Oglebay Norton Company Annual Report 1985

PLAINTIFF'S EXHIBIT
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Columbia Transportation Division's 1,000-foot M/V Columbia Star transported a record 64,188 gross tons of iron ore on August 6, 1985, the largest cargo ever to transit the locks at Sault Ste Marie, Michigan.

Front Cover:
Oglebay Norton Company operations today span the North American Continent from Ontario, Canada, to Southern California. Giant globe courtesy of the Cleveland Public Library.

About the Company

Oglebay Norton is a Cleveland-based raw materials and Great Lakes marine transportation company serving the steel, ceramic, chemical, electric utility and oil- and gas-well service industries with iron ore, coal and other minerals and supplying manufactured products used in hot metal processing.

Industrial Minerals

Company subsidiaries engaged in natural resource operations include: Central Silica Company headquartered in Zanesville, Ohio, which produces quartzite sand for the glass, paint, ceramic and foundry industries; Texas Mining Company which produces sand products at Brady, Texas, and Riverside, California, for the oil-well service and construction industries; California Silica Products Company near San Juan Capistrano, California, which produces silica products for the glass container and other industries; and ON Coast Petroleum Company which owns leasehold interests in oil and gas production in Texas and Louisiana. Oglebay Norton also operates a plant at Brownsville, Texas, which processes fluorspar for the fiberglass, glass, ceramic and steel industries.

Iron Ore

The Company owns interests in and manages the taconite mining and pelletizing operations of Eveleth Mines owned by Eveleth Taconite Company and Eveleth Expansion Company located near Eveleth, Minnesota, on the Mesabi Range.

Coal

The Company owns and operates the Saginaw Mining Company at St Clairsville, Ohio, which produces bituminous steam coal for a major utility and receives royalties from other leased coal properties. The Company also acts as sales agent for other coal producers.

Transportation and Transfer Facilities

Through its Columbia Transportation Division and Pringle Transit Company subsidiary, the Company operates a fleet of vessels engaged in the transportation of iron ore, coal, limestone and other dry bulk cargoes on the Great Lakes. The Company also operates rail-to-barge coal-loading terminals on the Ohio River at Ceredo, West Virginia, and on the Licking River at Wilder, Kentucky.

Manufacturing

The Ferro Engineering Division of the Company, with plants in Ohio and Illinois, and the Company's Canadian and Texas subsidiaries, Canadian Ferro Hot Metal Specialties Limited and Travis Manufacturing Company, manufacture a wide variety of hot-top, refractory, insulating, exothermic and other products used in iron and steelmaking and casting. T & B Foundry Company, a subsidiary, operates a gray and ductile iron foundry in Cleveland, Ohio. The Cleveland Metal Stamping Company is engaged in the production of ferrous and nonferrous stampings sold to a broad industrial market.

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Security Markets and Dividends

The Common Stock, par value $1 per share, is traded in the NASDAQ/NMS Over-The-Counter Market. The following is a summary of the market range and dividends declared for each quarterly period in 1985 and 1984 for the Common Stock.

Quarterly Period	High Bid/Ask*	Low Bid/Ask*	Dividend Declared
1985			
4th*	$28	$24½	$ 54
3rd*	32½	28	54
2nd*	31½	29¼	54
1st	29½-30½	27 -28	54
1984			
4th	$27¾-29	$25 -26¼	$ 54
3rd	27¾-28½	25 -26	.54
2nd	27¾-28½	26¾-27¾	.54
1st	29 -30½	27 -28	54

*Commencing on May 7, 1985, the Company's Common Stock began trading in the NASDAQ/NMS Market. Market prices are based on actual transaction data rather than bid/ask quotations.

As of December 31, 1985, there were 1,070 stockholders of record.

Additional Information

COPIES OF THE SEC FORM 10-K FOR 1985 WILL BE PROVIDED WITHOUT CHARGE TO STOCKHOLDERS UPON WRITTEN REQUEST TO:

David A. Kuhn
Secretary
Oglebay Norton Company
1100 Superior Avenue
Cleveland, OH 44114-2598

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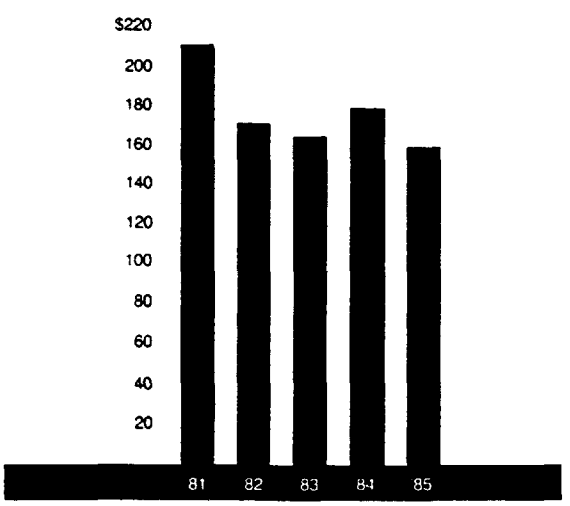
Oglebay Norton Company Annual Report 1985

Financial Highlights

	1985	1984	1983
Gross operating income	**$159,051,700**	$178,756,564	$163,395,398
Net income	**6,417,508**	11,807,047	10,668,448
Dividends declared	**7,188,210**	7,261,488	7,485,291
Per share of Common Stock			
Net income	**1.93**	3.51	3.07
Dividends	**2.16**	2.16	2.16
Equity	**43.64**	43.87	42.23
Common stockholders' equity	**145,214,255**	145,982,826	143,287,762
Depreciation and amortization	**13,232,317**	13,624,464	12,290,708
Expenditures for properties and equipment	**4,684,085**	8,520,352	8,930,716

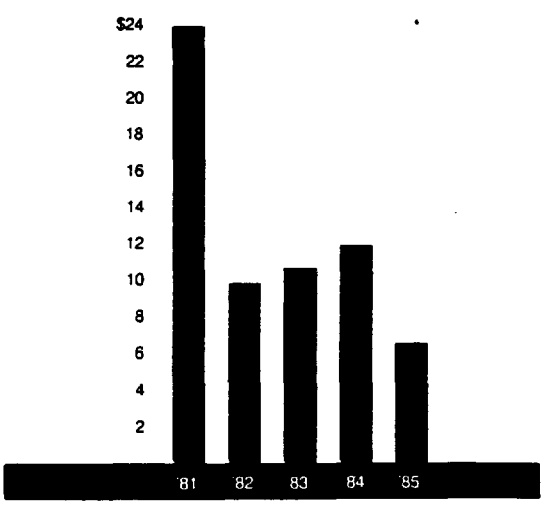
Gross Operating Income

(In Millions of Dollars)



Net Income

(In Millions of Dollars)



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Renold D. Thompson, *President and Chief Executive Officer*

To the Stockholders of Oglebay Norton Company

The steady improvement in Oglebay Norton Company financial performance experienced over the previous three years was interrupted by a steep decline in 1985, particularly in the first three quarters of the year. Annual operating revenues decreased 11 percent, while net income declined approximately 46 percent.

Net income for 1985 was $6.42 million or $1.93 per share, compared with $11.8 million or $3.51 per share in 1984.

The persistent and unresolved difficulties experienced by the steel industry are shared by its suppliers of services and raw materials. Battered by imports that have not, as yet, yielded to the President's voluntary restraint program and generally declining demand for steel, the total industry has been subjected to devastating pricing pressures. These pricing pressures during 1985 resulted in particularly intense competition and sharply declined earnings across the iron and steel-related industries. Steel industry operating rates could improve in the first half of 1986 if steel customers stockpile supplies in advance of renegotiated labor agreements, but worldwide overcapacity and declining demand for the metal remain a long-term threat to the industry's recovery.

Oglebay Norton Company's strategy to meet this challenge continues to focus on the retention of market share in our steel-related businesses; this, coupled with a strong balance sheet, together with consistent cash flow and viable financing alternatives, should continue to sustain our long-term diversification program.

Segment Performance and Outlook

Our **Industrial Minerals** segment, while falling slightly behind 1984 levels, provided important balance to Oglebay Norton results. Central Silica Company continued its good performance in very competitive markets, but delays in environmental permitting lengthened the scheduled expansion program at California Silica Products Company. The newly acquired glass sand producer at San Juan Capistrano anticipates entrance into the industrial, construction and recreation markets in the second half of 1986. The Brownsville, Texas, plant expects to equal or increase fluorspar shipment levels achieved in 1985. Texas Mining Company is positioned to maintain its 1985 performance through continued improvement in its commodity mix and productivity, but world oil price instability could further erode domestic production levels in 1986.

Iron Ore operations at Eveleth Mines in Minnesota experienced a 15-week shutdown to accommodate customers' diminished requirements. The effort to remain competitive already has reduced operating costs 25 percent. Eveleth Mines now has undertaken a second program which targets additional

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reductions in Minnesota tax and in transportation and utility costs, while maintaining the product quality improvement achieved in 1985. Our steel customers have tentatively agreed to increase the 1986 operating level about 15 percent above the prior year.

Coal mining productivity gains achieved in 1984 were maintained in 1985 despite decreased production at the Saginaw Mining Company. A mined open-pit coal seam at the mine is being utilized to conform to new environmental regulations relating to mining waste materials. The company performed well in 1985, but the potential for new acid rain legislation continues to create uncertainty for the future of Ohio's relatively high-sulphur coal.

Transportation segment income declined sharply in 1985 as low steel and coal demand created price pressures and increasing competition, particularly for the Oglebay Norton Company Great Lakes fleet. The Columbia Transportation Division and Pringle Transit Company fleets operated seven of thirteen self-unloading vessels, adding an additional vessel in the fourth quarter. The fleets operated safely and very efficiently, but their performance could not counterbalance the market forces that prevailed on the Great Lakes in 1985. The Great Lakes fleet anticipates continued operation at 50 to 60 percent of capacity during the 1986 sailing season.

Oglebay Norton coal transfer facilities on the Ohio River experienced near-normal tonnage transfer rates, as export coal loadings at the Ceredo Dock offset weak demand from domestic customers. The terminals anticipate those operating levels will continue during 1986.

Both of our **Manufacturing** segment companies serve iron and steel customers, and both made progress in the effort to regain normal production levels. Ferro Engineering Division increased its sales of tundish liners designed to keep pace with the latest continuous cast technology, and the Canadian subsidiary experienced record sales of tundish products as Canadian steel operating levels improved.

T & B Foundry Company recorded a significant increase in castings sales and improved market share by reducing costs and casting prices.

Productivity increases and vigorous sales efforts made in the past two years should continue the return of both companies to more normal profit contribution.

General Outlook

The low operating rates several of our customers experienced in 1985 probably will continue in 1986, prolonging pricing pressures that periodically may distort our financial performance during 1986. The year just past, however, demonstrates that Oglebay Norton Company can adapt to steel-related market swings without damage to or delay in our program to enter other mineral ventures. Also, we are hopeful that the improvement we experienced in the fourth quarter of 1985 will continue through 1986.

Our efforts to remain competitive resulted in significant cost reduction and new efficiency in utilization of energy, materials and manpower.

Noninflationary labor agreements were reached at Central Silica Company and T & B Foundry Company. A labor contract with the union representing vessel officers in the Columbia and Pringle fleets, which was due to expire August 1, 1986, was renegotiated and ratified in December 1985. This agreement results in stable labor rates for vessel officers through July 1989. During 1986, the Company will enter negotiations independently for labor agreements covering employees of Eveleth Mines, Columbia Transportation Division, Pringle Transit Company, California Silica Products Company and Texas Mining Company's California operation. The iron ore and transportation labor agreements expire July 31, 1986.

Two valued Company officers retired at year-end: Walter R. Herron, Vice President and General Manager of Ferro Engineering Division, after 34 years' service; and Robert A. Thomas, Assistant Vice President-Administration and General Counsel, after 37 years.

Across the Company, Oglebay Norton Company employees have understood and responded to the business pressures experienced in 1985, reducing costs and increasing productivity. We acknowledge and sincerely appreciate their achievements, the support of our stockholders and the loyalty of our customers.

Courtney Burton — *Chairman of the Board*

President and Chief Executive Officer

March 28, 1986

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Industrial Minerals







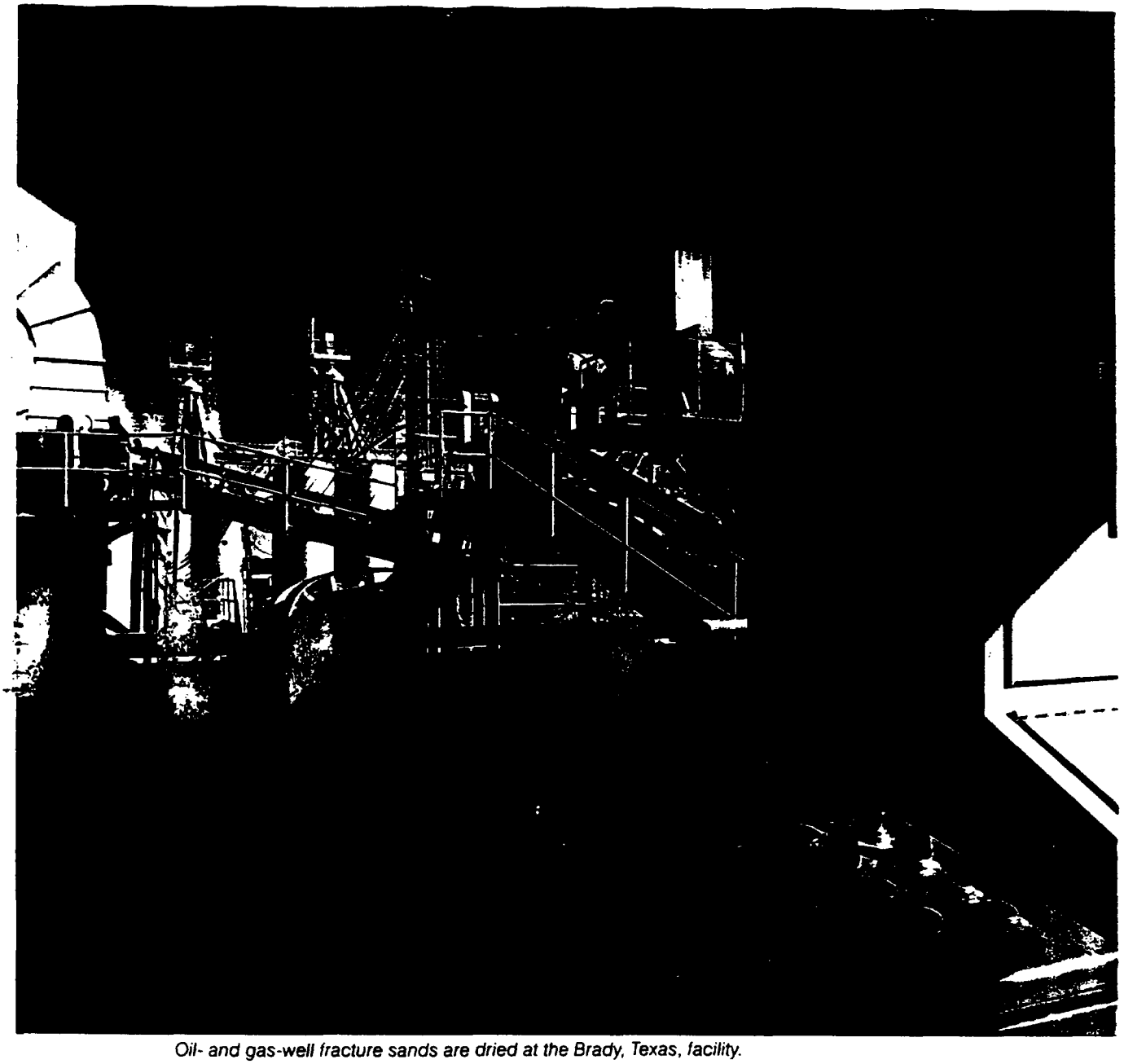
Central Silica Company operates two facilities in Ohio. Glass Rock Division, above, produces quartzite sand for the glass, paint, ceramic and foundry industries.

Ceramic, Pottery and Fiberglass Sand Sales Grew, While Oil-Well Fracture and Foundry Sand Sales Remained at Low Levels

Silica Sands

Central Silica Company, near Zanesville, Ohio, performed well in 1985 in a competitive market by effectively reducing operating costs and improving its product mix. Declining sales to the glass-container industry were largely offset by increased sales of its pulverized silica product to ceramic, pottery and cleanser-product customers. Production for the fiberglass industry also increased, while sales to steel and foundry customers remained at low levels in 1985.

A capital improvement program initiated in late 1984 was completed in the first quarter of 1985. The program has achieved cost reduction in natural gas consumption and increased operating efficiency of production equipment. Modernization of one mill and conversion to heavy-density media resulted in major improvement in pulverized silica production. New processing equipment was installed at the Glass Rock Division to further improve the quality of glass sand products. Additional tailing impoundments were completed and additional sandstone reserves were acquired during the year.



Oil- and gas-well fracture sands are dried at the Brady, Texas, facility.

Oil- and Gas-Well Fracture Sand

Texas Mining Company total sales declined only slightly from 1984 levels despite reduced oil-well drilling in the Southwest. Fracture sand sales declines partially were offset by increases in by-product sand sales. Pulverized sand sales declined slightly at both the Texas and California plants, following the strong increases achieved in the previous year. Productivity and cost reduction improvement, together with careful monitoring of the production process, sustained the Company's progress in a very competitive market.

The company added two 200-ton load-out silos at Brady, Texas, to reduce truck loading time to one-and-one-half minutes per vehicle and installed a new rail-car unloading pit. A grinding mill was totally reconditioned and a computerized order entry system was completed during the year.

Texas Mining supplies fracture sand to the oil- and gas-well service industry and blastsand from its Central Texas plants and thermal-well and oil-well cementing silica products from its Riverside, California, facility.

Fluorspar

Shipments from the Brownsville, Texas, plant declined from the previous year, but the volume reduction affected primarily lower-valued products. Expanded sales effort in nonferrous markets, however, provided the plant good production levels, and productivity was increased through improved utilization of equipment and manpower. Significant energy cost reduction should result in 1986 from insulation of the dry-

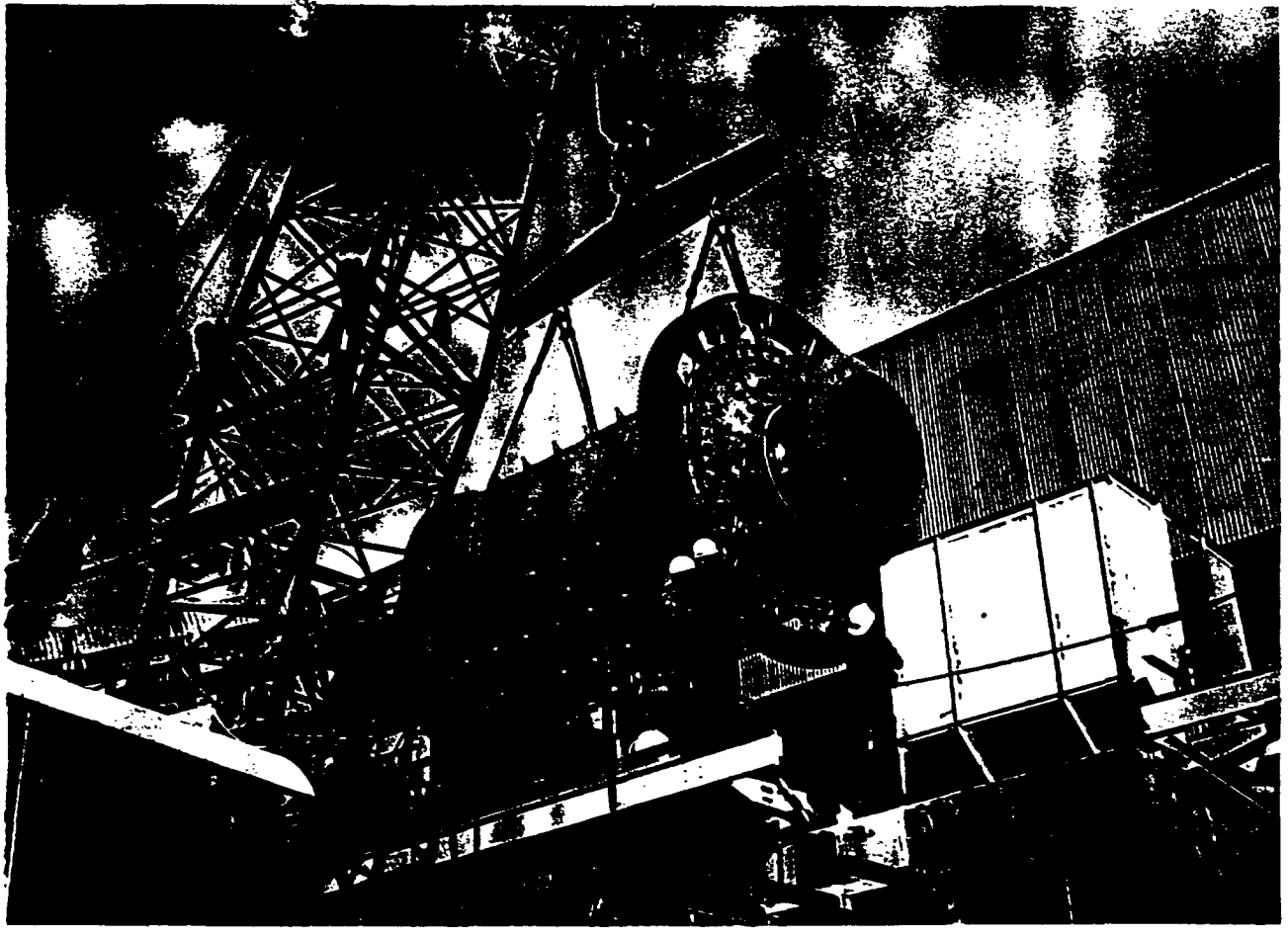
ing kiln. Brownsville continues to benefit from an assured source of high-quality fluorspar from one of the largest Mexican producers.

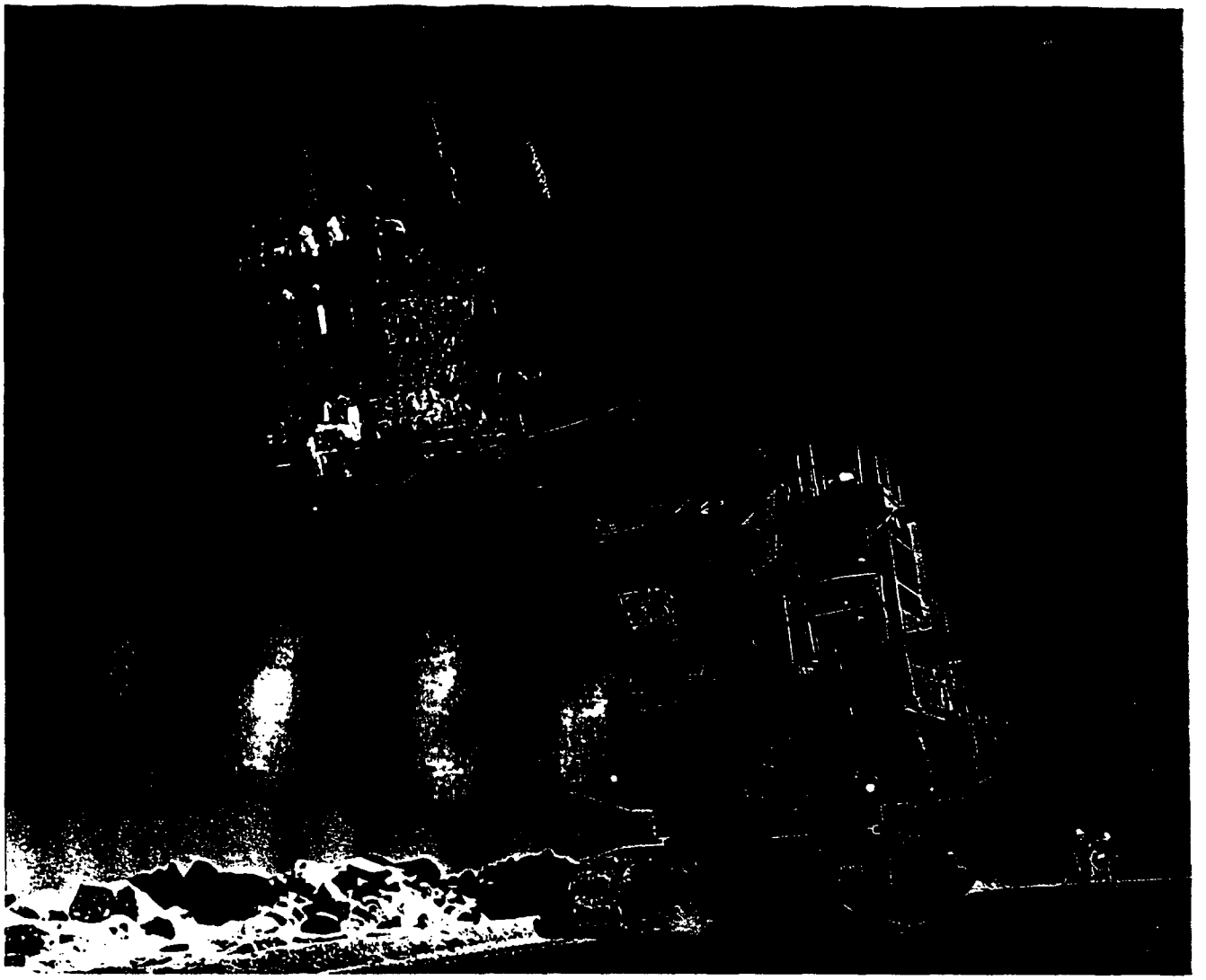
California Silica Products

A construction program was initiated at San Juan Capistrano, California, shortly after the facilities were acquired by Oglebay Norton Company in September 1984. A new rod mill was completed by January 1985, but additions to significantly reduce operating costs and produce new silica products for Southern California markets were delayed partially by recent changes in Orange County permitting requirements. Completion of the construction program, originally scheduled for the end of 1985, is expected in the second half of 1986.

The company will continue to serve glass-container manufacturers, expanding into the stucco, roofing, masonry, sandblast, filtration-media, grout, golf-course, landscape and locomotive traction-sand markets in the last half of 1986.

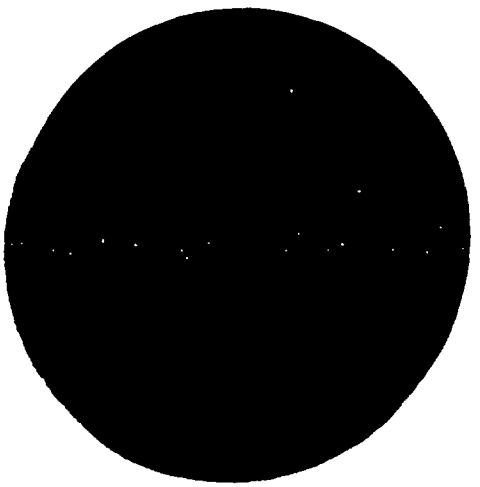
New rod mill is lifted into place during construction program at California Silica Products Company.





Giant shovel loads 120-ton trucks with crude iron ore for travel to one of two primary crushers at Eveleth Mines.

Iron Ore



Eveleth Mines Achieved Record Productivity While Operating At Reduced Capacity

Iron ore pellet production at Eveleth Mines in 1985 declined to a level of about half of the rated capacity of six million gross tons. The implementation of the negotiated flexible-take agreements permitted participating owners to substantially adjust their shipments in recognition of contracted steelmaking requirements.

The operating plan included 37 weeks of capacity operation of the most efficient production line, coupled with a 15-week summer shutdown. The line achieved record productivity rates during its scheduled operation.

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Eveleth Mines' Fairlane Plant produced the highest quality iron ore pellet achieved in its 21-year history, while contributing significantly to the cost reduction effort required by the iron ore marketplace.

Significant progress was made during 1985 in management's program for internal unit cost reductions. Most notably, substantial manpower productivity improvement was achieved, with equivalent reductions realized in both the hourly and salary work forces. Improved material control led to reduced maintenance material costs, a very important cost component.

Regrettably, very little relief in external cost areas of electrical power, rail transportation and Minnesota taxation has resulted thus far. Substantial attention was directed to these costs in 1985 and some positive action is anticipated in 1986.

The overall quality of product in 1985 surpassed that of any previous year, with particular improvement in chemical consistency. In the continued quest for quality improvement, a 380,000-ton production run was successfully completed using the organic compound Peridur as a substitute pellet binder. These lower-silica pellets were used by two owners in closely monitored blast furnace trials during the year with encouraging results. Some process refinements are presently being studied, with the expectation of sustained production runs in 1986.

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Coal

Coal Production Declined As Uncertainty Over New Acid Rain Regulations Persists

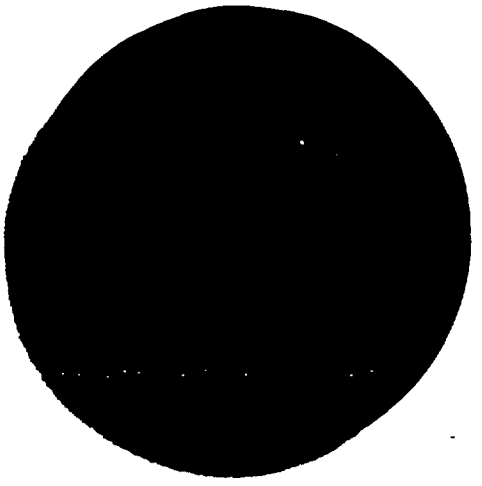
Saginaw Mining Company

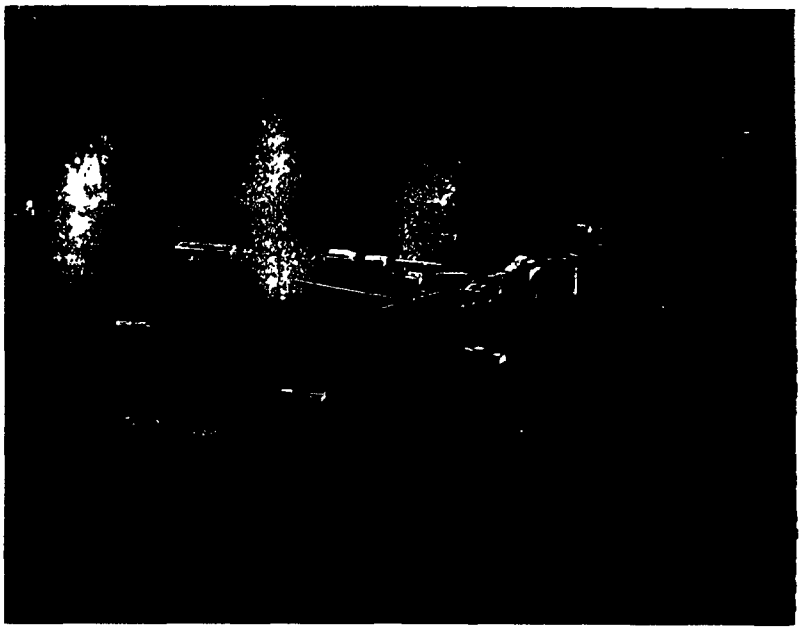
Coal production at the Saginaw Mine, near St. Clairsville, Ohio, declined in 1985, following sharp reductions in production and manpower which occurred during the previous year. The Saginaw Mining Company produces bituminous coal, all of which is dedicated to a major utility in Northern Ohio.

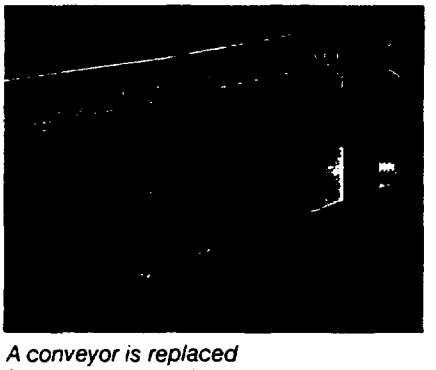
Mine personnel have achieved a significant increase in tons per man-hour, but production continues to decline as the uncertainty of new acid rain regulations persists. Current sulphur dioxide emission restrictions are being met by blending low-sulphur coal with the Saginaw product.

Saginaw Mining Company is responding to new environmental regulations related to disposal of mining waste material by utilizing a mined open-pit coal seam at the mine. The company intends to replace the mined coal with the mining waste material and to recontour and seed the area.

Agency sales of coal mined by other producers in West Virginia and Kentucky remained at the current low level of the spot coal market.







A conveyor is replaced for the "stacker" where clean coal is stored prior to rail car loading.

The Saginaw Mine, a deep mine in Southern Ohio, plans to dispose of mining waste in open pit area, above, to meet environmental requirements.

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Transportation





M/V Joseph H. Frantz joined the operating fleet in the fourth quarter of 1985 to aid customers in adjusting their winter inventories.

Oglebay Norton Fleets Performed Well In A Difficult Year

The Columbia Transportation Division and Pringle Transit Company operated seven of thirteen self-unloading vessels through the 1985 navigation season. An eighth vessel entered service in the fourth quarter to meet increased demand generated by customers' late season inventory adjustments.

Tonnage carried by the fleet was slightly below 1984 levels and the third lowest volume since 1965. Iron ore and coal transport remained at low levels, but limestone tonnage carried by the fleet for the steel and construction industries was the second highest volume carried since 1965. The increase resulted from a combination of strengthened demand from the construction industry and aggressive marketing efforts.

Low steel operating rates and stubbornly high steel import levels continue to create price pressures that increase competition among Great Lakes vessel operators, and 1985 saw growing competition from all-rail delivery, particularly in coal transportation.

Columbia and Pringle fleet personnel responded to these market pressures by achieving an impressive performance in vessel operating efficiency, safety and cost control. Typical of that performance, the M/V Columbia

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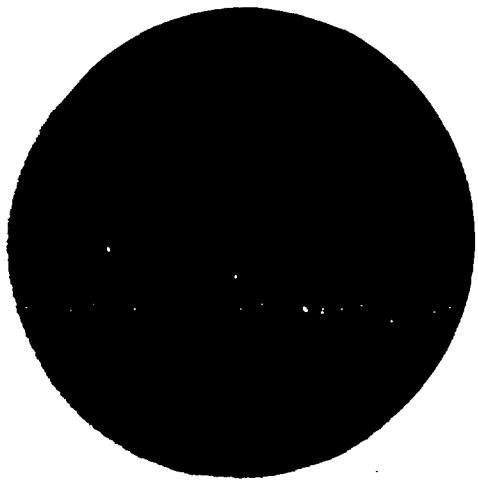
The M/V Wolverine approaches the Soo Locks. The vessel unloads her cargo over a 260-foot boom at the rate of 5,000 gross tons per hour.



Star transported a record 64,188 gross tons of iron ore on August 6, 1985, the largest cargo ever to transit the locks at Sault Ste. Marie, Michigan. The vessel broke her own record three times in three successive trips.

The M/V Holloway, a self-unloading vessel which last operated in 1981, was sold during 1985 for scrapping due to economic obsolescence.

Depressed earnings did not deter a continuing maintenance program dedicated to crew safety, equipment condition and operating efficiency. New generators were installed on the M/V Wolverine during the 1985-86 lay-up period. In addition, satellite communication systems will be installed on five vessels in the fleet by the start of the 1986 season. The balance of the operating fleet is receiving new radio equipment, and all vessels will receive new telephone equipment.



Transportation

Ohio River Terminals Coal Transfer Levels Returned to Normal



Coal unit trains are handled by Ceredo Dock yard engines.

Normal coal transfer levels were achieved at the Ceredo Dock despite declining coal production in 1985. Improved levels of coal transloaded for export offset the effect of weak domestic demand. The Ceredo Dock, located near Ceredo, West Virginia, offers coal customers rapid transloading from either Chessie or Norfolk Southern unit trains to river barges at its facility on the Ohio River.

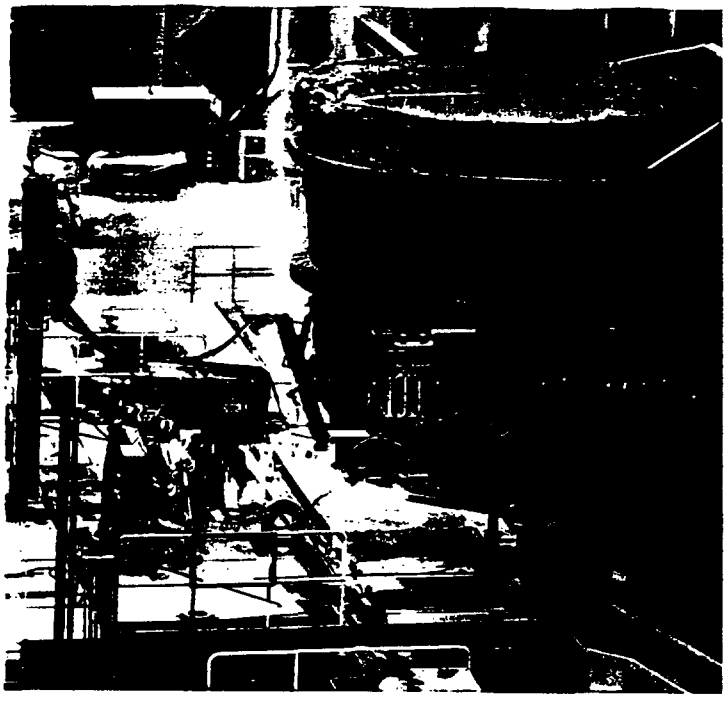
The Licking River Terminal at Wilder, Kentucky, experienced a decline in coal tonnage loaded in 1985, compared to the record levels of the previous year. A major portion of its tonnage is contracted to Midwest electric generation customers. The highly automated river dock near Cincinnati, Ohio, is served by the L&N Railroad.

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Rail cars are unloaded at the rate of one every two minutes, above. Coal is loaded onto conveyor belts at Licking River Terminal, and loaded into river barges, right, in this high-speed, highly automated transfer system.





A wide range of Ferro Engineering application-matched tundish liner products meet requirements of virtually all steelmaking processes.



Manufacturing

Productivity Increases And Sales Efforts Had Favorable Impact

Ferro Engineering

Ferro Engineering Division refractory sales were heavily impacted by low levels of steel production and the resultant highly competitive market for its products. While price pressures were consequential, significant cost-containment programs, including raw material cost reductions, had a favorable impact on 1985 results. Ferro's Multipour-Plus magnesite tundish liner sales increased 70 percent over the previous year. Used in the continuous casting of steel billets, blooms and slabs, sales of these liners should increase as additional continuous casters are added by the steel industry. Ferro exothermic hot tops are designed to meet the stringent quality demands of today's ingot makers who seek added ingot soundness and yield available through a matched exothermic system. Ferro continued its penetration into these relatively high-cost consumables during the past year.

Record shipments from Canadian Ferro highlighted 1985. The performance and quality of Ferrocon tundish products, coupled with an aggressive sales and marketing program, resulted in significant growth of market share.

T & B Foundry

An aggressive effort to acquire new customers, increase competitiveness and reduce costs resulted in a significant increase in castings sales over 1984 at Cleveland-based T & B Foundry Company. Faced with minimal improvement in the domestic capital goods market, the foundry strengthened its outside sales representation, further reduced manufacturing costs and reduced prices. Those efforts, coupled with T & B Foundry's reputation for quality and service, led to new business and increased market share. That improvement provided stability at a time when the loss of castings orders to offshore suppliers continues to hamper the foundry industry. T & B Foundry is a party to an import relief petition regarding compressor castings, an important segment of its market.

Industry Data[1]

Oglebay Norton Company and Subsidiaries

INDUSTRY

	Industrial Minerals	Iron Ore
1985		
Identifiable assets	$32,218,998	$27,950,911
Depreciation and amortization expense	2,080,530	3,138,126
Expenditures for properties and equipment	3,447,209	189,843
Net sales, operating revenues, sales commissions, royalties and management fees	25,727,481	31,321,282
Operating profit:		
Segment profit contribution	2,372,208	5,049,284
Company's proportionate share in interest expense of Eveleth Mines and interest expense on vessel financing		(2,785,186
	$ 2,372,208	$ 2,264,098
1984		
Identifiable assets	$31,247,782	$29,960,373
Depreciation and amortization expense	2,217,882	3,300,960
Expenditures for properties and equipment	7,109,599	344,663
Net sales, operating revenues, sales commissions, royalties and management fees	24,071,111	39,618,288
Operating profit:		
Segment profit contribution	2,472,215	6,074,434
Company's proportionate share in interest expense of Eveleth Mines and interest expense on vessel financing		(3,049,381
	$ 2,472,215	$ 3,025,053
1983		
Identifiable assets	$24,689,988	$31,308,073
Depreciation and amortization expense	1,918,970	2,127,075
Expenditures for properties and equipment	1,723,114	234,979
Net sales, operating revenues, sales commissions, royalties and management fees	21,583,207	34,051,122
Operating profit:		
Segment profit contribution	3,453,611	5,072,682
Company's proportionate share in interest expense of Eveleth Mines and interest expense on vessel financing		(3,318,808
	$ 3,453,611	$ 1,753,874

[1]Should be read as an integral part of the consolidated financial statements and notes thereto.

[2]Corporate expenses net of dividends, interest and miscellaneous income.



SEGMENTS

Coal	Transportation and Transfer Facilities	Manufacturing	Total Segments	Corporate	Consolidated
$ 7,888,784	$156,848,964	$13,698,149	$238,605,806	$38,853,690	$277,459,496
258,255	6,962,404	793,002	13,232,317		13,232,317
69,883	571,933	595,060	4,873,928		4,873,928
27,003,071	58,870,719	16,129,147	159,051,700		159,051,700
6,902,620	8,933,598	(888,603)	22,369,107	(6,093,405)[2]	16,275,702
	(4,952,008)		(7,737,194)		(7,737,194)
$ 6,902,620	$ 3,981,590	$ (888,603)	$ 14,631,913	$(6,093,405)	$ 8,538,508
$ 8,068,675	$159,910,750	$13,214,891	$242,402,471	$43,638,062	$286,040,533
376,615	6,968,490	760,517	13,624,464		13,624,464
126,948	520,458	763,347	8,865,015		8,865,015
28,804,910	70,247,605	16,014,650	178,756,564		178,756,564
5,870,037	19,407,817	(1,206,033)	32,618,470	(6,548,292)[2]	26,070,178
	(5,278,750)		(8,328,131)		(8,328,131)
$ 5,870,037	$ 14,129,067	$(1,206,033)	$ 24,290,339	$(6,548,292)	$ 17,742,047
$ 7,862,982	$166,514,236	$13,065,456	$243,440,735	$38,055,162	$281,495,897
626,189	6,936,974	681,500	12,290,708		12,290,708
157,742	5,529,900	1,508,133	9,153,868		9,153,868
31,842,264	60,943,160	14,975,645	163,395,398		163,395,398
5,711,736	17,657,323	(876,941)	31,018,411	(8,026,932)[2]	22,991,479
	(5,298,223)		(8,617,031)		(8,617,031)
$ 5,711,736	$ 12,359,100	$ (876,941)	$ 22,401,380	$(8,026,932)	$ 14,374,448

Consolidated Summary of Operations and Other Financial Data

Oglebay Norton Company and Subsidiaries

	Year Ended December 31				
OPERATIONS	1985	1984	1983	1982	1981
Net sales and operating revenues	**$152,479,275**	$171,558,964	$155,652,627	$164,124,530	$202,293,099
Sales commissions, royalties and management fees	**6,572,425**	7,197,600	7,742,771	7,465,450	8,686,570
Gross operating income	**159,051,700**	178,756,564	163,395,398	171,589,980	210,979,669
Cost of goods sold and operating expenses	**134,427,122**	143,368,125	130,043,731	144,846,087	164,403,118
Income before taxes	**8,538,508**	17,742,047	14,374,448	8,173,329	29,530,370
Income taxes					
Current	**1,216,000**	1,983,000	651,000	1,150,000	(1,250,000)
Deferred	**905,000**	3,952,000	3,055,000	(2,750,000)	6,861,000
	2,121,000	5,935,000	3,706,000	(1,600,000)	5,611,000
Net income	**6,417,508**	11,807,047	10,668,448	9,773,329	23,919,370
Depreciation and amortization	**13,232,317**	13,624,464	12,290,708	12,120,768	12,498,862
Expenditures for properties and equipment	**4,684,085**	8,520,352	8,930,716	20,278,534	40,999,132
PER SHARE DATA					
Net income	**$ 1.93**	$ 3.51	$ 3.07	$ 2.78	$ 6.77
Dividends	**2.16**	2.16	2.16	2.16	1.92
Equity	**43.64**	43.87	42.23	40.85	40.24
OTHER STATISTICS					
Total assets	**$277,459,496**	$286,040,533	$281,495,897	$280,670,636	$283,800,634
Long-term debt	**34,500,000**	37,100,000	40,100,000	45,600,000	47,600,000
Common stockholders' equity	**145,214,255**	145,982,826	143,287,762	143,347,474	141,118,958
Dividends declared	**7,188,210**	7,261,488	7,485,291	7,577,874	6,722,793
Average shares of Common Stock outstanding	**3,327,875**	3,363,316	3,473,505	3,517,918	3,532,757
Shares of Common Stock outstanding at year-end	**3,327,875**	3,327,875	3,393,075	3,509,025	3,507,025



Management's Discussion and Analysis of Financial Condition and Results of Operations

Financial Condition

The Company's current financial position remains strong with net current assets amounting to $36,966,000 in 1985 compared to $35,362,000 in 1984 and $30 064,000 in 1983. Faced with a prolonged economic slowdown in 1985, the Company made a diligent effort to utilize its assets more effectively to maximize returns and maintain a strong working capital condition. The Company emphasized cash management and internal funding of operations during 1985 when the unfavorable economic conditions in the Company's businesses, especially the steel-related operations, reduced funds from operations to 70% of the 1984 level and 79% of 1983. Funding was accomplished through a stringent control of working capital in relation to the volume of operations. Efforts to control costs and expenses have been effective and will be continued. Expenditures for properties and equipment were $4,684,000 in 1985 compared to $8,520,000, $8,931,000, $20,279,000 and $40,999,000 in 1984, 1983, 1982 and 1981, respectively. The decreased expenditures were anticipated as the program for upgrading and modernization of the Company's vessel fleet was completed in 1983. The major capital expenditure in 1984 was the acquisition of a silica sand operation in southern California. During 1985, such expenditures were limited to the most needed or most profitable projects. However, necessary maintenance expenditures have been and will continue to be performed.

The Company has in place with certain banks credit arrangements amounting to $30 million which were not used during 1985. Although the credit arrangements currently in effect are considered adequate, all financing alternatives are under constant review to determine their practicality and availability in order to provide the Company with sufficient funding on a timely basis with the least possible cost.

Although the funds from operations are below the prior year's amounts, it is believed that current financial resources are adequate to meet the Company's needs during 1986.

Results of Operations

Net sales, operating revenues, sales commissions, royalties and management fees declined 11% from the 1984 levels and were the lowest since 1977. Consolidated net income decreased 46% from the 1984 level to $6,418,000. The operating results of the Company's business segments for the three years ended December 31, 1985 are discussed below. The Company's policy is not to distribute certain corporate general and administrative expenses to the various segments.

Industrial Minerals – Net sales increased 7% over 1984 and were approximately 19% greater than 1983. However, operating profit decreased to $2,372,000 compared to $2,472,000 in 1984 and $3,454,000 in 1983. The increased sales and decreased profit is principally attributed to the acquisition of the California Silica Products subsidiary in September, 1984. The California operating unit is currently undergoing extensive plant modifications. In addition to cost-effective improvements, these modifications will allow for the production of specialty sand products plus the sand products sold currently to glass industry customers. While the plant did not operate profitably in 1985, the Company remains confident that the plant will become a profit contributor once the modifications are completed in the second half of 1986. The Company's Ohio and Texas sand producing facilities experienced small decreases in quantities sold in very competitive markets. However, commodity mix and cost control efforts allowed both facilities to experience modest profit improvements when compared to 1984 although these profits were still below 1983 levels.

Iron Ore – Net sales, royalties and management fees for the Iron Ore Segment decreased 21% from the 1984 level and were 8% below 1983. Operating profit before interest expenses declined to $5,049,000 compared to $6,074,000 in 1984 and $5,073,000 in 1983. The fluctuating sales and profits are explained by the percentage of operating capacity at which the facilities operated – 49%, 65%, 54%, 77% and 98% for the years 1985, 1984, 1983, 1982 and 1981, respectively. In 1985 and 1983 iron ore production was temporarily suspended for a portion of the year due to low demand by customers. The over capacity of the iron ore industry in both the United States and the remainder of the world, combined with the low demand for the steel products of the Company's customers, caused the Company to experience pressures to reduce its prices of taconite pellets. The competition from foreign iron ore is a particularly difficult problem. Foreign iron ore producers

have offered and sold iron ore pellets to domestic steel producers at prices significantly below the Company's price to its long-term contract customers

Coal – Net sales, commissions and royalties for the Coal Segment declined 6% from the 1984 level and were 15% below 1983. However, segment profit contribution increased to $6,903,000 or 18% above the 1984 profit and 21% above 1983. The decrease in sales is primarily due to declining production and sales from the Company's Saginaw Mining Company subsidiary. Mine production continues to decline as the uncertainty of acid rain regulations persists. The subsidiary produces a high-sulphur bituminous coal and the required sulphur content is being met by blending purchased low-sulphur coal with the Saginaw product. The primary reason for the increased profit is coal sales from certain reclaimed coal stockpiles. These stockpile sales are temporary and are not expected to last beyond 1986.

Transportation and Transfer Facilities – Operating revenues for this segment declined to $58,871,000 or 16% below the 1984 level and 3% below the 1983 level. Operating profit before interest declined to $8,934,000 or 54% below 1984 and 49% below 1983. The Company's two rail-to-barge coal loading terminals transferred 8,283,000 tons in 1985 compared with 11,520,000 tons in 1984 and 8,334,000 tons in 1983. The 1984 record year for the terminals was heavily influenced by the Company's customers' stockpiling of coal supplies in anticipation of a possible nationwide strike by the United Mine Workers of America. The strike did not materialize, and there was a sharp decline in coal demand in the fourth quarter 1984 and a corresponding decline in the demand for the services of the Company's transfer terminals. In 1985 demand for the services of the terminals returned to more normal levels.

The year 1985 was a very difficult year for the Company's vessel fleet. Tonnage carried declined 5% from the 1984 level but remained 15% above 1983. The fleet operated seven of its thirteen self-unloading vessels for most of 1985 with an eighth vessel entering service during the fourth quarter to satisfy increased demand due to customers' late season inventory adjustments. This compares to eight vessels operated in 1984 and six vessels for 1983. The tonnage carried in 1985 was the third lowest since 1965 with only 1983 and 1982 being lower.

The Company's vessel operations experience active competition from other fleets and other modes of transportation. Due to the overcapacity of the vessel industry and reduced demand for the products of the Company's steel industry customers, many of which have serious economic problems, the Company continues to encounter resistance to its rates. The Company is using its best efforts to maintain its market share and to meet competition from other carriers. Commodity mix coupled with pricing pressures caused revenues realized per operating sailing day to decrease 10% in 1985 from the 1984 level and 16% from the 1983 level.

Manufacturing – The Manufacturing Segment continues to operate at reduced levels incurring operating losses each year since 1981. The manufacturing operations serve customers in the steel and related industries. The problems associated with the North American steel industry are widely publicized and were previously commented upon herein. Much information about the steel industry's production rates as a percentage of capacity is available – 65% in 1985. However, 1985 steel production stated as a percentage of the capacity that was available in 1981 was only 57%. Actually, available steel production capacity has dropped over 12% since 1981 and total steel production has dropped 27% since 1981. The available steel capacity is expected to decline further in 1986.

The Company has attempted to address the shrinking market it serves through aggressive marketing and stringent cost control programs. The Company's T & B Foundry facility was able to increase shipments 29% in 1985 when compared with 1984 and was 37% above the 1983 level. However, even with these increases, the Foundry operated at less than 50% of estimated annual capacity. Although low operating rates, combined with competitive pricing pressures, did not allow for profitable operations in 1985, the operating loss was reduced 52% from the Foundry's loss incurred in 1984

Other – Income taxes as a percentage of income before taxes were 25% in 1985 as compared to 33% in 1984 and 26% in 1983. The fluctuating tax percentage results from the effect of income taxed at capital gains rates, statutory depletion allowances and investment tax credits available for eligible capital additions in relation to income before tax. Income taxes are further addressed in Note E to the Consolidated Financia Statements.

Impact of Inflation – Refer to pages 29 through 32 for financial information on the effects of inflation using measurements developed by the Financial Accounting Standards Board.

Consolidated Statement of Income

Oglebay Norton Company and Subsidiaries

	Year Ended December 31		
	1985	1984	1983
INCOME			
Net sales and operating revenues	**$152,479,275**	$171,558,964	$155,652,627
Sales commissions, royalties and management fees	**6,572,425**	7,197,600	7,742,771
Interest and other income	**2,390,697**	2,062,453	1,734,462
	161,442,397	180,819,017	165,129,860
COSTS AND EXPENSES			
Cost of goods sold and operating expenses	**134,427,122**	143,368,125	130,043,731
General, administrative and selling expenses	**13,383,618**	14,213,978	15,233,481
Interest expense	**5,093,149**	5,494,867	5,478,200
	152,903,889	163,076,970	150,755,412
INCOME BEFORE TAXES	**8,538,508**	17,742,047	14,374,448
INCOME TAXES			
Current	**1,216,000**	1,983,000	651,000
Deferred	**905,000**	3,952,000	3,055,000
	2,121,000	5,935,000	3,706,000
NET INCOME	**$ 6,417,508**	$ 11,807,047	$ 10,668,448
NET INCOME PER SHARE	**$1.93**	$3.51	$3.07

See notes to consolidated financial statements.

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Consolidated Balance Sheet

Oglebay Norton Company and Subsidiaries

	December 31 1985	1984
ASSETS		
CURRENT ASSETS		
Cash	**$ 3,841,535**	$ 587,153
Short-term money market investments	**28,483,427**	32,175,273
Accounts receivable	**27,970,237**	31,119,497
Inventories:		
Finished products and materials	**4,466,690**	4,457,957
Operating supplies and materials	**2,803,518**	3,332,331
	7,270,208	7,790,288
Prepaid insurance and other expenses	**1,702,205**	2,109,073
TOTAL CURRENT ASSETS	**69,267,612**	73,781,284
INVESTMENTS	**27,529,576**	25,969,268
PROPERTIES AND EQUIPMENT		
Transportation	**207,170,516**	210,240,972
Mining	**55,306,960**	51,874,523
Manufacturing	**18,220,352**	17,786,188
	280,697,828	279,901,683
Less allowances for depreciation and amortization	**103,555,770**	97,141,797
	177,142,058	182,759,886
DEFERRED CHARGES	**3,520,250**	3,530,095
	$277,459,496	$286,040,533



	December 31 1985	1984
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Current portion of long-term debt	**$ 2,600,000**	$ 3,000,000
Accounts payable	**9,092,671**	11,592,027
Payrolls and other accrued compensation	**6,332,835**	6,836,421
Accrued pensions	**815,461**	3,739,834
Accrued taxes and other expenses	**10,880,392**	9,817,715
Accrued workers' compensation insurance	**1,683,041**	1,941,626
Income taxes	**897,364**	1,491,607
TOTAL CURRENT LIABILITIES	**32,301,764**	38,419,230
LONG-TERM DEBT, less current portion	**34,500,000**	37,100,000
DEFERRED INCOME TAXES	**65,443,477**	64,538,477
STOCKHOLDERS' EQUITY		
Preferred Stock, without par value – authorized 400,000 shares; none issued	**—0—**	—0—
Common Stock, par value $1.00 per share – authorized 6,000,000 shares; issued 3,626,666 shares	**3,626,666**	3,626,666
Additional capital	**7,121,302**	7,119,171
Retained earnings	**140,982,304**	141,753,006
	151,730,272	152,498,843
Less 298,791 shares of Common Stock in treasury, at cost	**6,516,017**	6,516,017
	145,214,255	145,982,826
	$277,459,496	$286,040,533

See notes to consolidated financial statements.

FE004616

Consolidated Statement of Changes In Cash Flows

Oglebay Norton Company and Subsidiaries

	Year Ended December 31		
	1985	1984	1983
OPERATIONS			
Net income	**$ 6,417,508**	$11,807,047	$10,668,448
Depreciation and amortization	**13,232,317**	13,624,464	12,290,708
Deferred income taxes	**905,000**	3,952,000	3,055,000
FUNDS FROM OPERATIONS	**20,554,825**	29,383,511	26,014,156
EXPENDITURES FOR			
Properties and equipment	**(4,684,085)**	(8,520,352)	(8,930,716)
Investments	**(4,685,269)**	(3,942,365)	(4,210,640)
	(9,369,354)	(12,462,717)	(13,141,356)
FINANCING AND OTHER ACTIVITIES			
Dividends declared	**(7,188,210)**	(7,261,488)	(7,485,291)
Payments on long-term debt	**(3,000,000)**	(3,000,000)	(2,500,000)
Purchase of Common Stock for treasury	**—0—**	(1,978,750)	(3,338,700)
(Increase) decrease in working capital excluding cash items and short-term debt*	**(1,641,258)**	437,522	(3,583,166)
Other	**205,533**	617,232	116,552
	(11,623,935)	(11,185,484)	(16,790,605)
Increase (decrease) in cash and short-term money market investments	**(437,464)**	5,735,310	(3,917,805)
Cash and short-term money market investments, January 1	**32,762,426**	27,027,116	30,944,921
CASH AND SHORT-TERM MONEY MARKET INVESTMENTS, DECEMBER 31	**$32,324,962**	$32,762,426	$27,027,116
*(Increase) decrease in working capital excluding cash items and short-term debt			
Accounts receivable	**$ 3,149,260**	$ 1,506,622	$(6,613,101)
Inventories	**520,080**	(1,447,566)	2,374,212
Prepaid insurance and other expenses	**406,868**	(519,106)	325,750
Accounts payable	**(2,499,356)**	2,699,109	2,012,045
Payrolls and other accrued compensation	**(503,586)**	(242,617)	(1,154,493)
Accrued pensions	**(2,924,373)**	(897,612)	(1,600,725)
Accrued taxes and other expenses	**1,062,677**	304,859	1,495,906
Accrued workers' compensation insurance	**(258,585)**	(315,722)	(259,342)
Income taxes	**(594,243)**	(650,445)	(163,418)
	$(1,641,258)	$ 437,522	$(3,583,166)

See notes to consolidated financial statements.

FE004617



Consolidated Statement of Stockholders' Equity

Oglebay Norton Company and Subsidiaries

	Common Stock	Additional Capital	Retained Earnings	Common Stock In Treasury	Total Stockholders' Equity
Balance, December 31, 1982	$3,626,666	$7,103,099	$134,024,290	$(1,406,581)	$143,347,474
Net income			10,668,448		10,668,448
Cash dividends declared $2.16 per share			(7,485,291)		(7,485,291)
Effect of stock options exercised		26,834		68,997	95,831
Treasury stock purchased				(3,338,700)	(3,338,700)
Balance, December 31, 1983	3,626,666	7,129,933	137,207,447	(4,676,284)	143,287,762
Net income			11,807,047		11,807,047
Cash dividends declared $2.16 per share			(7,261,488)		(7,261,488)
Effect of stock options exercised		(10,762)		139,017	128,255
Treasury stock purchased				(1,978,750)	(1,978,750)
Balance, December 31, 1984	3,626,666	7,119,171	141,753,006	(6,516,017)	145,982,826
Net income			6,417,508		6,417,508
Cash dividends declared $2.16 per share			(7,188,210)		(7,188,210)
Effect of stock options exercised		2,131			2,131
Balance, December 31, 1985	$3,626,666	$7,121,302	$140,982,304	$(6,516,017)	$145,214,255

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Oglebay Norton Company and Subsidiaries
December 31, 1985, 1984 and 1983

NOTE A – ACCOUNTING POLICIES

Principles of Consolidation: The consolidated financial statements include the accounts of the Company and its majority owned subsidiaries. Intercompany transactions and accounts have been eliminated upon consolidation.

Inventories: Inventories are stated at the lower of average cost or market.

Properties and Equipment: Properties and equipment are carried at cost.

Depreciation and Amortization: The Company provides depreciation on the straight-line method over the estimated useful lives of the assets. The amortization of advances to Eveleth Mines equivalent to the Company s share of depreciation of the underlying plant is computed on the units-of-production method adjusted for levels of operation. Such adjustment provides for a minimum of 75% of depreciation calculated on a straight-line basis.

Exploration and Development Costs: Exploration and quarry development costs are charged to expense as incurred.

Income Taxes: Deferred income taxes arise from depreciation and certain other costs.

Investment tax credits are used to reduce income taxes in the year in which they arise.

Net Income Per Share: Net income per share of Common Stock is based on the average number of shares outstanding.

NOTE B — EQUITY IN NET ASSETS OF EVELETH MINES

Investments, receivables and current liabilities include $16,532,000 and $17,282,000 at December 31, 1985 and 1984, respectively, representing a 15 percent interest in Eveleth Taconite Company (ETC) and a 20.5 percent interest in Eveleth Expansion Company (EEC). The following is a summary of the components of the Company's equity in the net assets of these companies at December 31:

	(Thousands) 1985	1984
Current assets	$ 3,853	$ 4,601
Properties — net	46,359	49,106
Other assets	1,004	1,186
TOTAL ASSETS	51,216	54,893
Current liabilities	5,580	5,703
Current portion of long-term debt	2,813	2,813
Long-term debt		
Series A First Mortgage Bonds		
9½%	20,295	22,550
10%	5,018	5,576
	25,313	28,126
Other liabilities	978	969
TOTAL LIABILITIES	34,684	37,611
EQUITY IN NET ASSETS	$16,532	$17,282

The Bonds mature serially to 1995 with payments of $1,406,300 required each February 1 and August 1. Purchases by the Company under a take-or-pay contract associated with the long-term obligations amounted to $20,033,000, $22,338,000 and $22,568,000 for the years ended December 31, 1985, 1984, and 1983, respectively.

The Company and its partners in Eveleth Mines are required to reimburse ETC and EEC for all costs incurred in production, including EEC's debt service in proportion to their ownership. The Company's share of production of ETC and EEC is sold at prevailing market rates under long-term contracts which exceed the term of the debt.

NOTE C — STOCKHOLDERS' EQUITY

The Preferred Stock is issuable in series and the Board of Directors is authorized to fix the number of shares and designate the terms of each issue.

NOTE D — STOCK OPTIONS

Under an employees' stock option plan, terminated in 1982, options were granted at the fair market value on the date of grant. Options become exercisable in installments of one-fourth of the shares subject to option during the second through fifth years after date of

grant. Common Stock in treasury or authorized but unissued shares may be used in the plan. Activity with respect to stock options follows:

	1985	1984	1983
Outstanding January 1	5,350	20,250	45,150
Exercised	—0—	(6,800)	(5,075)
Expired, canceled or surrendered	—0—	(8,100)	(19,825)
Outstanding December 31	5,350	5,350	20,250

At December 31, 1985, options for 5,350 shares were exercisable at $28.75 per share. Termination of the plan did not affect options granted prior thereto.

The Company has stock equivalent plans for certain key employees who are holders of stock options. The plans allow the employee, upon surrender of the related stock option, to receive an allotment of a number of stock equivalent units equal to the excess of the market price of the Company's Common Stock over the option price. Charges to income for these plans, including market price fluctuations and dividend equivalents, amounted to $48,000, $211,000 and $506,000 for 1985, 1984 and 1983, respectively.

NOTE E — INCOME TAXES

Total income taxes are less than the tax computed using the U.S. Federal income tax statutory rate for the following reasons:

	(Thousands)		
	1985	1984	1983
Income taxes at statutory rate—46%	$3,939	$8,161	$ 6,612
Tax differences due to:			
Benefits of percentage depletion	(1,209)	(1,159)	(752)
Investment tax credits	(276)	(167)	(1,303)
Benefits of income taxed at capital gains rates	(563)	(679)	(747)
Minimum tax	—0—	—0—	242
Dividends received deduction	(245)	(142)	(275)
Other	275	(79)	(71)
Total income taxes	$2,121	$5,935	$3,706

At December 31, 1985, the Company has investment tax credit carryforwards amounting to $4,793,000 which have been fully utilized for financial accounting purposes. The investment tax credit carryforwards will be available to reduce tax liabilities in future years and are due to expire in varying amounts from 1996 through 2000.

The U.S. Court of Claims entered judgments in 1980 and in 1982 allowing tax credits with respect to 1972 and 1974 capital expenditures on vessels financed with qualified withdrawals from the Capital Construction Fund. The Internal Revenue Service has not revoked its published Revenue Ruling opposing such tax credits and further litigation may become necessary concerning approximately $3,600,000 of similar credits earned through 1985. The Company believes that the prior favorable decisions will continue to control the allowance of these credits.

Deferred income taxes consist of the following:

	(Thousands)		
	1985	1984	1983
Deductions in excess of related depreciation expense	$ (602)	$ 60	$1,317
Net investment tax credits	1,491	4,972	449
Revenues and expenses recognized on a cash basis	567	99	(42)
Other	(551)	(1,179)	1,331
Total deferred income taxes	$ 905	$3,952	$3,055

NOTE F — POST RETIREMENT BENEFITS

The Company and its subsidiaries have several Company-administered noncontributory pension plans covering certain employees. The total pension expense for these plans for 1985, 1984 and 1983 was $-0-, $2,319,000 and $2,680,000, respectively. The expense includes, as to certain of the plans, amortization of prior service costs over periods not exceeding 40 years. The Company's policy is to fund pension costs accrued. Pension expense declined in

1985 and 1984 because the Company experienced a decrease in the number of covered employees as well as a decrease in compensation per employee. In 1985 the Company changed certain actuarial assumptions used in calculating pension expense. These changes were to increase the assumed rate of return on investments and to decrease the composite average of salary increases. These changes in assumption reduced pension expense $1,085,000 in 1985. In addition, as to the salaried plan, the Company gave recognition to the projected unit credit actuarial cost method as opposed to the entry age normal method, which change did not have a material effect on the financial statements.

A comparison of accumulated plan benefits and plan net assets for the Company-administered defined benefit plans as of January 1 is presented below:

	(Thousands)		
	1985	1984	1983
Actuarial present value of accumulated plan benefits:			
Vested	$32,742	$33,883	$34,040
Nonvested	4,079	4,700	5,013
	$36,821	$38,583	$39,053
Assumed rate of return	8%	7%	7%
Net assets available for plan benefits	$49,819	$48,922	$42,861

The Company also pays into certain multi-employer plans under various union agreements which provide pension and other benefits for various classes of employees. Payments are based upon negotiated contract rates and the expense amounted to $2,448,000, $2,926,000 and $2,473,000 for 1985, 1984 and 1983, respectively. Benefit and asset information comparable to that shown above for the Company-administered plans is not determinable. Under the Employee Retirement Income Security Act (ERISA), a contributor to a multi-employer pension plan may be liable in the event of complete or partial withdrawal for the pension benefits guaranteed by ERISA. The Company does not anticipate withdrawing from any of the plans.

In addition to providing pension benefits, the Company and its subsidiaries provide certain health care and life insurance benefits for retired employees. Substantially all of the Company's employees are eligible for these benefits when they reach normal retirement age. The cost of retiree health care and life insurance benefits is recognized as expense as claims are incurred. For 1985, these costs totaled $944,000 compared to $850,000 in 1984.

NOTE G — RENTALS AND COMMITMENTS

Future minimum payments, by year and in the aggregate, under noncancellable operating leases consisted of the following at December 31, 1985:

	(Thousands)	
	Vessel Charters	Total Including Vessel Charters
1986	$ 3,111	$ 4,041
1987	3,111	3,925
1988	3,166	3,842
1989	3,323	3,980
1990	3,323	3,971
Thereafter	27,231	28,572
Total minimum lease payments	$43,265	$48,331

Rental expense was $5,076,000, $5,095,000 and $4,920,000 in 1985, 1984 and 1983, respectively. In general, the leases are renewable or contain purchase options at the end of the lease term. The purchase price or renewal lease payment is based on the fair market value of the asset at the date of purchase or renewal.

In connection with vessel charters, the Company has assumed rights and obligations under agreements with certain companies to transport bulk commodities which provide revenues based on defined rates for periods which coincide with those of the vessel charters and assure payment of charter rentals.

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NOTE H — CREDIT ARRANGEMENTS

The Company has a credit agreement with certain banks amounting to $30,000,000 The agreement may be converted to term notes due in twenty-four equal quarterly installments beginning August 31, 1988, or sooner, at the option of the Company. Interest approximates prime. There were no borrowings under the agreement during 1985.

NOTE I — LONG-TERM DEBT

Long-term debt relates to a first preferred ship mortgage on the M/V Columbia Star and is as follows at December 31:

	(Thousands) 1985	1984
Title XI Ship Financing Sinking Fund Bonds at 13%	$27,500	$27,500
Title XI Ship Financing Serial Bonds at 11.75% to 12.125%, less current portion	7,000	9,600
	$34,500	$37,100

The Sinking Fund Bonds mature in 2001 and require semi-annual sinking fund redemptions of $1,250,000 commencing on December 15, 1990. The Serial Bonds mature $2,600,000 in 1986, $2,000,000 in 1987 through 1989 and $1,000,000 in 1990.

In connection with the Title XI Bonds and a vessel charter agreement, the Company may be required, under certain conditions, to make deposits to a Title XI reserve fund, or maintain specified levels of stockholders' equity or obtain prior written consent from the Maritime Administrator, U.S. Department of Transportation for certain designated financial transactions. No approval was required through 1985 and the Company does not anticipate any such consent will be required in the future.

NOTE J — INDUSTRY SEGMENTS AND MAJOR CUSTOMERS

The Company's major industry segments are Industrial Minerals, Iron Ore, Coal, Transportation and Transfer Facilities and Manufacturing. An explanation of the Company's business can be found under "About the Company" on the inside front cover and under "Industry Data" on pages 14 and 15.

Sales to two major steel producers and a major public utility exceeded 10% of consolidated sales and revenues and are summarized as follows

	(Thousands) Customer A	Customer B	Customer C
1985			
Iron Ore	$10,108	$11,850	
Coal			$20,366
Transportation and Transfer Facilities	22,243	13,227	
Manufacturing	2,085	373	
Total	$34,436	$25,450	$20,366
1984			
Iron Ore	$15,958	$13,732	
Coal			$23,749
Transportation and Transfer Facilities	21,232	23,268	
Manufacturing	2,125	720	
Total	$39,315	$37,720	$23,749
1983			
Iron Ore	$13,177	$ 8,167	
Coal			$28,015
Transportation and Transfer Facilities	20,996	19,948	
Manufacturing	2,160	515	
Total	$36,333	$28,630	$28,015

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NOTE K — QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The following is a tabulation of the unaudited quarterly results of operations for the years ended December 31 1985 and 1984

(Thousands Except for Per Share Data)

Three Months Ended	Net Sales and Operating Revenues	Gross Profit	Net Income (Loss)	Net Income (Loss) Per Share
1985				
December 31	$43 291	$ 7 383	$4.632	$1.39
September 30	46 172	5,276	1.705	51
June 30	42 834	3.336	781	23
March 31	20.182	2 057	(700)	(21)
1984				
December 31	$43.611	$ 7 614	$3.789	$1 14
September 30	62.706	11.799	5.867	1 76
June 30	44 613	6 395	2.399	71
March 31	20.630	2 383	(248)	(07)

Report of Ernst & Whinney Independent Accountants

Board of Directors
Oglebay Norton Company
Cleveland, Ohio

We have examined the consolidated balance sheet of Oglebay Norton Company and subsidiaries as of December 31, 1985 and 1984, and the related consolidated statements of income, stockholders' equity and changes in cash flows for each of the three years in the period ended December 31, 1985. Our examinations were 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 financial statements referred to above present fairly the consolidated financial position of Oglebay Norton Company and subsidiaries at December 31, 1985 and 1984, and the consolidated results of their operations and changes in their cash flows for each of the three years in the period ended December 31, 1985, in conformity with generally accepted accounting principles applied on a consistent basis.

Ernst & Whinney

Cleveland, Ohio
February 14, 1986

Responsibility for Financial Statements

Management is responsible for the financial and operating information contained in the Annual Report, including the financial statements covered by the independent accountants' report. These statements were prepared in conformity with generally accepted accounting principles and include amounts based on estimates and judgments of management.

The Company seeks to assure the integrity and objectivity of the data in financial statements through a system of internal controls. These controls are designed to provide reasonable assurance that assets are safeguarded and transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements.

The system of controls and compliance therewith is reviewed by a program of internal audits. Independent accountants, Ernst & Whinney, are engaged to render an independent opinion on our financial statements. This opinion, which appears herein, is based on an examination of our financial statements in accordance with generally accepted auditing standards which includes a review of internal controls to the extent they deem necessary.

The Company's Board of Directors, through its Audit Committee which is composed of five outside directors, reviews the Company's financial reports and accounting and auditing practices. It meets periodically with the independent accountants, management and internal auditors in this connection.



Information on the Effects of Changing Prices

Oglebay Norton Company and Subsidiaries

General

As required by Financial Accounting Standards Board Statement No. 33, "Financial Reporting and Changing Prices," the Company is providing supplemental information concerning the effects of changing prices on its financial statements. The information is calculated on an experimental basis. It is designed to help investors, creditors and other readers of financial statements better understand the effects of inflation on the Company. The data is adjusted for "changes in specific prices" of individual resources of the Company (current cost method). It should be viewed with caution, as must any other analytical and experimental data, and be considered as an estimate of the effects of inflation, rather than as a precise measure.

Management of the Company believes it is important for financial statement users to develop an understanding of the more significant impacts of inflation. Management is fully aware of the effects of inflation on the business of the Company. The supplemental data presented is not intended to indicate the need for any management actions different than those already taken.

Review of Information Presented

Statement of Net Income Adjusted for Changing Prices for the Year Ended December 31, 1985

In calculating net income adjusted for changes in specific prices, the amounts reported in the primary financial statements have been adjusted for depreciation expense on a current cost basis. In management's opinion, the differences between current cost of inventories and amounts included in the primary financial statements are immaterial. Revenues and all other operating expenses are considered to reflect the average price levels for the year and, accordingly, have not been adjusted.

The provision for income taxes included in adjusted net income is the same as reported in the primary financial statements. The disclosure rules do not allow for adjustments to the historical cost provision for income taxes.

Purchasing Power Gain From Holding Net Monetary Liabilities During The Year 1985

Monetary amounts are claims or obligations to receive or pay fixed or determinable amounts of cash. The net gain in purchasing power on net monetary liabilities held by the Company in 1985 was based on calculations using the Company's average net monetary liabilities for the year multiplied by the change in the CPI for the year. Such an amount does not represent funds available for distribution to stockholders. We will be paying the net monetary liabilities with inflated dollars in the future, which are cheaper in terms of purchasing power.

Increases in Current Cost of Inventories and Properties and Equipment During the Year 1985

Under current cost accounting, increases in specific prices (current cost) of inventories and properties held during the year are not included in net income but are presented separately. The current cost increase is reduced by the effect of general inflation measured by applying the annual rate of change in the CPI to the average current cost balances of inventories and properties. The difference between the two amounts is attributable to properties and equipment, since the current cost of inventories is the same as that disclosed in the primary financial statements.

Current Cost Measurements

Invoice prices and insurance appraisals adjusted by applying Producers Price Indexes to those valuations were used to determine the current cost of certain major items of machinery and equipment. The current costs of most other properties were determined by applying Producer Price Indexes to the historical costs of appropriate classes of assets. The current cost of properties relates to the assets presently owned by the Company, rather than to technologically superior assets which may be available.

Current cost depreciation is based on the average current cost of properties during the year. The depreciation methods, salvage values and useful lives

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are the same as those used in preparing the primary financial statements.

The current cost information represents reasonable approximations of the price changes which have occurred in the business environment in which the Company operates. It does not purport to represent the amount at which the assets could be sold.

Mineral Reserve Information

As required by FASB Statement No. 39, "Financial Reporting and Changing Prices: Specialized Assets — Mining and Oil and Gas", the Company is providing quantity and price information relating to mineral reserves for the years ended December 31, 1985, 1984, 1983, 1982 and 1981.

The amount of proven and probable reserves disclosed includes leased reserves as well as those reserves owned in fee. The iron ore reserves disclosed represent the Company's proportionate interest in the reserves and not the total reserves in place. There were no mineral reserves sold in place during the years reported. A re-evaluation of coal reserves was made in the current year. Results of the study are reflected in the 1985 reserve information.

Supplemental Data

Statement of Net Income Adjusted for Changing Prices For the Year Ended December 31, 1985

Oglebay Norton Company and Subsidiaries

	(Thousands)
Net income as reported	$ 6,418
Depreciation expense (current cost)	(7,983)
Net income adjusted for changes in specific prices	$ (1,565)
OTHER INFORMATION	
Purchasing power gain from holding net monetary liabilities during the year	$ 2,723
Increase in specific prices (current costs) of inventories and properties and equipment held during the year*	$ 8,533
Less effect of increase in general price level	10,708
Excess of increase in the general price level over increase in specific prices	$ 2,175

*At December 31, 1985, the historical cost of inventories was $7,270,000, which approximates current cost. Current cost of properties and equipment, net of accumulated depreciation, was $278,026,000 (Historical amount — $177,142,000) at December 31, 1985.



Five-Year Comparison of Selected Supplemental Financial Data Adjusted for Effects of Changing Prices In Average 1985 Dollars (except as to reported amounts) (Thousands, except per share data)

Oglebay Norton Company and Subsidiaries

	Year Ended December 31				
	1985	1984	1983	1982	1981
Net sales and operating revenues:					
As reported	**$152,479**	$171,559	$155,653	$164,125	$202,293
Adjusted for general inflation	**152,479**	177,680	168,068	182,916	239,276
Net income:					
As reported	**$ 6,418**	$ 11,807	$ 10,668	$ 9,773	$ 23,919
Adjusted for specific price changes	**(1,565)**	3,740	2,104	2,021	19,238
Net income per share:					
As reported	**$ 1.93**	$ 3.51	$ 3.07	$ 2.78	$ 6.77
Adjusted for specific price changes	**(.47)**	1.11	.61	.57	5.45
Excess of increase in specific prices of inventories and properties over increase in general price level	**$ (2,175)**	$ (3,746)	$ (1,822)	$ (1,729)	$ (2,562)
Purchasing power gain from holding net monetary liabilities during the year	**$ 2,723**	$ 3,101	$ 3,168	$ 3,178	$ 6,479
Net assets at year end:					
As reported	**$145,214**	$145,983	$143,288	$143,347	$141,119
Adjusted for specific price increases	**242,710**	255,282	264,345	272,956	278,256
Cash dividends declared per common share:					
As reported	**$ 2.16**	$ 2.16	$ 2.16	$ 2.16	$ 1.92
Adjusted for general inflation	**2.16**	2.23	2.33	2.40	2.25
Market price per common share at year end:					
Historical amount	**$ 25.38**	$ 27.62	$ 27.50	$ 24.25	$ 29.25
Adjusted for general inflation	**24.97**	28.20	29.20	26.73	33.47
Average consumer price index	**322.2**	311.1	298.4	289.1	272.4

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Supplemental Mineral Reserve Information

Oglebay Norton Company and Subsidiaries

	Year Ended December 31				
	1985	1984	1983	1982	1981
Proven and probable crude reserves at the end of the year (thousands of tons)					
Iron Ore	**193,232**	195,011	197,073	198,717	191,477
Sand	**198,680**	174,119	158,317	115,509	92,119
Coal	**50,026**	54,414	54,886	55,419	55,967
Commercially recoverable reserves at the end of the year (percent)					
Iron Ore	**32%**	32%	32%	30%	30%
Sand	**54**	49	46	35	37
Coal	**83**	83	83	83	83
Quantities produced during the year (thousands of tons)					
Iron Ore	**606**	692	595	825	1,085
Sand	**1,035**	1,010	901	943	1,028
Coal	**314**	415	442	488	517
Average Market Price (dollars per ton)					
Iron Ore	**$47.20**	$48.38	$47.90	$47.75	$44.73
Sand	**21.93**	19.99	17.99	17.62	18.73
Coal	**44.18**	44.36	43.24	40.69	37.12



Directors

Malvin E. Bank
Partner, Thompson, Hine and Flory, Cleveland, Ohio, attorneys

William G. Bares
President, The Lubrizol Corporation, Cleveland, Ohio, supplier of chemical additives to the petroleum industry

Keith S. Benson
Retired; formerly Executive Vice President — Administration and Finance of the Company

Courtney Burton
Chairman of the Board

John J. Dwyer
Past Vice Chairman of the Board and Past President of the Company, Partner, Thompson, Hine and Flory, Cleveland, Ohio, attorneys

Robert I. Gale, III
President and Chief Executive Officer, Mid-West Forge Corporation, Cleveland, Ohio, manufacturer of rough steel forgings

Arthur F. Harrison
Chairman of the Board, Central Silica Company, Zanesville, Ohio

Alfred M. Rankin
Partner, Thompson, Hine and Flory, Cleveland, Ohio, attorneys

Herbert S. Richey
President, Richey Coal Company, formerly President and Chief Executive Officer, The Valley Camp Coal Company, Cleveland, Ohio

C. Wesley Rowles
Retired; formerly Senior Vice President — Finance and a Director of Armco Inc., Middletown, Ohio

Renold D. Thompson
President and Chief Executive Officer

Fred R. White, Jr.
Vice Chairman of the Board

Officers

Courtney Burton
Chairman of the Board

Fred R. White, Jr.
Vice Chairman of the Board

Renold D. Thompson
President and Chief Executive Officer

Frank A. Castle
Vice President — General Manager of Columbia Transportation Division

R. Thomas Green, Jr.
Vice President — Iron Ore Operations

Marcus A. Hyre
Vice President — Ore Sales

Richard J. Kessler
Vice President — Finance and Treasurer

John Limbocker, Jr.
Vice President — Corporate Affairs

H. William Ruf
Vice President — Personnel and Industrial Relations

Alfred F. Savage
Vice President — Coal and Nonferrous Mining Operations

John L. Selis
Vice President — Administration and Law

August F. Bradfish
Assistant Vice President — Coal and Nonferrous Mining Operations

Richard C. Harmon
Assistant Vice President — Iron Ore Operations

David A. Kuhn
Secretary

John J. Kirn, Jr.
Assistant Secretary

Arthur E. Miller
Assistant Secretary

James W. Sanders
Assistant Secretary

Divisions and Subsidiaries

Thomas J. Croyle
Vice President — General Manager, Ferro Engineering Division

Edward Pruc
Vice President — General Manager, T & B Foundry Company

James J. Rivers
Vice President — General Manager, Texas Mining Company

James P. Snider
Vice President — General Manager, Central Silica Company

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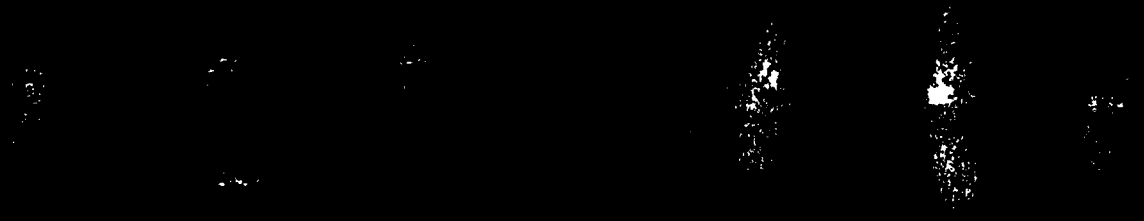
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Oglebay Norton



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