division
ROBERT M. BRASAEMLE
Vice-President in Charge of Plants
ELDEN E. LEACH
Vice-President in Charge of Development & Research
ARTHUR H. NELLEN
Senior Vice-President, Lee Tire & Rubber Co. of N. Y., Inc.
H. LAWTON PETTINGELL
Vice-President, Lee Tire & Rubber Co. of N. Y., Inc.
E. W. McCREERY
Vice-President in Charge of Sales, Lee Tire & Rubber Co. of N. Y., Inc.
W. F. HINDERSCHEID
Assistant to President
WARREN INGERSOLL
Treasurer & Comptroller
ARTHUR S. POUCHOT
Secretary
PAUL VAN ANDA
Assistant Secretary
DANIEL H. HANDY
Assistant Treasurer
JOSEPH J. ROONEY
Assistant Secretary, Republic Division
T. C. BOASE

Transfer Agent:
Guaranty Trust Company
of New York
New York, N. Y.
Registrar:
Lawyers Trust Company
New York, N. Y.
To the Stockholders of
Lee Rubber & Tire Corporation:

In the report sent to you in January 1951 you will note the report of our auditors is dated December 15, 1950, and in Note (4) it is stated that no provision has been made for an Excess Profits Tax. In January 1951 the Federal Government imposed an Excess Profits Tax retroactive to July 1, 1950 and regulations thereon were received in March 1951. Therefore, in order to cover fully the fiscal year ended October 31, 1950, we are now issuing this final and complete report.

The Consolidated Balance Sheet of your Corporation and Subsidiary as of October 31, 1950, and the Consolidated Profit and Loss and Surplus Accounts for the year ended October 31, 1950, are submitted herewith, together with the report of our auditors, Messrs. Peat, Marwick, Mitchell & Co.

Consolidated Net Sales for the fiscal year ended October 31, 1950, amounted to $39,267,254, the largest in our history, and represented an increase of 22.9% over sales of $31,947,034 for the previous year.

Net Profit for the year, after Federal and State Taxes, was $2,944,732, equal to $11.61 per share on the stock outstanding, as compared with $1,211,499, or $4.78 per share on the stock outstanding for the fiscal year 1949. However, your directors appropriated $750,000 to be added to the Reserve for Contingencies to take care of possible price declines of materials which have had such sharp advances since June 1950 when hostilities started in Korea. The net addition to the Surplus Account after this reserve and before dividends was equal to $8.65 per share.

Federal and State Income Taxes amounted to $2,336,700, and the Federal Excess Profits Tax amounted to $210,000. Under the present law it is estimated that the Excess Profits Tax Exemption Base for the year 1950 is approximately $3,600,000.

Your Corporation has elected to use the Base Stock Inventory, or last in-first out, (LIFO) method in the treatment of inventories of finished tires and inner tubes for the year ended October 31, 1950, as stated in the auditors report.

Dividends of $5 per share, totaling $1,267,920, were paid during the fiscal year ended October 31, 1950, as follows:

- February 1, 1950 - Regular . . . $0.50
- May 2, 1950 - Regular . . . 0.50
- May 2, 1950 - Extra . . . . . 0.50
- August 1, 1950 - Regular . . . 0.50
- October 30, 1950 - Regular . . . 0.50
- October 30, 1950 - Extra . . . . . 2.50
Your Corporation is in strong financial condition with Current Assets equal to $20,133,000, as compared with Current Liabilities of $3,679,000, or a ratio of 5.5 to 1.

Plants and equipment have been maintained in a high state of efficiency. An increase in capacity of the Conshohocken plant of approximately 10%, for which the directors appropriated $578,832, has now been completed.

During the year an Employees' Welfare Benefit Plan was adopted, with the approval of the stockholders, with two labor unions, more particularly referred to in Note (3) to the accompanying Consolidated Balance Sheet.

We appreciate the cooperation and resourcefulness of all members of the Lee organization, in factory and field, for the successful operation of the corporation during the past year.

By order of the Board of Directors.

Respectfully submitted,

A. A. GARTHWAITE
President
### COMPTROLL

**LEE RUBBER & TIRE CORP**

Consolidated Balance Sheets as

#### ASSETS

<table>
<thead>
<tr>
<th>Current Assets</th>
<th>October 31</th>
<th>1950</th>
<th>1949</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash in banks and on hand</td>
<td>$7,393,817</td>
<td>$6,651,971</td>
<td></td>
</tr>
<tr>
<td>U.S. Treasury Savings Notes, Series &quot;D&quot; - at cost, and accrued interest (less amount applied against provision for Federal income and excess profits taxes, per contra - 1950, $2,445,000; 1949, $780,000)</td>
<td>2,356,395</td>
<td>1,484,750</td>
<td></td>
</tr>
<tr>
<td>Accounts receivable:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Customers (including notes - 1950, $16,298; 1949, $9,528)</td>
<td>3,535,747</td>
<td>2,368,878</td>
<td></td>
</tr>
<tr>
<td>Miscellaneous (including due from employees - 1950, $19,009; 1949, $20,312)</td>
<td>65,616</td>
<td>59,177</td>
<td></td>
</tr>
<tr>
<td>Less allowances for doubtful accounts and cash discounts</td>
<td>242,100</td>
<td>226,939</td>
<td></td>
</tr>
<tr>
<td><strong>Total Current Assets</strong></td>
<td><strong>20,132,679</strong></td>
<td><strong>16,808,044</strong></td>
<td></td>
</tr>
<tr>
<td>Investments, including capital stock of Copolymer Corporation carried at cost of $78,038</td>
<td>79,443</td>
<td>79,443</td>
<td></td>
</tr>
<tr>
<td>Property, Plant and Equipment (based substantially on cost)</td>
<td>11,044,369</td>
<td>10,636,124</td>
<td></td>
</tr>
<tr>
<td>Less accumulated depreciation and amortization</td>
<td>6,500,537</td>
<td>6,175,658</td>
<td></td>
</tr>
<tr>
<td><strong>Property, Plant and Equipment, less accumulated depreciation and amortization</strong></td>
<td><strong>$24,755,954</strong></td>
<td><strong>$21,474,953</strong></td>
<td></td>
</tr>
</tbody>
</table>

(See accompanying note)
ER'S REPORT
OF ORATION AND SUBSIDIARY
of October 31, 1950 and 1949

LIABILITIES AND CAPITAL

<table>
<thead>
<tr>
<th></th>
<th>October 31</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1950</td>
</tr>
</tbody>
</table>

**CURRENT LIABILITIES:**
- Accounts payable ................................ $ 2,041,695   $ 1,106,685
- Accrued expenses and withholding taxes payable  1,535,891   832,167
- Provision for Federal and State income taxes  (Note 4) ........................................ 2,546,700   819,200
- Less U. S. Treasury Savings Notes, Series "D"  (per contra) .................................... 2,445,000   780,000

Total Current Liabilities .................. 3,679,386   1,978,052

**OPERATING RESERVES:**
- Workmen's compensation insurance ............ 220,861   204,944
- Miscellaneous .................................. 51,618   87,580

Operating Reserves ........................... 272,479   292,524

**CAPITAL STOCK AND SURPLUS:**
- Capital stock - authorized and issued, 300,000 shares - par value $5 per share .......... 1,500,000   1,500,000
- Capital surplus .................................. 8,026,970   8,026,970
- Earned surplus .................................. 9,322,679   8,395,867
- Reserve for contingencies (Note 2) ............ 2,750,000   1,950,000

Capital and Surplus ........................... 21,599,649  19,872,837

Less reacquired capital stock - 46,416 shares - at cost ........................................ 795,460   795,460

Capital and Surplus, less reacquired .......... 20,804,189  19,077,377

$24,755,954 $21,347,953

(to financial statements)
STATEMENTS OF CONSOLIDATED PROFIT AND LOSS
For the Years ended October 31, 1950 and 1949

1950  1949

Net Sales .................. $39,267,254  $31,947,034
Cost of Goods Sold (Note 1) ........ 27,822,472  24,954,798
Gross Profit ................ 11,444,782  6,992,236
Selling, Administrative and General Expenses 6,083,981  5,042,194

Operating Profit (after depreciation charges - 1950, $497,507; 1949, $458,463) .... 5,390,801  1,950,042

Other Income - service fees, interest earned, salvage sales and sundry (net) ........ 105,046  77,209

Profit, before Provision for Income Taxes .... 5,495,847  2,027,251

Provision for Income Taxes (Note 4):
Federal normal tax and surtax ................ 2,235,000  780,000
Federal excess profits tax 210,000 —
State income taxes 101,700  39,200

Adjustment of prior years' income taxes ........ 4,415 (3,448)

2,551,115  815,752

Net Profit for Year ................. 5,944,732  1,211,499

STATEMENTS OF CONSOLIDATED SURPLUS
For the Years ended October 31, 1950 and 1949

CAPITAL SURPLUS

1950  1949
Balance at Beginning and End of Period ....... $8,026,970  $8,026,970

EARNED SURPLUS

1950  1949
Balance at Beginning of Period ............... 8,395,867  7,945,120
Add Net Profit for Year ................. 2,944,732  1,211,499

11,340,599  9,156,619

Deduct Cash Dividends - 1950, $5 per share; 1949, $3 per share .... 1,267,920  760,752

10,072,679  8,395,867

Deduct Appropriation to Reserve for Contingencies 750,000 —

Balance at End of Period ................ $9,322,679  $8,395,867

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NOTES TO FINANCIAL STATEMENTS

(1) Inventories:
The amounts shown in the balance sheet are based on physical inventories taken on or about October 31, 1950. Except as to finished tires and finished tubes, they are in general stated at cost (approximate average recent cost of raw material, labor and overhead) or replacement market, if lower, and reduced valuations are used in respect of inactive or obsolescent merchandise and materials. Inventories of finished tires and finished tubes (the major portion of finished goods) are stated under the last-in, first-out (LIFO) method, on the basis of inventory values as of October 31, 1949. As a result of such change in pricing procedure, the closing inventory values have been reduced by $367,181 which amount has been absorbed in cost of goods sold; the related reduction effected in the provision for taxes on income was $175,000. Concurrently with the adoption of the LIFO method, the corporation proposes to elect the involuntary liquidation and replacement treatment afforded by the Internal Revenue Code in respect of the reduction of quantities of finished tires and tubes during the year ended October 31, 1950. It is estimated that, as of October 31, 1950, replacement costs in respect of the quantities so “involuntarily liquidated” exceeded the October 31, 1949 amounts (LIFO basis) by about $450,000. If such quantities are replaced in a fiscal year or fiscal years ending prior to January 1, 1956 on such basis, it is estimated that the tax liability for the year ended October 31, 1950 would be reduced by about $225,000.

(2) Reserve for Contingencies:
During the year ended October 31, 1950, this reserve was increased from $1,950,000 by an amount of $800,000, comprising transfers of $50,000 from operating reserves and an appropriation of $750,000 from surplus. The reserve was established to provide for abnormal inventory price declines and for other significant losses incidental to a period of decline.

(3) Employees' Welfare Benefit Plan:
In 1950 agreements were entered into with two labor unions, and ratified by the stockholders, providing retirement benefits for life for union employees under an unfunded non-contributory plan which is effective for an initial five-year period. It was estimated that the maximum cost of retirement benefits under the plan would be $322,958 to be paid during the five-year period, but present indications are that the actual cost will be substantially less than the estimated maximum. The said union agreements also provide for certain other welfare benefits, including life insurance, sick and accident benefits and hospitalization, which are estimated to cost $645,000 during the five-year period.

(4) Federal Income Taxes:
Federal income and excess profits taxes for the year ended October 31, 1950 have been provided for in accordance with the Revenue Act of 1950 and the Excess Profits Tax Act of 1950 on the basis of the adoption of the LIFO method for inventories of finished tires and finished tubes effective for such year.

A. S. Pouchot
Comptroller
ACCOUNTANTS' REPORT


April 24, 1951

To the Board of Directors,
Lee Rubber & Tire Corporation
Conshohocken, Pa.

We have examined the amended consolidated balance sheet of Lee Rubber & Tire Corporation and subsidiary as of October 31, 1950 and the related statements of profit and loss and surplus 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.

Subsequent to the issuance of our report dated December 15, 1950, Congress enacted, with retroactive effect, on January 3, 1951, the Excess Profits Tax Act of 1950, and on January 11, 1951, provisions of the Internal Revenue Code relating to the involuntary liquidation and replacement of inventories on the last-in, first-out method. Effective for the year ended October 31, 1950, the corporation has reflected in its accounts the last-in, first-out method for pricing inventories of finished tires and finished tubes and proposes for income tax purposes, subject to approval by the Commissioner of Internal Revenue, to adopt such method and to elect the involuntary liquidation and replacement treatment. The effects of such adoption and election and of provision for the Federal excess profits tax are more particularly set forth in Notes 1 and 4 to the financial statements.

In our opinion, with the explanation referred to in the preceding paragraph, the accompanying consolidated balance sheet and statements of consolidated profit and loss and surplus present fairly the financial position of Lee Rubber & Tire Corporation and subsidiary at October 31, 1950 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles which, except for the appropriate change in method of inventory valuation referred to in Note 1, have been applied on a basis consistent with that of the preceding year.

PEAT, MARWICK, MITCHELL & Co.