CYANAMID

American Cyanamid Company

Report of the Board of Directors

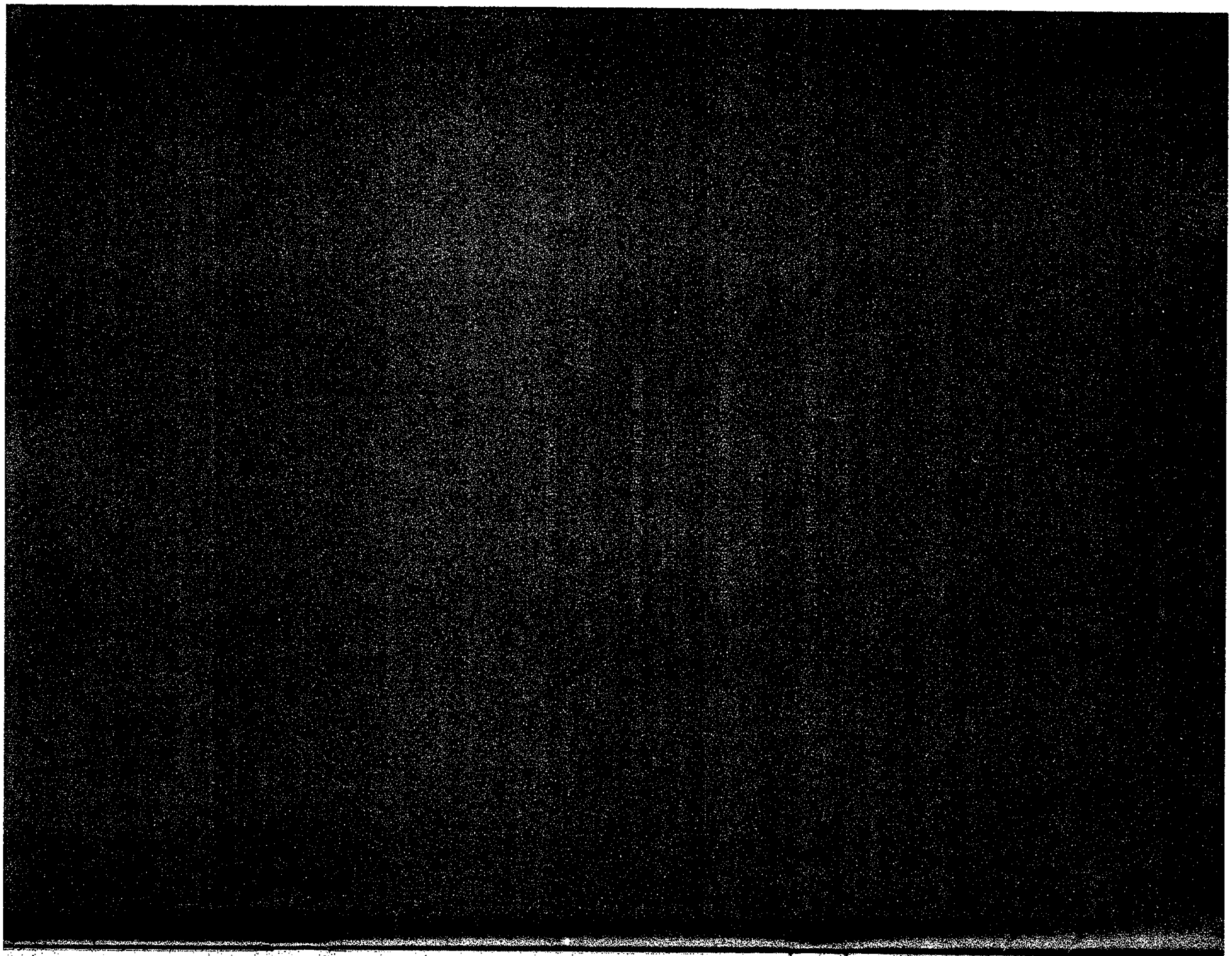
FOR THE YEAR ENDED DECEMBER 31

1956

General Offices
30 Rockefeller Plaza, New York City

RESEARCH

New process developme[illegible]
and research for the [illegible]
ating Divisions in fields [illegible]
direct interest to them [illegible]
as well as exploratory [illegible]
basic research in [illegible]
fields.



AMERICAN CYANAMID COMPANY
AND SUBSIDIARIES

DOMESTIC SALES OFFICES

ATLANTA, GA.
AZUSA, CALIF.
BALTIMORE, MD.
BELLEVILLE, N. J.
BLUEFIELD, W. VA.
BOSTON, MASS.
BOUND BROOK, N. J.
BREWSTER, FLA.
CHARLOTTE, N. C.
CHICAGO, ILL.
CINCINNATI, OHIO
CLEVELAND, OHIO
DALLAS, TEX.
DANBURY, CONN.
DENVER, COLO.
DETROIT, MICH.
HOUSTON, TEX.
KALAMAZOO, MICH.
KANSAS CITY, MO.
KNOXVILLE, TENN.
LATROBE, PA.
LITTLE ROCK, ARK.
LOS ANGELES, CALIF.
MILWAUKEE, WISC.
MINNEAPOLIS, MINN.
MOBILE, ALA.
NEW ORLEANS, LA.
NEW YORK, N. Y.
OAKLAND, CALIF.
PEARL RIVER, N. Y.
PHILADELPHIA, PA.
PORTLAND, ORE.
POTTSVILLE, PA.
PROVIDENCE, R. I.
RALEIGH, N. C.
ST. LOUIS, MO.
SCRANTON, PA.
SEATTLE, WASH.
TULSA, OKLA.
WASHINGTON, D. C.
WATERBURY, CONN.
WINCHESTER, VA.

FOREIGN SALES OFFICES

BOMBAY, INDIA
BRUSSELS, BELGIUM
BUENOS AIRES, ARGENTINA
COPENHAGEN, DENMARK
HAVANA, CUBA
HURSTVILLE, AUSTRALIA
JOHANNESBURG, SOUTH AFRICA
KARACHI, PAKISTAN
LONDON, ENGLAND
MEXICO D. F., MEXICO
MONTREAL, CANADA
MUNICH, GERMANY
RIO DE JANEIRO, BRAZIL
SAN JUAN, PUERTO RICO
SAO PAULO, BRAZIL
TORONTO, CANADA

DOMESTIC PLANTS

ADAIRSVILLE, GA.
AZUSA, CALIF.
BERGER, ARK.
BOUND BROOK, N. J.
BREWSTER, FLA.
BRIDGEVILLE, PA.
CHARLOTTE, N. C.
CHATTANOOGA, TENN.
CINCINNATI, OHIO
DAMASCUS, VA.
DANBURY, CONN.
EVENDALE, OHIO
FORTIER, LA.
FORT WORTH, TEX.
GEORGETOWN, S. C.
HAMILTON, OHIO
JOLIET, ILL.
KALAMAZOO, MICH.
LATROBE, PA.
MARIETTA, OHIO
MICHIGAN CITY, IND.
MOBILE, ALA.
NEW CASTLE, PA.
PEARL RIVER, N. Y.
PINEY RIVER, VA.
PLYMOUTH, N. C.
PRINCETON, N. J.
SAVANNAH, GA.
SOUTH ST. JOSEPH, MO.
VALDOSTA, GA.
WALLINGFORD, CONN.
WARNERS, N. J.
WILLOW ISLAND, W. VA.
WOODBRIDGE, N. J.

FOREIGN PLANTS

BULSAR, INDIA
HIRWAUN, WALES
HURSTVILLE, AUSTRALIA
INGERSOLL, CANADA
MEXICO D. F., MEXICO
MONTREAL, CANADA
NIAGARA FALLS, CANADA
PORT ROBINSON, CANADA
WITBANK, SOUTH AFRICA

RESEARCH LABORATORIES

BOUND BROOK, N. J.
PEARL RIVER, N. Y.
STAMFORD, CONN.

ASSOCIATED COMPANIES

(49% or 50% Owned)

ARIZONA CHEMICAL COMPANY
JEFFERSON CHEMICAL COMPANY, INC.
LEDERLE (JAPAN) LTD.
SOUTHERN MINERALS CORPORATION
SOUTHERN PETROLEUM CORPORATION
SOUTHERN PIPE LINE CORPORATION

Ten Year Comparative Summary of Financial Statistics *(Amounts are expressed in thousands)*

	1956	1955	1954	1953	1952	1951	1950	1949	1948	1947
Net Sales	$500,651	$451,088	$397,592	$380,393	$368,408	$388,717	$322,338	$287,731	$231,992	$214,581
Earnings before Taxes on Income	$ 85,247	$ 74,714	$ 51,050	$ 52,473	$ 46,612	$ 83,288	$ 69,739	$ 25,750	$ 17,775	$ 14,756
Provision for Taxes on Income	41,000	36,000	24,000	25,000	20,000	48,500	36,000	9,600	5,900	5,600
Net Earnings	$ 44,247*	$ 38,714	$ 27,050	$ 27,473	$ 26,612	$ 34,788*	$ 33,739	$ 16,150	$ 11,875	$ 9,156
Dividends on Preferred Stocks	886	2,144	1,310	238	386	1,114	1,375	1,363	1,368	1,054
Earnings available for Common Stock	$ 43,361*	$ 36,570	$ 25,740	$ 27,235	$ 26,226	$ 33,674*	$ 32,364	$ 14,787	$ 10,507	$ 8,102
Dividends on Common Stock	$ 27,373	$ 22,096	$ 17,401	$ 17,233	$ 16,940	$ 15,723	$ 12,140	$ 6,183	$ 4,449	$ 4,106
Common Shares outstanding at end of year	10,308	8,994	8,723	8,646	8,538	4,168	3,597	2,799	2,738	2,738
Earnings per share of Common outstanding at end of year**	$4.21*	$4.07	$2.95	$3.15	$3.07	$4.04*	$4.50	$2.64	$1.92	$1.48
Dividends per share of Common Stock**	2.75	2.50	2.00	2.00	2.00	2.00	1.75	1.12½	.81¼	.75
Provision for depreciation, amortization and depletion	$ 30,094	$ 30,241	$ 23,686	$ 21,313	$ 18,223	$ 13,886	$ 11,796	$ 10,796	$ 8,642	$ 6,808
Gross additions to Plant Facilities (incl. acquisitions)	$ 58,715	$ 21,739	$ 39,473	$ 67,347	$ 43,401	$ 44,728	$ 21,619	$ 13,111	$ 17,157	$ 33,540
Current Assets	$300,542	$284,869	$262,173	$222,726	$246,324	$221,097	$207,181	$112,429	$102,804	$101,860
Current Liabilities	97,689	89,673	77,506	79,735	69,265	97,999	78,691	42,992	37,525	35,760
Working Capital	$202,853	$195,196	$184,667	$142,991	$177,059	$123,098	$128,490	$ 69,437	$ 65,279	$ 66,100
Investment in Associated Companies	$ 16,311	$ 16,581	$ 16,851	$ 14,901	$ 13,704	$ 13,704	$ 10,964	$ 11,114	$ 11,014	$ 14,743
Plants, Equipment and Facilities	$432,737	$384,391	$368,241	$335,280	$273,867	$236,848	$195,090	$176,844	$169,239	$154,260
Less depreciation, amortization and depletion	205,460	180,555	155,080	135,523	118,246	104,071	92,516	82,940	76,692	69,800
Net Amount	$227,277	$203,836	$213,161	$199,757	$155,621	$132,777	$102,574	$ 93,904	$ 92,547	$ 84,460
Funded Debt not due within one year	$ 93,750	$ 94,750	$108,250	$114,341	$111,567	$ 46,398	$ 49,760	$ 53,848	$ 57,707	$ 60,210
Shareholders' Equity:										
Preferred Stocks	$ 13,340	$ 48,418	$ 61,363	$ 6,048	$ 8,853	$ 15,473	$ 53,593	$ 36,823	$ 39,101	$ 39,101
Common Stock	103,030	89,941	87,229	86,463	85,380	41,680	35,973	27,986	27,377	27,377
Capital Surplus	85,681	50,982	40,410	38,442	36,648	73,599	39,697	13,639	11,670	11,670
Earnings employed in the business	164,633	138,461	123,987	116,832	106,881	97,545	66,184	45,984	37,380	31,322
Total Shareholders' Equity	$366,684	$327,802	$312,989	$247,785	$237,712	$228,297	$195,447	$124,432	$115,528	$109,470

*Exclusive of extraordinary gains (less related Federal taxes).

**The earnings and dividends per share for the years 1947 through 1951 are adjusted retroactively to give effect to the issuance on July 16, 1952 of one additional share for each share outstanding (100% stock dividend).

AMERICAN CYANAMID COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements of 1956

(1) The business and assets of The Formica Company were acquired on April 16, 1956 in exchange for common stock of the Company. Since the transaction was in effect a pooling of interests, the assets and liabilities of Formica were carried forward at the amounts recorded on its books. Further, as the Company elected not to carry forward any part of the accumulated earnings of Formica, the excess of the net assets acquired over the par value of common stock issued therefor was credited to capital surplus.

The operating results of Formica for the year 1956 have been included in the accompanying consolidated statement of earnings and the operating results of Chemical Construction Corporation, the investment in which was sold on July 2, 1956, have been excluded retroactive to January 1, 1956.

(2) The inventories are stated on the basis of the lower of cost or market. In general, cost is determined by either the "first-in first-out" or "average cost" method, apart from certain inventories aggregating approximately $5,600,000, the cost of which is computed in accordance with the "last-in first-out" method.

(3) Assets, other than plants and facilities, and liabilities of the foreign subsidiaries (chiefly Canadian) are included in the consolidated balance sheet on the basis of par for Canadian dollars and official or other appropriate exchange rates at December 31, 1956 for other currencies; foreign plants and facilities are included on the basis of exchange rates prevailing at time of acquisition. The amounts so included comprise net current assets of $14,780,991 and other assets, principally plants and facilities, less depreciation, of $16,802,954. The consolidated earnings employed in the business include undistributed earnings of certain foreign subsidiaries (other than Canadian) amounting to $3,946,929, the distribution of which is subject to exchange regulations.

(4) During the year 1956 all past service credits under retirement plans for employees in the United States, including plans covering employees of Formica, were funded and the cost was charged to Prepaid Expenses and Deferred Charges. The unamortized balance of $6,763,000 at December 31, 1956 is to be written off over approximately nine years.

(5) Insurance reserves ($695,007) no longer required were restored to income during the year. The balance of the reserves has been reclassified under current liabilities.

(6) The Cumulative Preferred Stock outstanding December 31, 1956 was comprised of 131,212 shares Series C, 3¾%, Convertible Prior to July 1, 1964 and 2,185 shares Series D, 3½%, Convertible Prior to July 1, 1965. Of the authorized Common Stock, 290,484 shares were reserved for issuance upon conversion of such outstanding shares of Cumulative Preferred Stock and 11,845 shares of Series D Cumulative Preferred Stock subscribed for at December 31, 1956. The Series C Cumulative Preferred Stock has been called for redemption on March 29, 1957 at $103 plus accrued dividends subject to conversion rights exercisable on or before March 27, 1957.

(7) The debenture indenture and the promissory notes contain certain restrictions including restrictions on the payment of dividends. As a result of such restrictions, the amount of earnings employed in the business at December 31, 1956 which may be applied to the payment of cash dividends is limited to $63,343,199.

(8) The accounts for 1956 include provision of $3,299,880 for incentive compensation available for allotment to officers and employees under Section 52 of the Company's By-Laws. A portion of such amount is not payable currently in cash but is contingently payable in common stock of the Company after employment ceases; pending allotment of the amount available for 1956 the portion so contingently payable in common stock is not determinable. The amount contingently payable in respect of allotments for 1955 less estimated future tax benefits computed at 52%, is $478,052. At December 31, 1956 the Company owned and held in its treasury 15,000 shares of common stock acquired at an average cost of $65.68 per share which are available at the election of the Company to fulfill the aforesaid contingent obligations.

Accountants' Report

THE BOARD OF DIRECTORS
AMERICAN CYANAMID COMPANY:

We have examined the consolidated balance sheet of American Cyanamid Company and subsidiaries as of December 31, 1956 and the related statements of earnings, capital surplus and earnings employed in the business for the year then ended. Our examination, which did not include the accounts of five minor foreign subsidiaries, 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. As to such minor foreign subsidiaries, we have reviewed the reports of the accountants who examined their accounts.

In our opinion, the accompanying consolidated financial statements present fairly the financial position of American Cyanamid Company and 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.

PEAT, MARWICK, MITCHELL & CO.

New York, N. Y.
February 14, 1957

AMERICAN CYANAMID COMPANY AND SUBSIDIARIES

Consolidated Balance Sheet

DECEMBER 31, 1956
IN COMPARISON WITH DECEMBER 31, 1955

ASSETS

	1956	1955
CURRENT ASSETS:		
Cash in banks and on hand	$ 56,743,229	$ 53,770,961
Marketable securities — U. S. Government and other short-term notes, at cost and accrued interest	102,713,539	109,329,284
Accounts receivable, less provision for doubtful accounts, $2,000,000	59,534,255	49,195,529
Inventories (Note 2):		
Finished stock	38,201,801	37,331,950
Work in process	18,425,112	11,629,349
Raw materials and supplies	24,924,458	23,611,878
TOTAL CURRENT ASSETS (Note 3)	300,542,394	284,868,951
EMPLOYEES' STOCK PURCHASE CONTRACTS, DUE 1957 TO 1960	1,201,499	1,907,792
INVESTMENTS AND ADVANCES:		
Associated companies, 49% or 50% owned—at cost (equity, subject to completion of audits, $28,519,121; 1955, $27,841,930)	16,311,428	16,581,428
Insurance funds	—	895,007
Common stock in treasury (Note 8)	984,491	—
Other investments and advances	2,748,501	2,619,986
TOTAL INVESTMENTS AND ADVANCES	20,044,420	20,096,421
PLANTS, EQUIPMENT AND FACILITIES, including mine properties, at cost	427,968,475	379,815,234
Less depreciation, amortization and depletion	205,460,298	180,554,805
	222,508,177	199,260,429
LAND, other than mine properties	4,768,495	4,575,885
NET PLANT INVESTMENT	227,276,672	203,836,314
PREPAID EXPENSES AND DEFERRED CHARGES (Note 4)	10,827,317	4,738,048
	$559,892,302	$515,447,526

DECEMBER 31, 1956
IN COMPARISON WITH DECEMBER 31, 1955

LIABILITIES AND SHAREHOLDERS' EQUITY

	1956	1955
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 41,593,455	$ 37,782,673
Bank obligations in foreign currencies	2,842,764	2,101,365
Dividends payable	129,846	464,161
Funded debt installments due within one year	1,000,000	1,000,000
Provision for Federal and foreign taxes on income	52,123,223	48,324,822
TOTAL CURRENT LIABILITIES (Note 3)	97,689,288	89,673,021
FUNDED DEBT NOT DUE WITHIN ONE YEAR:		
2¾% Sinking Fund Debentures, due 1965	18,750,000	19,750,000
3¾% Promissory Notes, due January 1, 1987	75,000,000	75,000,000
TOTAL FUNDED DEBT NOT DUE WITHIN ONE YEAR	93,750,000	94,750,000
INCENTIVE COMPENSATION CONTINGENTLY PAYABLE—NET (Note 8)	478,052	—
INSURANCE AND OTHER RESERVES (Note 5)	—	1,195,007
SUBSCRIPTIONS BY EMPLOYEES to Cumulative Preferred Stock, Series D—11,845 shares (1955, 18,600 shares)—(Note 6)	1,291,105	2,027,400
SHAREHOLDERS' EQUITY:		
Cumulative Preferred Stock — par value $100 per share: Authorized — 650,000 shares; Outstanding — 133,397 shares (1955, 484,180 shares) — (Note 6)	13,339,700	48,418,000
Common Stock — par value $10 per share: Authorized — 12,000,000 shares (Note 6); Outstanding — 10,303,013 shares (including treasury shares) (1955, 8,994,130 shares)	103,030,133	89,941,300
Capital surplus	85,680,672	50,982,084
Earnings employed in the business (Notes 3 and 7)	164,633,352	138,460,714
TOTAL SHAREHOLDERS' EQUITY	366,683,857	327,802,098
	$559,892,302	$515,447,526

AMERICAN CYANAMID COMPANY
AND SUBSIDIARIES

Consolidated Statement of Earnings

YEAR ENDED DECEMBER 31, 1956
IN COMPARISON WITH THE YEAR ENDED DECEMBER 31, 1955

	1956	1955
NET SALES	$500,651,279	$451,088,434
Dividends from associated companies, 49% or 50% owned	2,526,431	2,203,130
Interest and sundry dividends	3,180,869	1,692,351
Royalties, licenses and service charges	5,430,842	6,618,641
Other income – net	226,661	228,759
	512,016,082	461,831,315
Deduct:		
Cost of sales	269,540,827	245,148,791
Selling, administrative and general expenses	94,279,078	80,997,460
Depreciation, amortization and depletion (including amortization of certified facilities – 1956, $9,739,672; 1955, $9,624,323)	30,094,188	30,241,153
Research and process development expenses	22,418,858	20,657,601
Patents and processes written off	449,263	434,625
Interest charges on funded and other debt	3,491,634	3,664,602
Employees' pension funds	6,495,076	5,973,417
	426,768,924	387,117,649
EARNINGS (exclusive of extraordinary gains) BEFORE TAXES ON INCOME	85,247,158	74,713,666
Provision for Federal and foreign taxes on income	41,000,000	36,000,000
NET EARNINGS EXCLUSIVE OF EXTRAORDINARY GAINS	44,247,158	38,713,666
Add:		
Gains arising from sale of the Gloucester City plant and the capital stock of Chemical Construction Corporation, less related Federal taxes ($2,000,000)	11,125,307	–
NET EARNINGS	55,372,465	38,713,666
Dividends on preferred stock	886,335	2,143,898
NET EARNINGS APPLICABLE TO COMMON STOCK (Note 1)	$ 54,486,130	$ 36,569,768
Net Earnings per share of Common Stock (based on the shares outstanding at the end of each year):		
Net Earnings exclusive of extraordinary gains	$4.21	$4.07
Extraordinary Gains	1.08	–
TOTAL	$5.29	$4.07

AMERICAN CYANAMID COMPANY
AND SUBSIDIARIES

Consolidated Statements of Capital Surplus and Earnings Employed in the Business

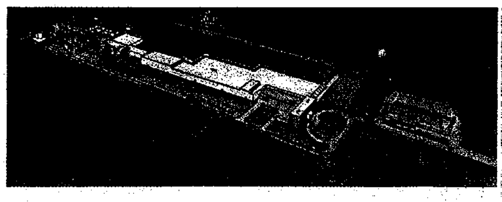
YEAR ENDED DECEMBER 31, 1956
IN COMPARISON WITH THE YEAR ENDED DECEMBER 31, 1955

CAPITAL SURPLUS

	1956	1955
Balance at beginning of year	$ 50,982,084	$ 40,409,747
Excess of par value of shares of Cumulative Preferred Stock converted over par value of shares of Common Stock issued upon conversion	28,891,687	10,563,506
Excess of net assets acquired April 16, 1956 from The Formica Company over the par value of 578,692 shares of Common Stock issued therefor (Note 1)	6,246,106	–
Premium ($9.00 per share) on shares of Cumulative Preferred Stock, Series D, issued under employees' stock purchase contracts	60,795	29,790
	85,680,672	51,003,043
Deduct expenses in connection with offering of Cumulative Preferred Stock, Series D, to employees	–	20,959
Balance at end of year	$ 85,680,672	$ 50,982,084

EARNINGS EMPLOYED IN THE BUSINESS

	1956	1955
Balance at beginning of year	$138,460,714	$123,987,386
Net earnings for the year per accompanying statement	55,372,465	38,713,666
Less net earnings of The Formica Company for the period January 1, 1956 to April 16, 1956 (Note 1)	939,969	–
	54,432,496	38,713,666
	192,893,210	162,701,052
Deduct:		
Dividends:		
Cumulative Preferred Stock, Series B – $3.50 per share	21,872	101,769
Cumulative Preferred Stock, Series C – $3.75 per share	854,169	2,040,357
Cumulative Preferred Stock, Series D – $3.50 per share	10,294	1,772
Common Stock – $2.75 per share (1955, $2.50 per share)	27,373,133	22,096,440
	28,259,468	24,240,338
Premium plus accrued dividends on 102 shares of Cumulative Preferred Stock, Series B, called for redemption as of May 4, 1956	390	–
	28,259,858	24,240,338
Balance at end of year (Notes 3 and 7)	$164,633,352	$138,460,714



Right—Architect's rendering of Creslan plant, Pensacola, Florida, scheduled to be completed late in 1958.

EXPANSION

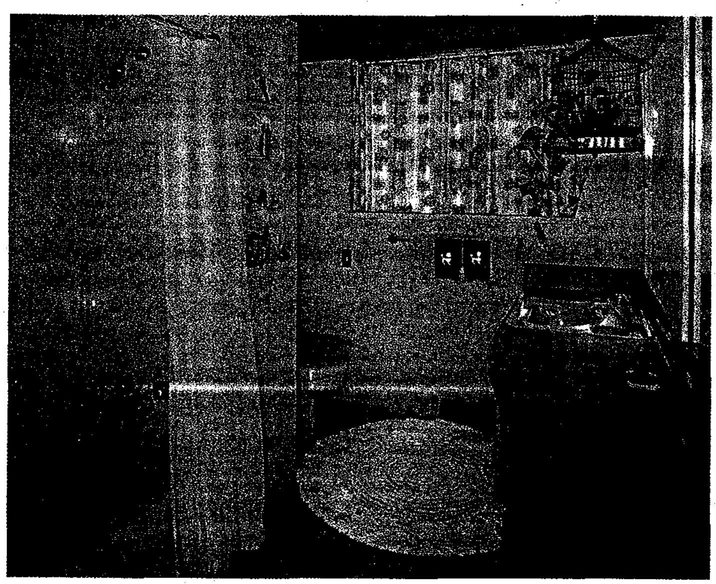
Approximately $49,000,000 were invested in new construction during 1956. Some of the units completed, under construction or planned at the end of the year are shown on these two pages.

Above—Addition to the Fortier plant, near New Orleans, will be in operation by mid-1958.

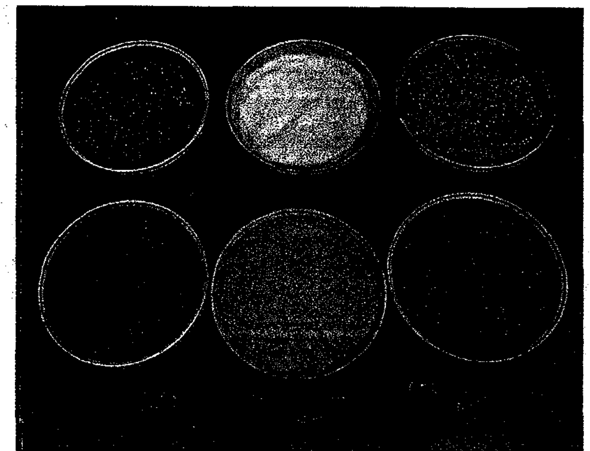
Right—Enlarged research facilities at Bound Brook, New Jersey.

PLASTIC LAMINATES

With the acquisition of The Formica Company in April, 1956, Cyanamid became an important producer and distributor of plastic laminates for industrial and decorative uses. Bathroom shown uses wood-grain finishes for vanitory and marble-like Milano for the walls.

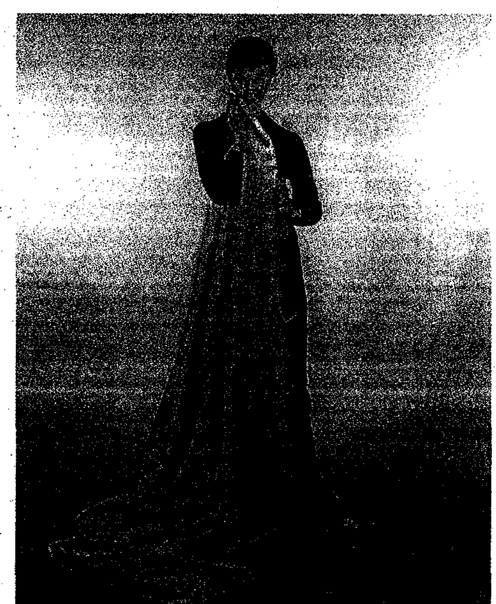


The Formica sheet is given a satin or "furniture" finish in Evendale, Ohio, plant.



THERMOPLASTICS

ACRYLIC FIBERS



Among the thirteen plants winning a total of sixteen Cyanamid Safety Awards, four plants—Wallingford, Willow Island, Hamilton and Latrobe—won the Company's highest safety award. Having operated for almost fourteen years without a disabling injury, the Latrobe Pennsylvania plant, which produces blasting caps, won the "President's Safety Award" for the second time.

Seventeen plants won Manufacturing Chemists' Association Certificates of Achievement for operating through 1956 without a disabling injury. Several plants have qualified for awards from the National Safety Council, and the Company as a whole has again earned its Award of Merit. Two plants won recognition from the National Fire Protection Association for outstanding fire safety programs.

SUGGESTION PLAN

During the year 1956, 22,547 suggestions were submitted through the Suggestion Plan. This averages 110 suggestions per 100 eligible employees. Of those submitted, 5,203 suggestions were adopted and cash awards under the Plan amounted to $88,436.

Seventeen locations reached the Company goal of 100 suggestions per 100 eligible employees, and total savings attributed to suggestions adopted in 1956 are estimated at more than $300,000.

AID TO EDUCATION

The Company's contributions for 1956 in support of education and academic research approximated $1,250,000 in which 150 colleges and universities participated. As in the past several years, the contributions included Medical Faculty Awards, scholarships and graduate student fellowships, foreign student fellowships, National Merit Scholarships, veterinary fellowships, grants-in-aid of research, programs designed to improve the quality of science teaching, and donations to the National Fund for Medical Education and the United Negro College Fund.

The Company has established an education cooperation program designed to stimulate interest in science among students, primarily at the secondary school level. This program makes available to teachers and students in communities where the Company operates, the special skills and experience of Cyanamid personnel. Active programs of this nature are already underway at several localities in the vicinity of New York.

FIFTIETH ANNIVERSARY

On July 22, 1907, American Cyanamid Company was founded by its first president, Frank Sherman Washburn, to produce the nitrogen fertilizer, calcium cyanamide. Over the past fifty years, from a struggling little company dependent entirely on agriculture, Cyanamid, by means of vertical diversification through research and horizontal expansion through acquisitions, has grown until the markets for its products include almost every segment of American industry.

For the Board of Directors

K. C. Towe

PRESIDENT

New York, New York
February 19, 1957

for the defoliation of cotton and the control of regrowth, has been found to be effective also against poison ivy and the Canada thistle.

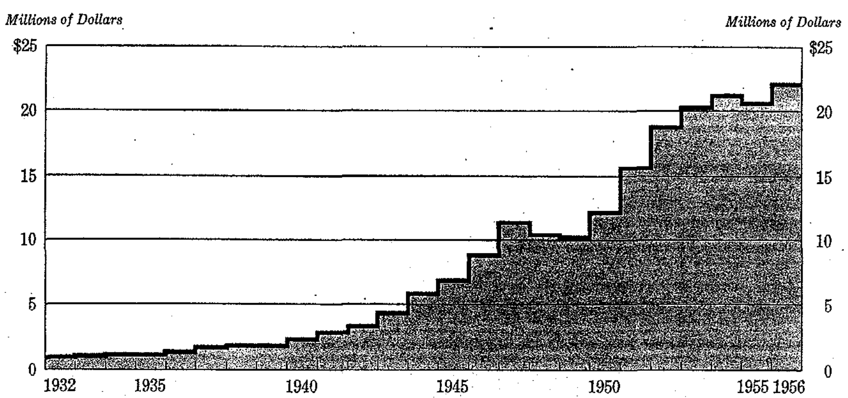
PROCESS DEVELOPMENT AND RESEARCH

Our researches have developed an improved formulation of Achromycin® tetracycline which is absorbed more rapidly into the blood stream and gives higher blood levels for a longer period. This new product, which will be marketed as Achromycin V, became freely available to the medical profession on February 1, 1957.

Kynex® sulfamethoxypyridazine, the new sulfa drug with unusual properties, is expected to be released for general and widespread use by physicians during the early months of 1957.

Early clinical reports on a new steroid compound (triamcinoline) have shown that it possesses anti-inflammatory and metabolic properties superior to other compounds now

PROCESS DEVELOPMENT AND RESEARCH EXPENSES



available. These clinical tests, which have been based on relatively small quantities, produced under test tube conditions at high costs, have indicated comparative freedom from undesirable side effects. Further process development and wider clinical trials over an extended period will be required for the proper evaluation of its commercial possibilities.

Encouraging progress has been reported in researches directed toward a modified live virus "polio" vaccine, but a great deal of work needs to be done in the laboratory and much more clinical evidence must be accumulated before its commercial possibilities can be evaluated.

Important results from the process development section of Cyanamid's research activity are the new process to be utilized in the aniline plant under construction at Willow Island, West Virginia; substantial economies and improved efficiencies in bringing into successful operation the fluid bed catalyst unit in the phthalic anhydride plant at Bridgeville, Pennsylvania; and improvements in the process for making acrylamides, a manufacturing plant for which is under consideration.

LABOR

Following the national pattern, wage and salary increases were granted during the year and will have the effect of raising total payroll costs by approximately 5%. To what extent these higher costs of operation can be offset by price increases and improvements in operating efficiencies cannot be foreseen.

SAFETY

Employees again cooperated to improve the Company's safety performance. Total number of accidents declined; and disabling injury frequency was the lowest in the Company's history and 19% lower than last year. Of 47,000,000 man-hours worked during 1956, 18,160 man-hours were lost through accident. There were three fatalities, two of which were caused by automobile accidents.

(e) The installation of additional facilities to manufacture melamine will increase total capacity to 90,000,000 pounds annually.

(f) Facilities for manufacturing urea will be provided for the first time in Canada with the erection of a new plant in Hamilton, Ontario. The plant will have annual capacity for producing 66,000 tons of urea, for captive use and for sale in solid form and in nitrogen solutions.

(g) Expanded requirements for aniline are being provided for by the construction of a plant to produce 24,000,000 pounds per year at Willow Island, West Virginia. This installation will utilize a new process, which is expected to effect important reductions in unit costs.

(h) A flakeboard plant will be built at Farmville, North Carolina, with an annual capacity of 40,000,000 square feet. This particle board, using North Carolina pine flakes or chips as a basic raw material, will be marketed as an alternative to traditional lumber and plywood as an underlayment for Formica laminated plastics and competitive laminates in counter tops and similar uses.

(i) Plants for producing antibiotics and other pharmaceuticals are being constructed in Argentina, Brazil, and England. These facilities are designed to strengthen Cyanamid's competitive position in foreign markets.

The program includes several minor projects related to additional facilities for petroleum catalysts, rosin sizes, liquid alum, Formica products, flotation reagents, and chemical intermediates.

MARKETING

With its new Division for laminated plastic products (operated as Formica Corporation), Cyanamid now offers a line of quality decorative and industrial laminates, and has obtained excellent distribution channels to the consumer market for developments from continuing researches in related fields.

As of January 1, 1957, a new Farm and Home Division was created for the distribution of products under the Cyanamid label to food processors and to the animal nutrition and health industries; for promoting the sale of products for plant growth and protection; and for marketing ethical drugs and biologicals to the professional veterinarian.

With the decision to enter the acrylic fibers field, a new Fibers Division was created during 1956 to handle the production and marketing of Creslan acrylic fiber, a development of Cyanamid research. Manufacturing facilities for this product will be provided in a plant near Pensacola, Florida, which is scheduled for initial operation during the latter months of 1958. Meanwhile, limited quantities of Creslan will be made available for further market evaluation from a pilot plant in Stamford, Connecticut.

Acronize® chlortetracycline for extending the freshness of meat, fish and poultry (which has had governmental approval for use on poultry in the United States since November 30, 1955) has been approved for use on fish and poultry in Canada and cleared for rather wide usage in Mexico, Brazil, and other tropical areas. By franchise agreements, the use of Acronize in the United States and Canada is restricted to poultry processors who maintain high hygienic standards; and more than 50% of the poultry processing capacity in the United States is under permissive license to use Acronize.

Two new thermoplastic molding compounds are being marketed from production facilities recently completed at the Wallingford, Connecticut, and Fortier, Louisiana plants. Also a new low-pressure laminating resin based on benzoguanamine, developed through Cyanamid researches, will be placed on the market during 1957.

Malathion, because of its potency against insects and relative safety for humans, is being used on an increasing variety of insect pests. This new development of Cyanamid research has been the insecticide of choice in Florida's successful battle against the Mediterranean fruit fly which has threatened its citrus crop.

Thimet® insecticide, a new systemic product which is applied directly to seeds for protecting plants against insects during the early stages of growth, has received favorable grower acceptance in the treatment of cotton seed. Aminotriazole, a dual action chemical

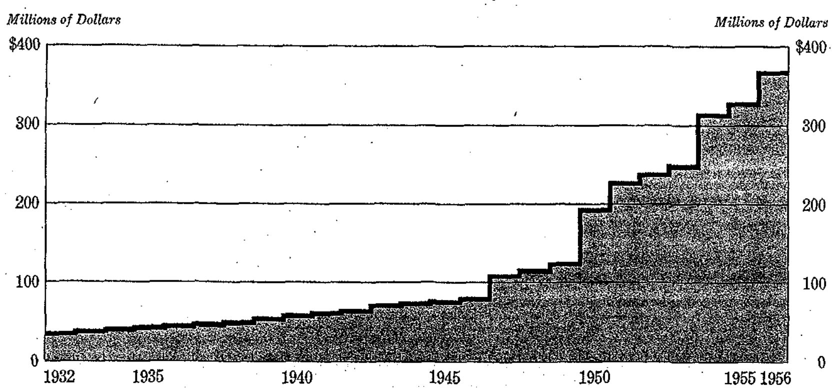
Series C, and 7,880 shares, Series D, were converted into Common Stock; and 6,755 shares, Series D, were issued under stock purchase contracts with employees.

As a result, the Preferred Stocks outstanding at the close of 1956 were 133,397 shares compared with 484,180 shares at the end of 1955.

COMMON STOCK

During the year, 573,692 shares of Common Stock were issued for the business and assets of The Formica Company and 735,191 shares were issued through conversion of 357,436 shares of Preferred Stock. Common Stock outstanding, therefore, was increased to 10,303,013 shares at the end of the year, as compared with 8,994,130 shares at December 31, 1955.

SHAREHOLDERS' EQUITY*



*Common and Preferred Stocks

ASSOCIATED COMPANIES

The Company's equity in the earnings of Associated Companies (49% or 50% owned) amounted to $3,473,622 for 1956 as compared with $3,182,139 for 1955. Each of the companies operated profitably for the year and paid dividends to Cyanamid aggregating $2,526,431 in 1956 as against $2,203,130 in 1955.

One of these partnerships, Jefferson Chemical Company, Inc., owned jointly with The Texas Company, has projected a major expansion program. Production capacity for present products, including ethylene oxide, ethylene glycol, and ethanolamines will be increased; and new facilities are proposed for production of propylene oxide, propylene glycol, caustic soda and piperazine, as well as for a substantial portion of Jefferson's own chlorine requirements.

CAPITAL OUTLAY PROGRAM

Charges to capital account for additions and improvements to physical facilities in 1956 amounted to $49,369,604. These expenditures are part of an overall capital program totaling approximately $150,000,000 to be completed during 1957 and 1958.

Among the important projects involved in this program are:

(a) Acrylonitrile facilities at the Fortier Plant are being enlarged to an annual capacity of 100,000,000 pounds.

(b) A plant to produce Creslan® acrylic fiber, designed for the production of 27,000,000 pounds per year, will use acrylonitrile from expanded facilities at the Fortier Plant.

(c) The plant at Savannah, Georgia, for producing titanium dioxide pigments will be doubled in size to an annual capacity of 72,000 tons at this location.

(d) With capacity for the annual production of 200,000 tons, the triple superphosphate plant at Brewster, Florida will be placed in operation during the late summer of 1957.

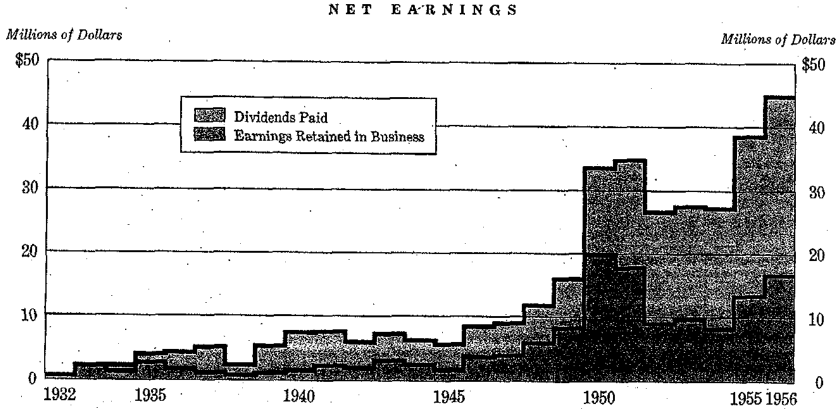
EARNINGS

Earnings before Federal and foreign income taxes, excluding extraordinary gains, were $85,247,158 as against $74,713,666 for 1955. After making provision for income taxes of $41,000,000 and $36,000,000 respectively, Consolidated Net Earnings, excluding extraordinary gains, were $44,247,158 for 1956, compared with $38,713,666 for 1955. After providing for payment of dividends on the Preferred Stocks, Net Earnings available for the Common Stock were $4.21 per share on 10,303,013 shares in 1956, as compared with $4.07 on 8,994,130 shares in 1955.

EXTRAORDINARY GAINS

The Consolidated Statement of Earnings reflects extraordinary gains during the year of $11,125,307, after related Federal taxes, equal to $1.08 per share of Common Stock, from the sale of the titanium dioxide pigments plant at Gloucester City, New Jersey to The New Jersey Zinc Company and of the entire capital stock of Chemical Construction Corporation to Electric Bond and Share Company. By action of the Board of Directors, these gains have been excluded in computing the Incentive Compensation Amount for 1956.

NET EARNINGS



CASH DIVIDENDS

Cash dividends of $28,259,468 were paid to the shareholders. Regular quarterly dividends amounting to $886,335, were declared on the Preferred Stocks, compared with $2,143,898 in 1955. Dividends on the Common Stock were 62½¢ per share for the first and second quarters and 75¢ for the third and fourth quarters. Common Stock dividends totaled $27,373,133 or $2.75 per share, compared with $22,096,440 or $2.50 per share in 1955.

WORKING CAPITAL

Working capital at year-end was $202,853,106 as compared with $195,195,930 at December 31, 1955.

Cash and marketable securities declined to $159,456,768 from $163,100,245 in 1955; accounts receivable increased to $59,534,255 from $49,195,529; and inventories rose to $81,551,371 from $72,573,177. Liabilities for income taxes were $52,123,223 at December 31, 1956, as against $48,324,822 at the end of 1955.

FUNDED DEBT

During 1956, long-term indebtedness was reduced from $95,750,000 to $94,750,000 through application of $1,000,000 to the reduction of Debentures under their sinking fund provision.

PREFERRED STOCKS

Transactions affecting the Preferred Stocks during the year were as follows: 102 shares, Series B, were redeemed as of May 4, 1956; 26,124 shares, Series B, 323,432 shares,

Highlights

	1956	1955
Sales	$500,651,279	$451,088,434
Earnings before income taxes	85,247,158	74,713,666
Income taxes	41,000,000	36,000,000
Net Earnings exclusive of extraordinary gains	44,247,158	38,713,666
Net Earnings including extraordinary gains	55,372,465	38,713,666
Cash Dividends	28,259,468	24,240,338
Earnings per share Common Stock:		
Net Earnings exclusive of extraordinary gains	4.21	4.07
Net Earnings including extraordinary gains	5.29	4.07
Dividends per share Common Stock	2.75	2.50
Depreciation, amortization and depletion	30,094,188	30,241,153
Expenditures for capital additions	49,369,604	21,739,247
Funded Debt	94,750,000	95,750,000
Shareholders' equity	366,683,857	327,802,098
Shares outstanding:		
Preferred Stocks	133,397	484,180
Common Stock	10,303,013	8,994,130
Number of shareholders:		
Preferred	4,984	8,582
Common	57,087	46,431
Total (excluding duplications)	58,160	48,628
Number of employees	27,500	25,500

To the Shareholders:

SALES

Sales by Cyanamid and its wholly-owned subsidiaries in 1956 were $500,651,279 as against the 1955 volume of $451,088,434. While Formica® products, reflected in this report for the entire year, accounted for the major portion of the higher sales volume, important increases were made in sales of a number of products, including titanium dioxides, malathion, phosphate rock, Diamox® acetazolamide, and diphenylamine.

Sales to customers outside the United States and Canada during 1956 amounted to approximately $68,000,000; for 1955 such volume was approximately $70,000,000.

Comparative quarterly sales for 1956 and 1955 are shown below:

QUARTER	*1956*	*1955*
First	$127,792,935	$111,643,065
Second	125,092,184	113,714,188
Third	122,067,857	110,910,437
Fourth	125,698,303	114,820,744
	$500,651,279	$451,088,434

SALES