W. P. S.

1956

Cleveland November 27, 1956 Mr. W. P. Stetzelberger

NOTES FOR ANNUAL MEETING

Certain things which may come up in the Annual Meeting are outlined in the following. In addition, answers are given for most of the questions in Mr. Stetzelberger's memo of November 8, 1956.

This is only a reference source in case of questions.

Acquisitions

	5/1/54 Mound City	3/22/55 Zapon	Total
Paid for Inventory and Receivables	$ 442,690	$ 876,712	
Property and Equipment	116,250	-	
Total Paid	$ 558,940	$ 876,712	$ 1,435,652
Sales 12 Mo. 1956	$ 898,605	$ 2,657,021	$ 3,555,626
Net Profit 1956	$ 88,072	$ 212,705	$ 300,777
Return on Assets			21%
Personnel Still With Us	10	33	43

In brief--in 1956 we earned 21% on $1,435,000 invested in Mound City and Zapon.

Sale or Closing of Divisions	Annual Sales Avg. Last 3 Yrs.	Avg. Profit (Loss) Last 4 Yrs. Operated	Profit Or (loss) on Sale	Cash &Assets Freed Up Average Last 4 Yrs.
Hammond 7/16/51	$ 3,263,152	$ (373,225)	$ 142,235	$ 2,024,690
Oakland 10/25/54	1,089,667	39,296	96,376	985,429
Feed Mill 8/10/54	5,345,555	15,608	*(290,471)	2,376,344
Portland 9/18/52	2,062,974	13,771	(19,369)	1,083,968
Cambridge 7/1/55	1,666,291	(9,537)	(6,542)	611,118
Yadkin	-	-	(8,149)	54,436
Jojaba - Castella	-	-	50,597	134,890
Barytes Mines	-	-	-	11,679
Buena Park 8/31/56	4,455,954	(67,338)	*(199,351)	1,723,685
Total	$17,883,593	$(381,425)	$ (234,674)	$ 9,006,239
Conservative estimate of additional cash usage - peak periods - over				$ 1,000,000
Total Freed Up - Over				$10,000,000

* Abandonment Loss in Selling and General Expenses B.E.

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Since 1951 we have freed up over $10,000,000 which was not making money. Net loss on abandonment and sales of $235,000 are less than one year's interest on money freed up.

Product Advertising Expense

		% To Sales
1956	$4,585,776	2.02%
10 Mo. 1955	$3,769,639	2.08%

(Page 5--Annual Report)

Had advertising been the same per cent as last year--2.08%--total expense would have been $120,000 greater.

Mine Exploration	Pre-Tax	After Tax
Total Expenditures less Income	$1,329,834	
Less: Billed Gov't.	127,255	
Glidden Cost	$1,202,579	$577,125
Sale of Assets	(17,804)	(13,353)
Net Glidden Cost 1951 - 1956	$1,184,775	$563,772

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Not mentioned in Annual Report. Will probably be asked.

Bonus Plan

Original plan adopted 2/8/51, revised 2/14/52. Gilbert suggested last year provision preventing bonus to top officers until certain dividends have been paid.

In our plan we must earn 12% pre-tax on bonus net capital employed before we have any income on which to calculate a bonus reserve of 7%. In 1956 we had to earn over $11,000,000 pre-tax before any funds for bonus.

In view of this, we feel stockholders are well protected.

Since 1951, with maximum bonus available of $2,168,280, we have returned to profit $951,780, leaving for bonus pay out $1,216,500. Lowest number of awards made in any year 79, highest 212.

Gilbert also suggested submitting bonus plan to stockholders every five years. We do not think this necessary. Only submit when fundamental changes.

Stock Option

Of 100,000 shares of stock set up for option on 2/14/52, virtually all have been used. First option granted 6/24/52, second 12/27/54 and third 1/9/56. Option prices of $35.00, $38.00 and $______.

152 people now hold options. No officers or directors have sold this option stock.

Research and Development

	1956 Budget	1956 Actual	1957 Budget
Research	$ 991,250	$ 866,882	$ 1,079,100
Development	1,227,299	1,273,478	1,453,684
Research and Development	$ 2,218,549	$ 2,140,360	$ 2,532,784
Control Lab.	$ 951,943	$ 897,828	$ 952,793
Total Lab.	$ 3,170,492	$ 3,038,188	$ 3,485,577

Inventories

Inventories up in 1956 to $38,492,240, compared to $33,701,460. Increase of $4,791,000.

Chief increases - new Titanium Plant $1,400,000, St. Helena $670,000, Elevator operation $2,100,000, expanded Paint activities and some price increases. Overall well in balance.

Pension Plans

Pension Plan expense for funds:

U. S. Salary	$ 762,424
U. S. Hourly	299,504
Canada Salary	34,442
Canada Hourly	21,300
	$ 1,117,670

Application of Funds 1956

Sources

Profit Before Tax		$ 16,451,000
Depreciation		2,870,000
Loans Increase - Net		8,000,000
		$ 27,321,000
Cash Reduction	$ 13,233,718	
	5,512,638	7,721,000
		$ 35,042,000

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Used

Trade Receivables Net - Increase	$ 1,164,000
Inventories - Increase	4,791,000
Gross Plant and Equipment	16,637,000
Dividends Paid	4,591,000
Income Taxes Paid	8,505,000
Other Changes - Net	(646,000)
	$ 35,042,000

Increase in Selling, Administrative and General Expenses - Published P&L

Approximate figures - 10 months 1955 annualized.

Total 1956 - 12 Mo.	$ 31,947,320	
Total 1955 - 10 Mo.	$ 24,144,648	
Total 1955 - 12 Mo.	$ 28,973,000	Annualized
Approximate Increase	$ 3,000,000	

Items	Increase
Salesmen's Salary & Comm. & Exp. (Higher Sales)	$ 500,000
All Other Selling & Adm. Salaries	900,000
Sales Development Letters	200,000
Pension - New Plan	400,000
Corporate Advertising	130,000
All Other	870,000
	$ 3,000,000

Increase in Other Income - Published P&L

When the $480,287 for 10 months 1955 is annualized, the change to $673,148 for 1956 is nominal. Primary change is income from Barium Products on leased mine.

Comments on Typical Questions - Mr. Stetzelberger's letter 11/8/56

Advertising - previously covered.

We have no treasury stock.

See later sheet on bank loans for financial details.

None of our five major divisions was in the red. Package Products - Margarine, Salad Products were a loss.

Elmhurst Refinery has now been closed.

Buena Park has been closed.

Directors ages in 1956:

Dwight P. Joyce	56
P. E. Sprague	64
J. P. Ruth	61
A. D. Duncan	55
B. W. Maxey	47
J. H. Weeks	52
R. D. Horner	39
W. G. Phillips	36
W. C. Lighter	49
H. L. Slaughter	56
G. M. Halsey	47
W. D. Stallcup	43
Average	50

Dividends

Our Annual Report shows we paid out 56.4% in 1956
64.5% in 1955
64.6% in 1954
64.4% in 1953
73.9% in 1952

With our heavy expansion program before us, we do not feel an increase is now warranted.

Book value at 8/31/56 was $36.19, an increase from $34.64 at 8/31/55.

Investments do not include any publicly held company.

Employees - 8/31/56 - 6,387--5,241 male, 1,146 female.

Stockholders - 8/31/56 - Total 20,758.

Individuals	19,903
Institutions	281
Brokers	188
Nominees	223
Foreign	163
Total 8/31/56	20,758

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Negligible amount of government sales - about $2,000,000 Paint. Some Food on regular bid basis.

See first page of this writeup for results of purchases and sales of assets.

Auditors

Representative of E&E will be there.

We maintain our internal auditing staff for regular audits of each division and detailed operations. Such audits are always on a surprise basis.

Insurance

FIA coverage on all manufacturing properties except Canada, Buena Park, San Francisco and new Elevator. This FIA policy for fire, wind, hail, explosion, aircraft, smoke, vandalism and sprinkler.

Coverage is on agreed amount basis, with no co-insurance requirement.

Locations excluded are under separate policies for fire, extended coverage and sprinkler.

Elevator under U.G.A. policy.

Use and occupancy insurance also in FIA for locations they cover for fire, etc.

Also carry ocean marine and cargo insurance to extent necessary.

Carry boiler and pressure vessel insurance where necessary.

All employees bonded in adequate amount.

Workmen's Compensation--we carry self-insurance in states where possible, with an override $1,000,000 policy for catastrophe. Self-insurance on Workmen's Compensation has saved us over $850,000 in the last 25 years.

Also carry comprehensive general liability, including product liability. Also liability and property damage.

Annual Report cost per copy 19¢.

Stockholders should not be granted special opportunities to buy company products. Too difficult to handle and impractical. Also unfair.

Stock Dividend

These do not add much, if anything. They spread earnings over a wider number of shares, and in the end the price per share will probably adjust accordingly. We certainly are not in favor now.

Contributions

Well controlled under committee.

Sale and Leaseback has been extensively investigated, but is not applicable to our operations at present.

Salaries

Our officers salary rates, including bonus, are fully in line with studies on this subject such as those by AMA. If anything, slightly lower than companies in similar fields and size.

We must be competitive in total salary and in such things as stock options to attract and hold good men.

While we do not have an outside director to directly police these things, payments are public knowledge in our proxy, and being an inside Board we are probably more conscious of this feature than if salary rates, etc., were set by outside Board members.

B. W. MAXEY

BWM:map

Detail on Financing will follow.

BWM

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