39th Annual Report

LEE RUBBER & TIRE CORPORATION

for the Fiscal Year ended
October 31, 1954
DIRECTORS
JAMES CARSTAIRS
ALBERT A. GARTHWAITE
ALBERT A. GARTHWAITE, Jr.
STANTON GRIFFIS
WILLIAM F. HINDERSCHEID
AMBROSE E. IMPEY
ELDEN E. LEACH
GEORGE S. MAHANA
THORPE NESBIT
DANIEL M. SHEAFFER
PAUL VAN ANDA

OFFICERS
President & General Manager
ALBERT A. GARTHWAITE
Vice-President
ELDEN E. LEACH
Vice-President in Charge of Development & Research
ARTHUR H. NELLEN
Vice-President in Charge of Manufacturing, Lee Division
ROBERT M. BRASAEMLE
Vice-President in Charge of Plants
ALBERT A. GARTHWAITE, Jr.
Treasurer
DANIEL H. HANDY
Assistant to President
WARREN INGERSOLL
Vice-President in Charge of Sales
Lee Tire & Rubber Co. of N. Y., Inc.
WILLIAM F. HINDERSCHEID
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
Secretary
PAUL VAN ANDA
General Manager, Republic Division
ERNEST M. IKIRT
Assistant Treasurer
JOSEPH J. ROONEY
Assistant Secretary, Republic Division
T. C. BOASE
Assistant Secretary
JOHN B. WEBB

TRANSFER AGENT:
Guaranty Trust Company of New York, New York, N. Y.

REGISTRAR:
Bankers Trust Company, New York, N. Y.

General Operating Office • CONSHOHOCKEN, PENNSYLVANIA
Factories: CONSHOHOCKEN, PA. Lee Tires & Tubes
          YOUNGSTOWN, OHIO Republic Industrial Rubber Products
To the Stockholders:

The Consolidated Balance Sheet of your Corporation and Domestic Subsidiary as of October 31, 1954 and the Statement of Consolidated Earnings for the year ended October 31, 1954 are submitted herewith, together with the report of our auditors, Peat, Marwick, Mitchell & Co. We suggest that you read carefully the notes to the financial statements which follow the Statement of Consolidated Earnings.

SALES

Net Sales for the fiscal year ended October 31, 1954 amounted to $39,385,382 as compared with $46,302,361 for 1953. This decline in dollar volume was mainly due to the Defense Department's reduced buying of motor vehicles and truck tires during 1954 compared with the four previous years, and also due to special sales put on by the Industry covering replacement passenger car tires throughout the entire buying season.

EARNINGS

Net Earnings for the year after Federal and State taxes on income were $1,400,295 compared with $1,674,128 during the previous fiscal year. The 1954 earnings were equal to $4.97 a share on 281,425 shares outstanding October 31, 1954. On this number of shares the comparative earnings for 1953 would have been $5.94 a share.

DIVIDENDS

For the twenty-first consecutive year the Corporation paid dividends on its Capital Stock. Four quarterly dividends of seventy-five cents each and extra dividends amounting to one dollar a share were paid, making a total of four dollars a share paid to the stockholders during the fiscal year.

FINANCIAL

The Corporation has maintained a strong financial position. Current Assets at October 31, 1954 were $21,559,631 and Current Liabilities were $3,666,339, or a ratio of 5.9 to 1.

The Corporation has no bonds, no bank debt and no preferred stock. The entire stockholders' equity is represented by the $5 par value Capital Stock, of which 303,027 shares were issued as of October 31, 1954. However, 21,602 shares were reacquired by the Corporation over a period of years at an average cost of $19 a share, leaving 281,425 shares outstanding in the hands of the public.

PLANT EXPANSION

Your Board of Directors has approved a program of extensive expansion of the tire manufacturing facilities at Conshohocken costing approximately $1,500,000. All of this cost is available from the earnings retained in the business and no outside financing is contemplated. This expansion program in new equipment and buildings should be completed by mid-1955. The aims of this program are:
(1) Increased production capacity to satisfy existing and future demands for Lee products.
(2) Achievement of even finer quality products.
(3) Realization of higher profits through the addition of the most modern automatic equipment, some of which has just become available.

NEW TIRES

Our continuous program of product re-design and improvement has resulted in the addition of 124 new types and sizes of passenger and truck tires to the Lee line during 1954. These new tires have put us in an excellent position to meet the specialized needs of fleet operators and to provide motorists with the latest developments in tire safety.

Among the passenger tires recently introduced are two tubeless models which are the result of years of extensive research and experimentation with this type of construction. These tires are the Lee Double-Life Nylon Tubeless, a premium whitewall tire designed for the motorist who wants the ultimate in safety, performance and appearance; and the Lee Super DeLuxe Tubeless which will sell for the same price as a standard tire and tube. We have also added to our passenger line an all-nylon conventional-type tire.

INDUSTRIAL RUBBER PRODUCTS

Our Republic Rubber Division at Youngstown, Ohio, where we manufacture over a thousand different products for the automotive, mining, steel and petroleum industries, was adversely affected during the year by an extremely competitive price situation in these fields. This was further affected by wage and social benefit increases following industry patterns, with no price increases during the entire fiscal year. However, since the close of our fiscal year we have had a price increase of approximately 5% on belting, hose and molded goods.

SYNTHETIC RUBBER PLANTS

In April 1954 we decided to sell our one-eighth interest in Copolymer Corporation which operates a Government-owned synthetic rubber plant at Baton Rouge, Louisiana. We do not plan to acquire an interest in any of the companies which have bid on a Government facility. Instead, it is our intention to purchase synthetic rubber from one of our customers who has been a large marketer of our tires for many years. We feel that the results of this decision will be beneficial to your Corporation in the years ahead.

During the year our employee relationships were conducted on a friendly and cooperative basis.

Your Directors and Officers express their appreciation to all of our employees who contributed to the results achieved.

By order of the Board of Directors.

Respectfully submitted,
A. A. GARTHWAITE
President.
### LEE RUBBER & TIRE CORPORATION AND DOMESTIC SUBSIDIARY

**ASSETS**

#### CURRENT ASSETS:

<table>
<thead>
<tr>
<th>Item</th>
<th>1954</th>
<th>1953</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$7,419,266</td>
<td>$5,558,140</td>
</tr>
<tr>
<td>U. S. Government securities—at cost, and accrued interest (less amount applied against liability for Federal income taxes)</td>
<td>998,550</td>
<td>1,342,418</td>
</tr>
<tr>
<td>Accounts receivable (less provision for discounts and losses: 1954 - $251,953; 1953 - $233,736)</td>
<td>4,194,514</td>
<td>4,416,520</td>
</tr>
<tr>
<td>Inventories (at lower of cost or market; as to finished tires and tubes cost is computed on “last-in, first-out” method):</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Finished goods</td>
<td>5,558,345</td>
<td>4,798,293</td>
</tr>
<tr>
<td>Work in process</td>
<td>1,133,075</td>
<td>1,157,981</td>
</tr>
<tr>
<td>Raw materials</td>
<td>1,817,668</td>
<td>2,033,325</td>
</tr>
<tr>
<td>Supplies</td>
<td>386,853</td>
<td>452,777</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td><strong>8,895,941</strong></td>
<td><strong>8,462,376</strong></td>
</tr>
</tbody>
</table>

| Recoverable Federal taxes on income of prior years | —            | 151,652      |
| Prepaid expenses                                   | 51,360       | 67,980       |
| **Total current assets**                           | **21,559,631**| **19,999,086**|

#### INVESTMENTS, at cost:

<table>
<thead>
<tr>
<th>Item</th>
<th>1954</th>
<th>1953</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign subsidiary (note 1)</td>
<td>30,000</td>
<td>30,000</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>1,391</td>
<td>79,443</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>31,391</strong></td>
<td><strong>109,443</strong></td>
</tr>
</tbody>
</table>

#### PROPERTY, PLANT AND EQUIPMENT (based substantially on cost):

<table>
<thead>
<tr>
<th>Item</th>
<th>1954</th>
<th>1953</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less accumulated depreciation and amortization (note 2)</td>
<td>7,749,526</td>
<td>7,235,021</td>
</tr>
<tr>
<td><strong>Property, plant and equipment</strong></td>
<td><strong>13,951,736</strong></td>
<td><strong>13,794,524</strong></td>
</tr>
<tr>
<td><strong>Less accumulated depreciation and amortization</strong></td>
<td><strong>6,202,210</strong></td>
<td><strong>6,550,503</strong></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$27,793,232</strong></td>
<td><strong>$26,668,032</strong></td>
</tr>
</tbody>
</table>

*See accompanying notes to financial statements.*
## Consolidated Balance Sheet, October 31, 1954 (with comparative figures for 1953)

### LIABILITIES AND STOCKHOLDERS' EQUITY

#### CURRENT LIABILITIES:

<table>
<thead>
<tr>
<th>Item</th>
<th>1954</th>
<th>1953</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acceptances payable—crude rubber purchases</td>
<td>$ 630,393</td>
<td>$ 330,456</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>1,430,680</td>
<td>1,241,997</td>
</tr>
<tr>
<td>Accrued expenses</td>
<td>1,248,066</td>
<td>1,552,108</td>
</tr>
<tr>
<td>Federal income taxes, estimated</td>
<td>1,385,000</td>
<td>1,915,000</td>
</tr>
<tr>
<td>Less U. S. Government securities</td>
<td>(1,027,800)</td>
<td>(1,915,000)</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td><strong>3,666,339</strong></td>
<td><strong>3,124,461</strong></td>
</tr>
</tbody>
</table>

#### PROVISION FOR:

<table>
<thead>
<tr>
<th>Item</th>
<th>1954</th>
<th>1953</th>
</tr>
</thead>
<tbody>
<tr>
<td>Workmen's compensation self-insurance</td>
<td>288,875</td>
<td>281,331</td>
</tr>
<tr>
<td>Pensions and other insurance</td>
<td>128,073</td>
<td>107,597</td>
</tr>
<tr>
<td>Deferred Federal income taxes (note 2)</td>
<td>138,000</td>
<td>—</td>
</tr>
<tr>
<td><strong>Total provision</strong></td>
<td><strong>554,948</strong></td>
<td><strong>388,928</strong></td>
</tr>
</tbody>
</table>

#### STOCKHOLDERS' EQUITY:

<table>
<thead>
<tr>
<th>Item</th>
<th>1954</th>
<th>1953</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital stock—$5 par value</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Authorized 325,000 shares (note 4)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Issued: 1954 - 303,027 shares; 1953 - 300,000 shares</td>
<td>1,515,135</td>
<td>1,500,000</td>
</tr>
<tr>
<td>Capital in excess of par value of capital stock (note 4)</td>
<td>9,058,225</td>
<td>8,937,871</td>
</tr>
<tr>
<td>Earnings retained for use in the business</td>
<td>13,409,076</td>
<td>13,127,263</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>23,982,436</strong></td>
<td><strong>23,565,134</strong></td>
</tr>
</tbody>
</table>

| Less 21,602 shares of reacquired capital stock, at cost              | 410,491    | 410,491    |
| **Total stockholders' equity**                                      | **23,571,945** | **23,154,643** |

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Sum: $27,793,232 $26,668,032
LEE RUBBER & TIRE CORPORATION and DOMESTIC SUBSIDIARY

Statement of Consolidated Earnings—Year ended October 31, 1954 (with comparative figures for 1953)

CURRENT EARNINGS

Income:
Net sales ........................................ $39,385,382  $46,302,361
Other income ................................... 185,960  66,079

Total Income .................................. $39,571,342  $46,368,440

Costs and expenses:
Cost of goods sold .............................. 28,495,545 34,272,117
Selling, administrative and general expenses ...... 7,602,136 7,783,742
Depreciation and amortization (note 2) .......... 544,761 738,987
Miscellaneous charges .......................... 5,605 22,066

Total Costs and Expenses ....................... 36,648,047 42,816,912

Earnings before Federal income taxes .......... 2,923,295 3,551,528
Provision for Federal income taxes, estimated ...... 1,523,000 1,877,400

Net earnings .................................. $ 1,400,295 $ 1,674,128

EARNINGS RETAINED FOR USE IN THE BUSINESS

Balance at beginning of year ................... $13,127,263 $13,134,632
Net earnings for the year ...................... 1,400,295 1,674,128

Total Earnings Retained ....................... 14,527,558 14,808,760

Deduct:
Cash dividends - $4.00 per share ............... 1,118,482 1,059,296
Stock dividend of 5% consisting of 13,199 shares of capital stock issued from re-acquired capital stock at assigned value 622,201 622,201

Balance at end of year ....................... $13,409,076 $13,127,263

See accompanying notes to financial statements.
Notes to Financial Statements

1. INVESTMENTS: As of October 31, 1954, the company’s equity in the net assets of its wholly-owned foreign subsidiary was $223,221 in excess of the company’s cost of investment in the subsidiary. This excess represents the undistributed net earnings, subject to determination of tax liability, if any, of the foreign subsidiary.

2. DEPRECIATION AND AMORTIZATION: As of November 1, 1953, the company changed its depreciation policy on plant facilities covered by Certificates of Necessity. In prior years, depreciation on these facilities was provided in the accounts on the basis of the five-year life permitted for Federal income tax purposes. After making a review, the company considered it prudent, beginning November 1, 1953, to record depreciation of emergency facilities based on their remaining useful lives in accordance with established depreciation practices for similar facilities. Accordingly, depreciation of emergency facilities for tax purposes, which will continue to be claimed over the initial five-year period, was $264,933 more than the amount recorded on the books for the year ended October 31, 1954. The resultant temporary saving in taxes, estimated at $138,000, has been charged against current earnings and set aside as a provision for deferred Federal income taxes payable over a period of years after the expiration of the five-year period.

3. EMPLOYEES' RETIREMENT BENEFIT PLAN: An unfunded non-contributory plan established in 1950 by agreements with two labor unions provides retirement benefits for life for union employees retiring during an initial five-year period. The related estimated costs of the plan for the initial five-year period, not considered of material significance, are being charged against operations by a method designed to spread the estimated cost of the plan, less future tax benefits which will accrue as retirement benefits are paid, over the initial five-year period ending April 6, 1955.

4. STOCK OPTION PLAN: During 1953 an employees' stock option plan was approved by the stockholders, limited to 25,000 shares of capital stock reserved therefor. Options, exercisable after the end of the first year over a period of ten years or less, may be granted under the plan at any time prior to December 31, 1963 subject to termination of the plan by the company at any time, except as to options outstanding. No more than 2,500 shares shall be optioned under the plan to any one employee. Options have been granted for 16,500 shares at $44.76 per share, being 95% of the market price when granted.

Options to purchase 3,027 shares were exercised in 1954. As a result, $15,135 was added to capital stock and $120,354 to capital in excess of par value of capital stock.

5. RENEGOTIATION: Profits in the fiscal year 1954 resulting from certain government contracts are subject to renegotiation, but in the opinion of the management no renegotiation refund will be required on such business.
ACCOUNTANTS' REPORT

The Board of Directors

Lee Rubber & Tire Corporation:

We have examined the consolidated balance sheet of Lee Rubber & Tire Corporation and domestic subsidiary as of October 31, 1954 and the related statement of earnings for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and statement of consolidated earnings present fairly the financial position of Lee Rubber & Tire Corporation and domestic subsidiary at October 31, 1954 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles which, except for the change, which we approve, in depreciation policy described in note 2 to the financial statements, have been applied on a basis consistent with that of the preceding year.

PEAT, MARWICK, MITCHELL & CO.

December 10, 1954