

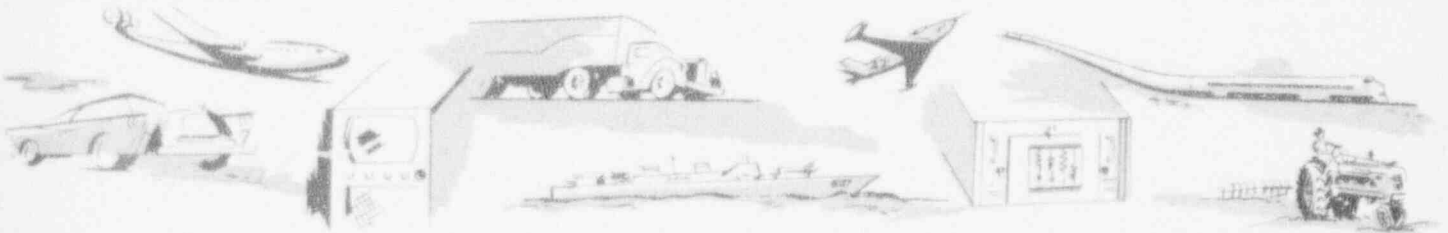
CHEVETTE

CORPORATION

1956

ANNUAL REPORT

Precision components, equipment and weapons - for industry and defense



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HIGHLIGHTS OF 1956

	1956	1955
<i>Sales and other revenues</i>	\$75,111,784	\$73,088,935
<i>Profit</i>	\$ 3,971,593	\$ 4,854,753
<i>Per common share:</i>		
<i>Profit</i>	\$2.06	\$2.54
<i>Dividends</i>	\$1.15	\$1.25
<i>Book value (year-end)</i>	\$21.30	\$20.38
<i>Employees</i>	6,472	6,907
<i>Common stockholders</i>	7,315	6,579

To our Stockholders and Employees:

Our sales and other revenues in 1956 were \$75,111,784, as compared with \$73,088,935 in 1955. Net profit was \$3,971,593, or \$2.06 a share, as compared with \$4,854,753, or \$2.54 a share, the year before.

Lower earnings resulted primarily from sharp reductions in automotive production, combined with heavy development and operating costs. An important series of cost-cutting measures was started early in the year. At mid-year we reported earnings of only 79 cents a share, but with economies taking effect, we were able to record substantially improved results in the second half.

Common dividends during the year totaled \$1.15 a share, with our 138th consecutive quarterly payment being made in December.



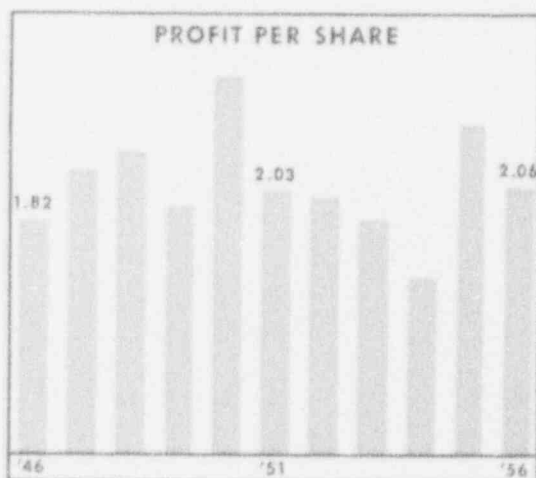
Automotive decline partially offset

The automotive industry, the source of almost half of our business, produced 25 percent fewer cars and trucks than in 1955.

There was a proportionate decline in our sales of automotive parts. This loss of volume was largely offset by increased sales of aircraft and diesel bearings, but the process of cutting down in some major lines and building up in others affected our rate of profit.

Larger quantities of replacement bearings were required by the railroads, reflecting in part the increased number of diesel locomotives in use and in part the high level of rail traffic during the year. In the aircraft field, replacement bearing sales were in keeping with the number of piston-type engines in service, and production of precision air-oil seals for jet engines continued its growth of the past several years.

Sales of replacement bearings for cars and trucks were higher than in 1955. The benefits of large-scale automotive production in 1950 and afterward are now beginning to be felt in this field. Total car and truck population in the country has reached an all-time high of over 60 mil-





Sales, engineering and manufacturing heads of our largest operating unit led a successful effort to produce and introduce a new kind of engine bearing for today's powerful passenger cars. The bearing has been specified as standard for several leading makes of 1957 cars.

lion and the long-term outlook for replacement bearing sales is encouraging.

Profitable growth in electronics

Our electronics business increased by about 20 percent during 1956 and accounted for approximately one-fourth of our total sales. The products showing the largest sales increases were recording oscillographs and amplifiers, and transistors and diodes.

In the field of artificially-grown crystals, where we have been the leader for many years, sales have been affected by low-priced competition from abroad and by the development of ceramic materials having piezoelectric properties. We have been doing advanced work with our own lines of ceramics, however, and expect to enjoy an increasingly important position in the combined crystal and ceramics field.

Many Clevite products find their way into defense service, but our main direct contribution to national security is in the design and production of homing torpedoes and related equipment for the Navy. Sales in this field were ahead of 1955. The staff of our Research Center did notable work in advanced weapons design and in the

development of improved associated equipment.

Operating costs reduced

During the year we successfully carried out a program designed to reduce operating costs at two of our smaller units and still permit an orderly expansion of their business. The cost of new projects at our larger units was also reviewed carefully.

Our Clevite Transistor Products division was re-organized, and its research and manufacturing were concentrated on a small number of specialized products. Operating losses were steadily reduced during the year, and by November the unit was returning a small monthly profit.



Quarterly meetings of about 50 members of corporation-wide management have been effective in building up the exchange of knowledge and experience among our operating units. January's meetings included a detailed tour of our major electronic manufacturing operation.

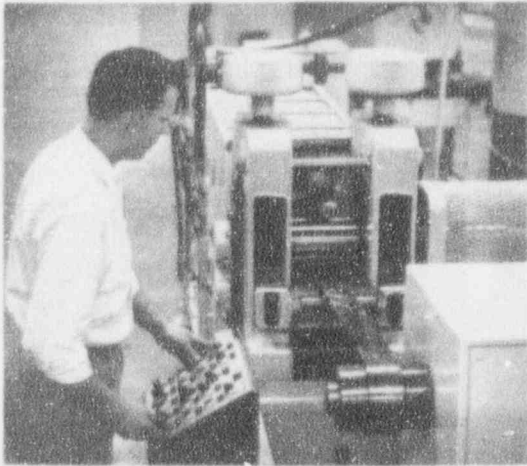
A similar program was carried out at our German semiconductor company, with operating losses almost eliminated by the end of the year.

By selling our jet blade subsidiary, Clevite Aero Products, Inc., we were able to eliminate another source of operating loss. Although this operation was small, expanded government requirements pointed to a heavier investment, more manufacturing problems and a longer wait for

satisfactory profits than we thought was justified.

Research work concentrated

Activities at our Research Center were increasingly focussed on fields directly related to our manufacturing units. The total cost of operating the Center for the



Clevite Research Center is well equipped for developing materials and processes useful in large-scale manufacturing. This strip rolling mill, which has a number of "big brothers" in our metalworking plants, is used by the Center's materials department.

year was \$4,264,968; of this amount \$2,700,206 represented work done for and billed to outside organizations. The Center's net cost to Clevite was lower than in 1955.

The Center has added considerably to its standing in the field of industrial research. At present it is under contract to General Electric, Westinghouse, Sandia and other leading companies, for conducting research and development in fields in which we specialize. Together with projects being done at our own expense, this work provides us with new knowledge in areas such as high temperature materials—which are increasingly important in the development of bearings and jet seals—in semiconductors and piezoelectric materials, in magnetic recording and in nuclear components.

Active foreign business

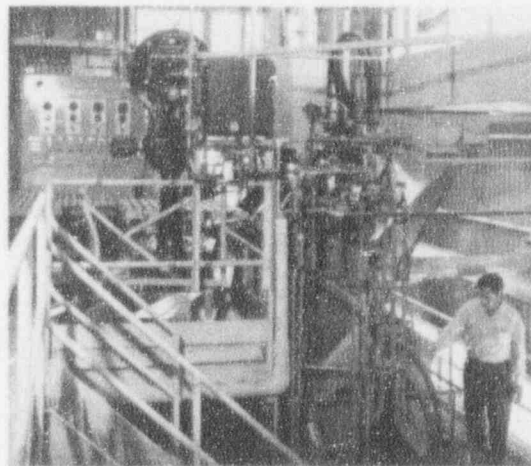
Our foreign business was good, and royalty income was at approximately the same high rate we reached in 1955.

Bearing and bushing sales in Canada were at high levels, with a satisfactory profit. During the year we bought the 1/5 interest in our Canadian subsidiary that had been owned by others, and also bought full ownership of a small powdered metal parts company in which we had held a 1/3 interest. Both companies were combined into a single unit in our St. Thomas, Ontario, plant.

Exports of engine bearings for replacement use abroad reached new high ground, with favorable profit margins.

Financial position sound

At the end of the year our financial position was strong, although not as liquid as at the end of 1955. During the year sizeable amounts of cash were required for increased working capital, for carrying



Capital expenditures authorized for 1957 include a second Banbury rubber compounding installation at Milan, Ohio, where this one is located. By compounding our own rubber we can maintain high quality standards.

small operations that were not yet profitable, and for capital additions. At December 31st current assets were 6.1 times

current liabilities, as compared with 6.0 a year earlier.

Capital additions amounted to \$4,278,000, about twice our depreciation. Of this total, 70 percent was for ordinary replacements, 15 percent for additional capacity for existing products, and 15 percent for new capacity for new products.

Organization and personnel

Our programs for management development showed good results, with many of our people being promoted to positions of added responsibility.

We also gained new strength from outside the organization, the single most important step of this kind being the election of James J. Welker, an executive of broad industrial experience, as the corporation's Vice President—Operations.

All of our plants enjoyed good personnel relations throughout 1956.

Outlook good

Like most other companies, we are faced in 1957, as in past years, with the continuing problem of inflation in wage, salary, and material costs coupled with downward pressures on selling prices. The solution to this problem, in our opinion, is still a time-honored and simple one—unrelenting hard work to cut costs and expand sales.

The full effect of the economies achieved in 1956 should be felt in 1957. Cost reduction efforts continue, and further benefits are expected. Our sales are currently at high levels, and with good business conditions our volume should be ahead of last year.

We believe that 1957 should be a good year, with earnings per share showing an improvement over 1956.

James L. Myers
Chairman

William G. Laffer
President

Cleveland, Ohio
February 26, 1957

Consolidated Results of Operations

	1956	1955
REVENUES		
Sales of product	\$73,581,604	\$71,935,883
Royalties, interest and other revenues	<u>1,530,180</u>	<u>1,153,052</u>
Total revenues	<u>75,111,784</u>	<u>73,088,935</u>
 COSTS		
Wages, salaries, and company contributions for group, hospital and unemployment insurance and old age and retirement benefits (Note 6)	34,085,688	32,453,236
Raw materials, supplies and services purchased, and other expenses	30,598,645	27,925,905
Portion of cost of buildings, machinery and equipment applied to operations	2,017,927	1,980,421
Real estate and other taxes	737,931	724,620
Federal and foreign taxes on income	<u>3,700,000</u>	<u>5,150,000</u>
Total costs	<u>71,140,191</u>	<u>68,234,182</u>
 PROFIT FOR YEAR (Note 7)		
	<u>3,971,593</u>	<u>4,854,753</u>
Portion of profit paid to shareholders as cash dividends		
Preferred stock, \$4.50 per share	246,842	262,382
Common stock, \$1.15 per share in 1956, \$1.25 per share in 1955	<u>2,078,225</u>	<u>2,257,065</u>
	<u>2,325,067</u>	<u>2,519,447</u>
 REINVESTMENT OF PROFIT FOR YEAR		
Reinvestment of profit of previous years	<u>1,646,526</u>	<u>2,335,306</u>
	<u>25,257,179</u>	<u>22,921,873</u>
 REINVESTMENT OF PROFIT IN THE BUSINESS SINCE INCEPTION IN 1919		
	<u>\$26,903,705</u>	<u>\$25,257,179</u>

See notes on page 7

Consolidated Financial Position

	December 31	
	1956	1955
CURRENT ASSETS		
Cash	\$ 5,343,876	\$ 4,861,517
United States Government securities	1,985,407	6,458,465
Receivable from customers and others	10,395,860	9,107,727
Inventories (Note 1)	18,921,990	17,577,045
	<u>36,647,133</u>	<u>38,004,754</u>
<i>Deduct:</i>		
CURRENT LIABILITIES		
Notes payable	1,158,675	1,332,950
Payable to suppliers and others	4,677,544	4,923,595
Federal and foreign taxes on income	2,714,839	4,806,952
Less: United States Government securities	<u>(2,552,226)</u>	<u>(4,688,067)</u>
	5,998,832	6,375,430
WORKING CAPITAL	<u>30,648,301</u>	<u>31,629,324</u>
Property, plant and equipment (Note 2)	21,424,979	19,867,771
Prepaid costs and other assets	979,947	1,666,299
Intangible assets acquired in purchases of subsidiaries, less amortization	2,412,941	2,293,458
	<u>55,466,168</u>	<u>55,456,852</u>
<i>Deduct:</i>		
Notes payable, 3 $\frac{1}{4}$ %, due serially until 1971, less \$832,500 current portion (Note 3)	11,670,000	12,502,500
Minority interest in subsidiary	-	303,848
	<u>11,670,000</u>	<u>12,806,348</u>
NET ASSETS	<u>\$43,796,168</u>	<u>\$42,650,504</u>
SHAREHOLDERS' INVESTMENT		
Preferred stock--4 $\frac{1}{2}$ % cumulative (Note 4)		
53,086 shares of \$100 par value	\$ 5,308,600	
58,123 shares of \$100 par value		\$ 5,812,300
Common stock (Notes 4 and 5)		
1,807,152 shares of \$1 par value	1,807,152	1,807,152
Capital in excess of par value (Note 4)	9,776,711	9,773,873
Reinvestment of profit (Notes 3, 6 and 7)	26,903,705	25,257,179
	<u>38,487,568</u>	<u>36,838,204</u>
TOTAL INVESTMENT	<u>\$43,796,168</u>	<u>\$42,650,504</u>

See notes on page 7

Notes to Financial Statements

NOTE 1 — Inventories

The values of the metal content of certain inventories stated on the last-in, first-out basis of cost, which in the aggregate is lower than market value, were \$3,579,730 at December 31, 1956 and \$3,056,306 at December 31, 1955. The remaining inventory valuations, totaling \$15,342,260 and \$14,520,739, respectively, were stated at the lower of cost or market.

NOTE 2 — Property, Plant and Equipment

Property, plant and equipment is stated at original cost less accumulated depreciation aggregating \$16,295,201 at December 31, 1956 and \$14,331,118 at December 31, 1955.

NOTE 3 — 3¼% Notes Payable

The notes payable to an insurance company, originally in the principal amount of \$15,000,000, are due in installments of \$832,500 per year from March 1, 1957 to March 1, 1970 and \$847,500 on March 1, 1971.

As of December 31, 1956, the note agreement provided a limitation of \$7,956,238 on the payment of cash dividends.

NOTE 4 — Preferred and Common Stock

As at December 31, 1956 the authorized stock of the corporation consisted of 100,000 preferred shares and 2,500,000 common shares. There were 33,339 preferred shares authorized but unissued and remaining eligible for issue at December 31, 1956. Preferred shares retired pursuant to a requirement of the articles of incorporation cannot be reissued. On December 31, 1956, 692,848 common shares were authorized but unissued. Of this amount 110,205 common shares were reserved for issuance under the stock option plan.

The articles of incorporation provide that each year an amount shall be set aside and expended for the purchase and retirement or redemption of preferred stock. The minimum amount required, and the maximum

amount permitted, to be set aside annually are amounts equivalent to 4% and 7%, respectively, of the aggregate par value of preferred stock issued. In accordance with such provision 4,611 preferred shares were retired in 1956. The amount to be set aside in 1957 for such purpose is \$375,785.

During the year 1956 an amount of \$2,838 representing the discount on preferred shares purchased was credited to "capital in excess of par value."

NOTE 5 — Stock Option Plan

A plan for granting stock options to key employees was approved at the 1956 annual stockholders meeting. On November 20, 1956 the Corporation granted options to sixty employees, including certain officers, to purchase a total of 110,205 shares of common stock. The option price per share is \$20.25, the market price on the date the options were granted. Options may be exercised in annual installments over periods starting from two to three years from the option date and ending, in most cases, ten years from the option date.

NOTE 6 — Retirement Income Plans

The Corporation has in effect a contributory, trustee retirement income plan for salaried employees and a non-contributory trustee plan for hourly employees. In 1956 the corporation contributed \$932,000 into the trusts and charged against earnings an equivalent amount. The unfunded past service liability at December 31, 1956 in respect of such plans was estimated to be \$4,137,000.

NOTE 7 — Renegotiation

Profits on sales to the U. S. Government for the years 1953 through 1956 remain subject to renegotiation. The effect, if any, of renegotiation upon the accompanying financial statements cannot be determined at this time, but no significant change is anticipated.

Opinion of Independent Public Accountants

To the Board of Directors of
Clevite Corporation

We have examined the consolidated statement of financial position of Clevite Corporation and its subsidiaries as at December 31, 1956, and the related consolidated statement of results of operations 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 statement of financial position and consolidated statement of results of operations and the notes thereto, present fairly the financial position of Clevite Corporation and its subsidiaries at December 31, 1956, and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Howell, Wallington Company

Cleveland, Ohio
February 20, 1957

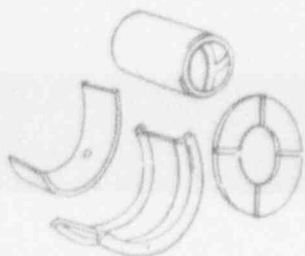
	1956	1955	1954
OPERATIONS (a):			
Sales and other revenues	\$75,112	\$73,089	\$60,149
Profit before income taxes	7,672	10,005	5,619
Profit after income taxes	3,972	4,855	2,669
Cash dividends:			
Preferred	247	263	268
Common	2,078	2,257	2,070
Reinvestment of profit	1,647	2,335	331
Plant and equipment additions	4,278	2,620	2,518
Depreciation	2,018	1,980	1,936
FINANCIAL POSITION AT YEAR END (a):			
Current assets	\$36,647	\$38,004	\$35,618
Current liabilities	5,999	6,375	4,760
Working capital	30,648	31,629	30,858
Property, plant and equipment, less depreciation	21,425	19,868	19,231
Book value of common shareholders' investment	38,488	36,838	34,319
PERCENTAGES:			
Profit before income taxes to:			
Shareholders' investment (average)	20.4%	28.1%	16.5%
Sales and other revenues	10.2	13.7	9.3
Profit after income taxes to:			
Shareholders' investment (average)	10.5	13.6	7.8
Sales and other revenues	5.3	6.6	4.4
PER COMMON SHARE (b):			
Profit after income taxes and preferred dividends	\$2.06	\$2.54	\$1.33
Dividends	1.15	1.25	1.15
Book value (year end)	21.30	20.38	19.07
OTHER:			
Number of employees (year end)	6,472	6,907	5,335
Number of common shareholders (year end)	7,315	6,579	5,713

(a) Thousands of dollars (b) Adjusted for two-for-one stock splits in 1953 and 1947

S U M M A R Y

1953	1952	1951	1950	1949	1948	1947
\$71,305	\$54,193	\$50,052	\$42,506	\$29,788	\$29,645	\$31,061
7,979	8,144	7,687	7,914	4,205	5,013	4,803
3,479	3,444	2,887	3,914	2,635	3,063	2,903
287	295	183	76	89	101	121
2,020	1,773	1,533	1,733	1,191	1,159	1,610
1,172	1,376	1,171	2,105	1,355	1,803	1,172
4,403	4,464	4,132	1,448	745	891	1,441
1,803	1,342	1,032	961	849	773	750
\$36,377	\$53,723	\$26,250	\$15,306	\$11,904	\$10,259	\$ 9,150
4,883	4,019	2,982	3,956	2,006	1,328	1,708
31,494	29,704	23,268	11,350	9,898	8,931	7,442
19,230	16,605	12,617	9,558	9,158	8,353	8,249
33,988	28,164	21,230	20,059	17,954	15,620	13,817
25.7%	33.0%	37.2%	41.6%	25.0%	34.1%	36.4%
11.2	15.1	15.4	18.6	14.1	16.9	15.5
11.2	13.9	14.0	20.6	15.7	20.8	22.0
4.9	6.4	5.8	9.2	8.8	10.3	9.3
\$1.77	\$1.97	\$2.03	\$2.88	\$1.91	\$2.30	\$2.16
1.15	1.15	1.15	1.30	.90	.90	1.25
18.89	17.61	15.92	15.71	13.46	12.13	10.73
6,127	5,870	4,527	4,095	3,014	3,560	3,494
5,530	5,117	3,689	3,211	3,056	2,981	2,611

A DIRECTORY OF PLANTS,



THE CLEVELAND GRAPHITE BRONZE COMPANY

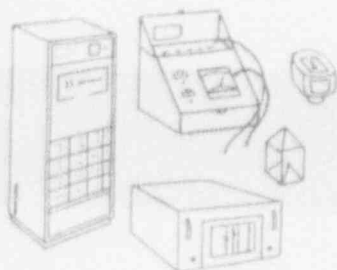
17000 St. Clair Avenue, Cleveland 10, Ohio

Products include sleeve bearings, thrust bearings, washers, bushings, electrolytic copper foil, wear plates, bi-metallic materials, oil and air seals, battery plaques, other precision products requiring advanced metallurgical and manufacturing techniques

WILLARD W. BROWN	President
L. W. CHRISTENSON	Vice President-Sales
EDWIN CRANESHAW	Chief Engineer
WILLIAM H. HAGY	Controller
JACK G. MEHRING	Director of Purchasing and Production Planning
CARVER POPE	Director of Personnel
F. P. SALZMAN	Works Manager
GILBERT M. SALZMAN	General Manager-Close Service
RALPH A. SCHAEFER	Technical Advisor to President

Plants at Cleveland, Bridgeport, Caldwell and McConnelsville, Ohio, and Fort Wayne, Indiana

Sales Offices in Cleveland, New York, Detroit, Chicago and Los Angeles



BRUSH ELECTRONICS COMPANY

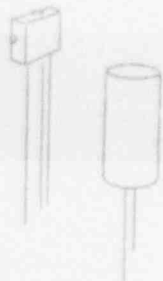
3405 Perkins Avenue, Cleveland 14, Ohio

Products include piezoelectric crystals and ceramics, electronic instruments for industrial and research use, sound and vibration measuring equipment, textile instruments for quality control, production instrumentation, magnetic recording components, acoustic products, underwater weapons, underwater sound detection equipment, and seismographic equipment

D. C. LYNCH	President
C. P. BOGGS	Vice President-Manufacturing
J. H. HARRIS	Vice President-Planning
C. B. HOFFMAN	Vice President-Sales
C. J. MAYERS	Vice President
D. B. PARKINSON	Vice President and General Engineering Manager
B. H. VANHOUTEN	Vice President-Employee Relations
D. R. BARBER	Controller
W. T. GRAY	General Works Manager
A. J. W. NOVAK	Vice President and General Manager, Texas Division

Plants at Cleveland and Bedford, Ohio and Houston, Texas

Sales Office in Cleveland and Washington, D. C.



INTERMETALL G.m.b.H.

Königsallee 14-16, Düsseldorf, West Germany

Products include transistors and diodes

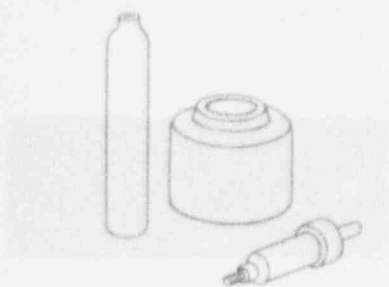
DR. KARL O. SEIFER	Manager
GERHARD BOLLERT	Works Manager
ERWIN HÄGG	Controller
ROBERT STASIK	Director of Marketing

PRODUCTS and PERSONNEL

CLEVITE HARRIS PRODUCTS, INC.

6545 Carnegie Avenue, Cleveland 3, Ohio

Products include rubber-and-metal bearings, molded rubber parts, bonded rubber-and-metal products, magnetic recording belts, vibration mounts



MATTHEW J. FLEMING, JR.
DAN T. BRADLEY
ROBERT T. DRAKE
FRANK J. GUERNOT
FRANK S. TRECIO

President
Vice President—Engineering and Sales
Chief Engineer
Treasurer and Controller
Sales Manager

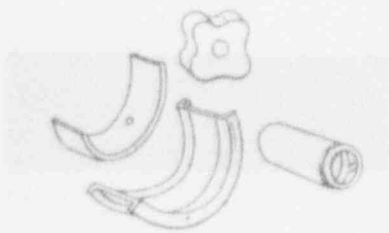
Plants at Milan and Napoleon, Ohio

Sales Offices in Cleveland, Boston, Detroit, Chicago, Los Angeles and St. Petersburg

THE CLEVITE LIMITED

1177 Talbot Street, St. Thomas, Ontario, Canada

Products include sleeve bearings, bushings, bi-metallic materials, rubber-and-metal bearings, powdered metal parts



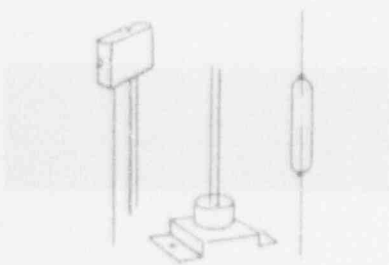
WILBUR D. PRESCOTT
PAUL JEFFERIES
LEONARD J. CONNOR
ALLAN A. COOK
THOMAS J. MALONEY

President and Treasurer
Vice President—Sales
Plant Superintendent
Controller
Field and Product Engineer

CLEVITE TRANSISTOR PRODUCTS

241-257 Crescent Street, Waltham 54, Mass.

Products include transistors and diodes



JAMES F. BATTY
ALBERT A. DULAC
ALLEN J. DISAULT
BERTRAM E. MILLS
EDWARD J. QUIRK

General Manager
Chief Engineer
General Sales Manager
Controller
Works Manager

CLEVITE RESEARCH CENTER

540 East 105th Street, Cleveland 8, Ohio



A. L. W. WILLIAMS
J. K. NUNAN
T. E. LYNCH
HANS JAFFE
A. D. ECKWOLD
W. J. RILEY

President
Vice President and General Manager
Vice President and Manager—Ordnance Division
Manager—Physics Division
Manager—Materials Division
Controller

CLEVITE CORPORATION

DIRECTORS

JAMES L. MYERS W. RUSSELL BURWELL
Chairman *Vice Chairman*

T. J. CONWAY	J. C. MCHANNAN	JOHN SHERWIN
T. KEITH GLENNAN	J. J. MCINTYRE	GLEN O. SMITH
WILLIAM G. LAFFER	H. CHAPMAN ROSE	HERMAN L. WECKLER
EVELYN L. LYNN	C. BALDWIN SAWYER	A. L. W. WILLIAMS

OFFICERS

JAMES L. MYERS	<i>Chairman of the Board</i>
W. RUSSELL BURWELL	<i>Vice Chairman of the Board</i>
WILLIAM G. LAFFER	<i>President</i>
JAMES J. WECKER	<i>Vice President—Operations</i>
O. PERRY GORAY	<i>Vice President—Finance and Treasurer</i>
FRANK FRASER	<i>Secretary</i>
S. J. BEGUN	<i>Director of Marketing</i>
J. D. LIGHTBODY	<i>Assistant to the President</i>
O. E. McCULLOUGH, JR.	<i>Assistant to the President</i>

DEPOSITARIES

The Bank of New York, New York
 Central National Bank, Cleveland

AGENTS

Guaranty Trust Company, New York
 The Cleveland Trust Company, Cleveland

Carl W. Johnson

1886-1956

A Director and Senior Vice President

and one of the founders of Clevite Corporation

FRANCO
CORPORATION