ANNUAL REPORT

OF

THE EAGLE-PICHER LEAD COMPANY AND SUBSIDIARIES

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December 31, 1940

ANNUAL REPORT

The Eagle-Picher Lead Company and Subsidiaries

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To the Stockholders of
THE EAGLE-PICHER LEAD COMPANY:

The annual report of your company for the year ended December 31, 1940, accompanied by financial statements, is submitted herewith.

Earnings and Sales

Consolidated net profit for the year, after all charges, was $1,290,160.18, or $1.44 per share on the common stock after providing for preferred dividends, as compared to $1,168,762.31 or $1.30 per share for 1939. In the following condensed statement are presented the operating results for the two years:

	1940	*1939*
Net Sales	$27,994,175.79	$25,914,411.30
Production and Manufacturing Costs	22,897,367.04	21,104,655.86
Gross Operating Profit	5,096,808.75	4,809,755.44
Selling, Shipping, Administrative and General Expenses	2,159,423.44	1,972,485.18
Net Operating Income:		
Mining and Manufacturing Divisions	2,937,385.31	2,837,270.26
Northeast Oklahoma Railroad Company	281,873.16	226,143.23
	3,219,258.47	3,063,413.49
Miscellaneous Income	136,254.46	153,495.00
	3,355,512.93	3,216,908.49
Interest Paid	78,943.76	192,673.99
Net Profit—Before Depletion and Depreciation	3,276,569.17	3,024,234.50
Depletion, Depreciation, Abandonments, etc.	1,571,908.99	1,612,168.71
	1,704,660.18	1,412,065.79
Provision for Federal and State Taxes on Income	414,500.00	243,303.48
Net Income for Year	$1,290,160.18	$1,168,762.31
Average Metal Prices:		
Lead—New York	$5.18	$5.05
Zinc—St. Louis	6.34	5.11

Net sales showed an increase of approximately 8% over 1939. Sales tonnage of zinc metal was about 24% greater than in the previous year. The greater portion of the profits of the current year resulted from the production and sale of products normally classified as "raw materials" rather than from those which are more completely processed. Sales realization on manufactured products was only slightly greater than in 1939 and did not offset increased material and fabricating costs. Such increase in dollar volume as was experienced resulted from higher realizations rather than from increased tonnage, which in the aggregate was approximately the same as in 1939. However, tonnages of the various products fluctuated considerably from the preceding year. Sales to manufacturers of storage batteries increased, while sales to paint manufacturers and dealers declined as a result of adverse weather conditions in the first half of the year. Sales of insulation, plumbers' supplies, solders, etc. showed a satisfactory increase.

The Northeast Oklahoma Railroad Company, a wholly owned subsidiary, had a net income, after all charges, including interest of approximately $24,000.00 on obligations owned by other companies in the consolidated group, in excess of $108,000.00 in comparison with $81,000.00 for the preceding year.

Interest Charges

During the year the company effected a rearrangement of its bank indebtedness whereunder the aggregate amount of $2,500,000.00 was extended and made payable in five annual installments of $500,000.00 each, and the interest rate was reduced from 4% to 2½% per annum from March 30, 1940. As a result of this rearrangement and decreased borrowings, consolidated interest charges showed a material reduction.

Taxes

Total taxes paid and accrued in 1940 were in excess of $985,000.00 or approximately $1.10 per share, in comparison with $775,000.00 or 85c per share in the preceding year. The increase is largely attributable to the required provision for Federal and State taxes on income which in 1940 amounted to $414,500.00, or approximately $171,000.00 more than in 1939. On the basis of consolidated invested capital, it appears that the company will not be liable for excess profits taxes on 1940 income.

Dividends

Dividends have been regularly paid during the year on the company's 6% cumulative preferred stock, and 40c per share was declared and paid on the common stock.

Balance Sheet

Net working capital at the year-end, as reflected by the excess of current assets over current liabilities, amounted to $6,935,707.01, and the current ratio at December 31, 1940 was approximately 3½ to 1.

Net income for the year, before provision for depletion and depreciation of $1,343,507.06 (which did not involve a cash outlay), amounted to $2,633,667.24. Cash realized from minor other sources aggregated $111,054.35, so that the total funds available from the year's operations amounted to $2,744,721.59. Of this amount, $860,612.35 was paid to the former owners of Commerce Mining and Royalty Company, thereby reducing the contingent purchase money obligation assumed in connection with the acquisition of those properties; $695,151.29 was expended for plant extensions, improvements and replacements and $48,799.93, for mining exploration and development; and $386,564.40 was disbursed in dividends to shareholders. These disbursements aggregated $1,991,127.97, leaving a balance retained in the business of $753,593.62 which is reflected in working assets required in the conduct of the company's operations.

Mining and Smelting Operations

The demand for zinc metal has been steadily increasing throughout 1940 and is presently in excess of national productive capacity and available smelting facilities. Your company, as one of the large zinc producers, has increased its mining and milling production and smelter capacity to assist in meeting this demand. In

1940 ore received at your mills totalled 3,296,000 tons, or approximately 13% in excess of the amount of 2,910,000 tons received in the previous year. Of the total tonnage received, 2,799,000 tons, or approximately 85%, were handled over the Central Mill, the remainder being divided amongst four small mills. All mills are operating to capacity at the present time, and an additional mill has been placed in operation since the first of the year. On an average, lower grade ores were mined in 1940 than in the previous year and if production is to be increased further to any considerable extent, it must come from still lower grades of ores. Production of lead and zinc concentrates totalled 207,150 tons in 1940, compared with 193,697 tons in 1939 and 104,305 tons in 1938. Conversion of zinc metal from zinc concentrates at the company's two smelters was approximately 40% greater than in 1939, and 1941 production should exceed 1940 by some 20%.

General

Notwithstanding that our greatest effort is being concentrated on the production of zinc metal, for which the need is so acute at the present time, your Management is not neglecting the normal functions of the company. A new process for the manufacture of zinc oxide was developed to the point of justifying construction of a commercial plant. Operation of this plant was commenced in 1941 and the Management is confident that it will serve not only to increase the sale of fabricated products, but will also place your company in a stronger competitive position. Other products were improved in 1940 and certain new products are being tested before being placed on the market. Additional developments are under way and some of them look promising for successful conclusion in 1941.

Defense demands and increased domestic consumption seem to insure that production will be at capacity throughout the coming year. However, these conditions are abnormal and cannot be expected to continue indefinitely. Hence, your Management is keeping constantly in mind the highly competitive situation with which industry will doubtless be confronted during the period of readjustment; and is endeavoring to maintain your company in strong financial position and otherwise equip it to meet these anticipated problems.

The Directors and Officers wish to take this opportunity to acknowledge the continued cooperation and loyalty of employees and their contribution to the results attained.

JOSEPH HUMMEL, Jr.
President

WILLIAM R. DICE
Executive Vice-President

With the approval of the Board of Directors.
Cincinnati, Ohio.
February 28, 1941.

THE EAGLE-PICHER LEAD

CONSOLIDATED BALANCE SHEET

ASSETS	Shares Dec. 31, '40	DECEMBER 31, 1940		DECEMBER 31, 1939	
CURRENT ASSETS:					
Cash in Banks and on Hand			$ 1,622,833.24		$ 1,152,400.79
Accounts and Notes Receivable—Trade		$2,884,394.41		$2,498,631.62	
Accounts and Notes Receivable—Other		146,540.88		189,684.87	
		3,030,935.29		2,688,316.49	
Less: Reserves for Doubtful Accounts		380,476.58	2,650,458.71	310,939.51	2,377,376.98
Advances on Purchase Contracts			20,530.98		5,331.71
Inventories of Raw Materials, Work in Process and Finished Products (including merchandise on consignment to customers):					
Ores, Metals and Metal-bearing Products—valued at cost or market price of metal content, whichever was lower at December 31, plus manufacturing costs on Materials in Process and Finished Products		4,569,905.56		4,252,758.74	
Other Merchandise for Resale—at cost		422,950.47		490,108.83	
		4,992,856.03		4,742,867.57	
Manufacturing Supplies and Stores—at cost		336,208.93	5,329,064.96	502,168.02	5,245,035.59
			9,622,887.89		8,780,145.07
OTHER ASSETS:					
Repair Parts, Maintenance Supplies, etc.		440,841.32		193,644.49	
Employees' Loans and Expense Advances		21,708.64		20,322.48	
Miscellaneous Accounts, Advances, etc.		20,849.79	483,399.75	16,145.84	230,112.81
FIXED ASSETS:					
Mining Lands and Leases; Mills, Smelters and Fabricating Plants and Equipment; Railroad Properties; Pipe Lines; Automotive and Haulage Equipment; Warehouses; Furniture and Fixtures, etc. (including $64,777.33 excess cost of acquisition over book value of net assets acquired)		31,707,469.53		32,431,046.67	
Less: Reserves for Depletion, Depreciation, etc.		20,404,371.12		20,139,376.53	
		11,303,098.41		12,291,670.14	
Construction Work in Progress		444,762.70	11,747,861.11	104,546.74	12,396,216.88
SELF-INSURANCE FUND SECURITIES:					
U. S. Government Obligations—at cost (Market value at December 31, 1940—$115,278.87)			105,668.44		129,256.84
SUNDRY SECURITIES—at cost or estimated recoverable values			16,697.48		73,723.49
TREASURY STOCK—at cost:					
Preferred	65	2,330.75		2,330.75	
Common	5,924	21,797.56		21,797.56	
Common—purchased by Subsidiary for resale	8,750	120,554.17	144,682.48	154,994.17	179,122.48
PREPAID AND DEFERRED CHARGES:					
Prepaid Freight, Insurance, etc.		161,564.76		120,173.80	
Royalty Advances		42,898.05		49,174.70	
Other Deferred Charges		223,698.55	428,161.36	132,475.51	301,824.01
PATENTS, GOODWILL, ETC.			1.00		1.00
			$22,549,359.51		$22,090,402.58

D' COMPANY AND SUBSIDIARIES

:TS AS AT DECEMBER 31, 1940 AND 1939

LIABILITIES

		DECEMBER 31, 1940		*DECEMBER 31, 1939*
CURRENT LIABILITIES:				
Current Bank Indebtedness		$ 500,000.00		
Accounts Payable		1,361,480.42		$ 1,132,850.22
Preferred Dividend Payable		8,233.50		8,233.50
Accrued Liabilities:				
Taxes—Other than Taxes on Income	$ 185,571.31		$ 190,259.93	
Wages and Salaries	63,206.31		58,707.49	
Compensation Awards, etc	28,405.84		30,568.90	
Provision for Federal and State Taxes on Income—estimated	478,040.84		305,429.02	
Other Accrued Liabilities	28,262.20	783,486.50	26,826.96	611,792.30
Customers' Credit Balances		33,980.46		40,080.48
		2,687,180.88		1,792,956.50
DEFERRED BANK INDEBTEDNESS:				
Balance at December 31, 1940 payable $500,000 annually 1942 to 1945, inclusive		2,000,000.00		2,500,000.00
CONTINGENT PURCHASE MONEY OBLIGATION:				
Payable, without interest, from income (as defined in purchase contract and when, as and if realized) of certain specified properties formerly owned by Commerce Mining and Royalty Company		3,405,564.22		4,266,176.57
RESERVES FOR SELF-INSURANCE:				
Workmen's Compensation Liability	215,326.03		219,737.59	
Fire and Tornado Coverage	63,926.21	279,252.24	57,353.87	277,091.46
RESERVES FOR CONTINGENCIES:				
Appropriated from Capital Surplus as at Jan. 1, 1935	600,000.00		600,000.00	
Less Charges: To January 1 ....$339,241.51			298,126.60	
For year ended Dec. 31 .... 5,370.13			41,114.91	
	344,611.64	255,388.36	339,241.51	260,758.49
CAPITAL STOCK:				
Preferred 6% Cumulative:				
Par Value $100; redeemable at $105: Authorized and Outstanding—5,554 Shares	555,400.00		555,400.00	
Common—Par Value $10:				
Authorized ....1,000,000 Shares				
Issued and Outstanding ... 900,000 Shares	9,000,000.00	9,555,400.00	9,000,000.00	9,555,400.00
SURPLUS:				
Capital Surplus	1,898,760.96		1,898,760.96	
Earned Surplus since January 1, 1935:				
Balance at January 1	1,539,258.60		579,745.49	
Excess provision Federal Taxes on Income—Prior years	24,958.47			
Net Profit for year—per Profit and Loss Account	1,290,160.18		1,168,762.31	
	2,854,377.25		1,748,507.80	
Dividends paid and accrued:				
Preferred	32,934.00		32,934.00	
Common	353,630.40		176,315.20	
	386,564.40		209,249.20	
	2,467,812.85		1,539,258.60	
TOTAL SURPLUS		4,366,573.81		3,438,019.56
		$22,549,359.51		$22,090,402.58

CONTINGENT LIABILITIES—See Page Nine

The Eagle-Picher Lead Company and Subsidiaries

CONSOLIDATED PROFIT AND LOSS ACCOUNTS

For the Years Ended December 31, 1940 and 1939

	YEAR ENDED *DECEMBER 31, 1940*		YEAR ENDED *DECEMBER 31, 1939*	
Net Sales		$27,994,175.79		$25,914,411.30
Production and Manufacturing Costs		22,897,367.04		21,104,655.86
Gross Operating Profit—before Depletion and Depreciation		5,096,808.75		4,809,755.44
Expenses:				
Selling	$947,775.78		$838,481.77	
Traffic, Warehousing and Shipping	244,862.25		233,697.41	
General and Administrative	883,496.05		821,973.30	
Bad Debt Provision—less Recoveries	83,289.36	2,159,423.44	78,332.70	1,972,485.18
Net Operating Income—before Depletion and Depreciation:				
Mining and Manufacturing		2,937,385.31		2,837,270.26
Northeast Oklahoma Railroad Company		281,873.16		226,143.23
		3,219,258.47		3,063,413.49
Other Income:				
Royalties	98,284.85		105,059.44	
Interest and Dividends	11,384.64		15,528.21	
Miscellaneous	26,584.97	136,254.46	32,907.35	153,495.00
		3,355,512.93		3,216,908.49
Interest on Bank Indebtedness		78,943.76		192,673.99
		3,276,569.17		3,024,234.50
Depletion, Depreciation, Etc.:				
Provision for Depletion and Depreciation—per books	1,343,507.06		1,360,251.83	
Abandoned Projects, Prospecting Expenses and Loss on Retirement or Sale of Capital Assets	228,401.93	1,571,908.99	251,916.88	1,612,168.71
Net Profit — before provision for Federal and State Taxes on Income		1,704,660.18		1,412,065.79
Provision for Federal and State Taxes on Income		414,500.00		243,303.48
Net Profit for Year		$1,290,160.18		$1,168,762.31

Contingent Liabilities

1. Notes receivable rediscounted, aggregate liability whereunder cannot exceed $11,384.00.

2. Federal and State income taxes for years not yet examined by the respective taxing authorities. Federal tax liability of The Eagle-Picher Lead Company has been determined for all years to 1939, inclusive. The Eagle-Picher Mining and Smelting Company has been examined by the Bureau of Internal Revenue to 1938, inclusive, but liability for the years 1936, 1937 and 1938 has not yet been conclusively determined. Potential liability of the latter company and of other minor subsidiaries in excess of the provision therefor is not considered to be significant.

3. Pending personal injury suits and minor litigation, liability whereunder is undeterminable but is not considered significant.

4. Proceeding under the National Labor Relations Act to review a Board order, now awaiting decision on appeal to the United States Circuit Court of Appeals, Eighth Circuit. Should the Board order be sustained, an exhaustive investigation will be required to determine the liability thereunder.

5. Agreement to indemnify former shareholders of Commerce Mining and Royalty Company for acts performed on behalf of said company, liability whereunder is wholly contingent.

6. Suit pending in the United States District Court at Cincinnati whereunder claimants seek to recover some sixteen million dollars on two principal causes of action. One cause of action alleges failure to account for sulphur content of lead and zinc sulphide concentrates produced from Indian leases. The Company contends that it has fully accounted therefor, strictly in accordance with the terms of the leases and on a basis that has been in general use in the District for seventy-five years. The other principal cause of action alleges trespass on certain Indian lands prior to 1922. The Company contends that it was in possession of the lands under a valid lease and that it made full accounting thereunder and complied with all requirements thereof. The United States Department of Interior on behalf of the Indians, upon expiration in 1922 of the lease now attacked, granted to the Company a new lease on the same property for a period of twenty-five years, whereunder the Company has since operated and accounted. It is significant that the validity of the new lease was upheld by the United States District Court for the Northern District of Oklahoma, which decision was affirmed by the United States Circuit Court of Appeals, Tenth Circuit. Similar suits involving the same issues were instituted in 1933 in the United States District Court at Kansas City (Mo.) in the name of the United States and at the request of the Department of Interior. The Attorney General, after investigation, dismissed these suits without prejudice. The present action was brought not by the Government but by an individual, as "next friend", who seeks to recover on behalf of the Indians. The original complaint was filed in August, 1937; an amended complaint was filed in April, 1938; and a second amended complaint was filed in January, 1939, to which the Company has filed its answer. Company's counsel is of the opinion that the case can be successfully defended, although, because of the amount involved, vigorous prosecution by the plaintiffs is anticipated.

BARROW, WADE, GUTHRIE & CO.
(ESTABLISHED 1883)
ACCOUNTANTS AND AUDITORS
ONE NORTH LA SALLE STREET
CHICAGO

To the Directors,
THE EAGLE-PICHER LEAD COMPANY,
Cincinnati, Ohio.

We have examined the Consolidated Balance Sheet of The Eagle-Picher Lead Company and Subsidiaries as at December 31, 1940 and the related Consolidated Profit and Loss Account for the year then ended. In connection therewith, we reviewed the systems of internal control and the accounting procedures of the companies; and, without making a detailed audit of the transactions, examined or tested their accounting records and other supporting evidence, by methods and to the extent we deemed appropriate.

Inventories on hand at December 31, 1940, were determined by the companies or their agents and confirmed by them as to quantities and condition. A substantial portion of the metal content of ores, metals and metal-bearing products represents estimates based on established metallurgical formulae. We made quantitative tests of other portions of the inventories insofar as was considered practicable and satisfied ourselves generally as to the effectiveness of the methods of inventory taking and credibility of the representations regarding quantities and condition.

In our opinion, the accompanying Balance Sheet and related Profit and Loss Account present fairly the consolidated financial position of The Eagle-Picher Lead Company and Subsidiaries at December 31, 1940, and the results of operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Barrow, Wade, Guthrie & Co.

Accountants and Auditors.

Chicago, Illinois.
February 27, 1941.

PRINCIPAL EAGLE-PICHER PRODUCTS

Pigments and Oxides

Zinc Oxides
White Lead Carbonate
Sublimed White Lead
Super Sublimed White Lead
Sublimed Blue Lead
Lead Oxides
Red Lead
Orange Mineral
Litharge
Sublimed Litharge
Lithopone
Lead Silicate

Metallic Products

Alloys, Tin—Lead
Antimonial Lead
Anodes, Tin
Bearing Metals
Caulking Lead
Lead Pipe and Tubing
Tin Pipe and Tubing
Roof Flanges
Plumbers Lead Fittings
Solders
Lead Wool

Painting Materials

White Lead in Oil
Sublimed Blue Lead in Oil
Red Lead in Oil
Flatting Oil
Lead Reducing Oil

Mineral Wool Insulation

For Homes and Buildings

Mineral Wool—Granulated
Mineral Wool—Loose
Mineral Wool—Batts
Mineral Wool—Blankets

For Industrial Use

Plastic Insulation
Mineral Wool—Loose
Mineral Wool—Blankets
Mineral Wool—Blocks
Mineral Wool—Felts
Caulking Compounds

Slab Zinc

(Spelter)