Annual Report

THE EAGLE-PICHER COMPANY AND SUBSIDIARIES

FOR THE FISCAL YEAR ENDED

NOVEMBER 30, 1946

Annual Report

THE EAGLE-PICHER COMPANY
AND SUBSIDIARIES

To the Shareholders of
THE EAGLE-PICHER COMPANY:

Under date of March 10, 1947, there were mailed to all shareholders comparative consolidated balance sheets of your Company and its consolidated subsidiaries as at November 30, 1946 and 1945; and comparative consolidated statements of profit and loss and earned surplus for the years ended at the corresponding dates—both as reported upon by Messrs. Barrow, Wade, Guthrie & Company, Accountants and Auditors. These same financial statements and information pertinent thereto are now presented herewith in advance of the Annual Meeting of Shareholders, to be held on March 25.

EARNINGS AND SALES

Consolidated net profit for the year amounted to $2,102,196.85, or $2.36 per common share, after all charges. The corresponding figure for the preceding year was $1,392,412, equivalent to $1.56 per share, after provision in the amount of $300,000 for settlement of a National Labor Relations Board case, which had its origin in 1935, or $1.90 before such provision. Net sales of the respective years were relatively constant, having aggregated $40,989,398 in 1946, and $41,290,803 in 1945.

The increase in net income, before provision for Federal and State income taxes, amounted to $959,784.85, of which $827,658.26, or 86%, was contributed by the Manufacturing or Processing Divisions of the Company. The over-all increase was accomplished with but little help from price increases, which, in the main, became effective only late in the Company's fiscal year.

Lead prices were frozen at 6.50 cents per pound N. Y. from January 13, 1942 to June 3, 1946, when the Office of Price Administration advanced the price to 8.25 cents. Except for a brief interim during the OPA "holiday", that price remained constant until the metal was decontrolled on November 9, 1946. Thereafter, the price was advanced by producers to 10.50¢ on November 11; to 11.80¢ on November 18; to 12.55¢ on December 16; to 13¢ on January 7, 1947; to 14¢ on February 25; and to 15¢ on March 3—where it stands at date of this report.

Likewise, prime western zinc was held at 8.25¢ from October 8, 1941 to October 14, 1946, except, again, for the brief lapse of OPA. On the latter date, OPA raised the ceiling price to 9.25¢; and, following decontrol, producers set a price of 10.50¢ on November 12, at which it has since held.

Provision for depletion and depreciation and adjustment of the values of certain specific properties; and charges in respect of mine exploration and prospecting and net loss on the retirement or sale of capital assets, in the aggregate, closely approximated similar charges in 1945.

Provision for Federal and State taxes on estimated taxable income amounted to $825,000, in comparison with $275,000 for the 1945 fiscal year. The increase in this charge against earnings directly reflects the larger profit realized in the current fiscal year plus the non-recurring deduction in the earlier year in respect of the settlement of the NLRB case.

DIVIDENDS

Dividends on common stock aggregated $1 per share during the 1946 fiscal year. Payments for the first and second quarters of the year were at the rate of 20¢ per share. Effective with the June, 1946, quarterly payment, your Directors increased the quarterly rate to 30¢ per share, in accordance with the policy enunciated in previous annual reports.

BALANCE SHEET

Net working capital at November 30, 1946, as measured by the excess of current assets over current liabilities, amounted to $12,570,558.02, in comparison with $13,555,909.80 at November 30, 1945. Current assets, including reserve fund investments in United States Government securities, exceeded total liabilities by $11,578,318.78, in comparison with $12,926,961.55 at the end of the preceding fiscal year.

During the year under report, $3,421,885.79 was expended in the rehabilitation, modernization and expansion of previously existing plant facilities and in the acquisition of new plant and product capacity; and investments in and advances to unconsolidated affiliates were increased by $294,919.78. These expenditures will be dealt with in greater detail in a subsequent section of this report. Costs of mine exploration and prospecting amounted to $269,922.81. Dividends paid or accrued during the year totalled $889,076. The foregoing expenditures aggregated $4,875,804.38. Operating income for the year, after provision for income taxes but before deducting charges classified as depletion, depreciation, etc., amounted to $3,469,587; and reduction of other minor accounts produced $57,574.61—a total of $3,527,161.61. The excess of expenditures over realizations, or $1,348,642.77, represents utilization of previously accumulated resources and reflects the aforementioned reduction in the amount by which current assets (including reserve fund investments) exceeded total liabilities.

At November 30, 1946, the 889,076 common shares outstanding had a book value of $23.28 per share, of which $13.02 was represented by net current assets; $7.96 was invested in fixed and intangible assets; and $2.30 was represented by other assets.

Despite substantial capital expenditures, the full amount of reserve funds at November 30, 1946, continued to be invested in segregated securities and only excess investments in United States Government obligations were included in current assets. The rapid and substantial increase in metal prices, previously noted herein, demonstrates the wisdom of retention of the reserves heretofore established for future decline in inventory values and contingencies.

Accounts receivable at November 30, 1946, showed an insignificant increase over the preceding year-end; and continued fully current. As previously reported, the Company's policy is to provide reserves for receivables on the basis of the age of the individual accounts. Notwithstanding reversal of the current year's provision of $104,032.44, the accumulated reserve at the balance sheet date was some $48,000 in excess of estimated requirements.

Consolidated inventories at November 30, 1946, were valued at $9,297,437.71, an increase of $1,960,259.40 over the corresponding figure at November 30, 1945. The increase in respect of ores, metals and metal-bearing products amounted to $749,967.45 and reflects in its entirety the rising metal markets, as aggregate metal content increased insignificantly to 51,979 tons from 51,830 tons at November 30, 1945. The corresponding increase in merchandise for resale, other products in process and manufacturing materials and supplies amounted to $1,210,291.95, of which $896,030.69 represented the inventory of a company acquired during the year.

As noted in previous reports, the indenture, under which the Company's debentures were issued, contains certain provisions relating to the payment of dividends. At the present level of indebtedness, net working capital (as defined in the indenture) exceeded indenture requirements by $9,454,117.12. Accumulated earnings to November 30, 1946, unrestricted as to payment of dividends, amounted to $5,022,363.85.

MINING AND SMELTING OPERATIONS

During the year under review, the Company's Tri-State mills beneficiated 3,430,312 tons of ore, in comparison with 3,222,960 tons in 1945; and produced therefrom 116,998 tons of concentrates, in comparison with 123,035 tons in the preceding year. The Henryetta (Okla.) zinc smelter was inoperative from April to September, as the result of a strike, and slab zinc production consequently declined to 19,487 tons in 1946 from 42,901 tons in 1945. Closure of the smelter, however, had no material effect on earnings, since the smelting margin was very narrow and a ready market existed for concentrates.

At November 30, 1946, the investment in and advances to Mexican subsidiaries stood at $520,835.75, represented by the following assets:

Net current and working assets	$631,820.94
Repair parts, maintenance supplies, etc.	95,010.41
Mining lands, leases and development work; and mine and mill buildings and equipment—less depletion and depreciation	74,281.72
Prepaid and deferred charges	19,716.17
	$820,829.24
Accumulated operating income to date (after provision of $940,775.96 for depletion and depreciation)	281,665.28
	$539,163.96
Minority interest (6%) in Minas de Guerrero, S. A.	18,328.21
	$520,835.75

At November 30, 1945, the corresponding figure was $490,835, which then represented almost solely the investment in and advances to Minas de Guerrero, S. A., a company operating in the vicinity of the town of Taxco. At November 30, 1946, the Guerrero investment had been reduced to $373,427.45; but your Company had made advances of $147,408.30 to other subsidiaries, which are presently engaged in promising exploration and development work at two locations in the State of Chihuahua.

Consolidated operating income of Eagle-Picher de Mexico and subsidiaries, for the fiscal year ended November 30, 1946, after provision of $192,397.72 for Mexican income taxes but before provision for depletion and depreciation, amounted to $584,483.73. To date, all surplus earnings have been applied in liquidation of your Company's investment in these properties and no portion thereof has been taken into account in the consolidated income of The Eagle-Picher Company, except as to interest on advances, paid under the requirements of Mexican law. Such interest payments have aggregated $108,348.05, including $13,873.22 for the 1946 fiscal year. Production for the year under review amounted to 45,045 short tons of concentrates.

Operations of the St. Xavier mine and Suaharita mill, near Tucson (Arizona), produced 15,996 concentrate tons and a net profit of $309,293.69 before provision for Federal and State income taxes. Royalty payments were completed in October, 1946, and this property is now owned in fee.

DEVELOPMENT PROGRAM

Of major interest and importance to shareholders are the steps taken during the year by your management to implement a program of rehabilitation, modernization and expansion of existing production facilities; to acquire additional plants; and to expand and diversify its product lines.

Your Company numbers among its customers many of the largest and financially strongest manufacturers of electric storage batteries, paints, glassware, ceramics, rubber products, and rayon—to mention but a few of the broad list of users of lead and zinc products. Generally, these companies have well considered plans for expansion of their present manufacturing facilities and the erection of new plants adjacent to centers of utilization of their products. To serve these customers and to maintain its relative position in the industry, it is essential that your Company conduct its planning along similar broad lines.

In its prominent position as a supplier of lead and zinc products, your management considers maintenance of a consistent supply of raw materials to be of basic importance. The steps taken to insure such a supply—and the results thereof—have been presented in preceding paragraphs on Mining and Smelting operations. Capital expenditures in the Tri-State and Arizona fields amounted to $343,645.63, including $97,368.50 for equipment of Northeast Oklahoma Railroad, a wholly-owned common carrier serving the Kansas-Oklahoma section of the Tri-State District. In Mexico, as previously noted, $147,408.30—or approximately 25% of current year's earnings from Mexican operations—were "plowed back" in the development of prospective ore reserves in other areas of the Republic. And, in addition to these specific investments, prospecting and exploration for new ore bodies was carried on in several sections of the United States—at a cost of $269,922.81 in 1946, which, as usual, was charged to the current year's operations. Despite the difficulties of maintaining such a program during the war, expenditures of this nature have aggregated $1,698,571.68 since December 1, 1941—an annual average of $339,714.33.

In the processing divisions of your Company's business, the major expenditure during the year resulted in the acquisition of the East Chicago (Indiana) plant of International Smelting and Refining Company, a wholly-owned subsidiary of Anaconda Copper Mining Company. This plant, strategically located in the Chicago area—in which we have, heretofore, had only minor production facilities—puts our three metal-processing divisions actively in business in that area. The plant has extensive facilities for the retreatment of secondary metals; an electrolytic plant of large capacity for the production of white lead carbonate; and facilities for the production of commercial and pharmaceutical grades of zinc oxide. It is not presently equipped for the production of lead oxides, but consideration is being given to the installation of equipment for that purpose.

During the year, the Cincinnati property of your Company was disposed of and the white lead equipment from that plant will be installed at our Newark plant, where it will operate in conjunction with the East Chicago plant.

The Metal Products Division of your Company produces several types of building materials, such as plumbers' supplies, flashings and flanges, and shower pans; and a broad line of lead and mixed metal products. An extensive program of expansion of this division has been under way for the past two years and is presently nearing completion. A new plant was erected adjacent to our Argo lithopone plant, to replace an obsolete plant sold in 1945; an existing secondary smelter was acquired in the Dallas area and supplemented by the erection of a fabricating plant; the East St. Louis plant was returned to the Company by the War Department, which requisitioned it during the war, and has been placed in operation on an expanded scale; and a new plant is to be built in Cincinnati to continue to serve that area.

In addition to its position as a producer of lead and zinc products, your Company occupies an increasingly prominent position in the building materials field—an outgrowth of its insulation business. In the development of its home and industrial insulation lines, the management of that division built up a large and diligent body of distributors. This group of distributors has actively promoted the sale of Eagle-Picher mineral wool insulation. So favorable has been its customer acceptance, that it was necessary to supplement our original Joplin (Mo.) plant by acquisition of a plant at Wabash (Indiana); and, subsequently, to increase production capacity at both plants substantially. However, these distributors have facilities for the sale and installation of other products in the building material field; and a complete line of insulation products embodies more than mineral wool insulation. As a step toward rounding out the line, your Company acquired a diatomite deposit in Nevada—diatomite being a non-metallic product employed as an insulant in the higher temperature ranges; and having, as well, other uses in paint, paper and filtration. Development of this deposit has been in progress for the past year and it should be brought into production in the near future.

To implement the demand for a broader line of building materials, your management, in June, 1946, acquired all outstanding shares of Orange Screen Company. This company operates plants in Maplewood and Dover (N. J.) for the production of an aluminum combination screen and storm window unit; and for the manufacture of a varied line of similar aluminum products. We have enjoyed a very active demand for the products of this new acquisition; and, during the five months of operation under our management, the company realized a net profit of $115, 153.41 after provision for depreciation and Federal taxes.

In conclusion, it is to be hoped that stockholders, customers, dealers and distributors, will recognize the tremendous burden that has been placed upon your management in initiating and carrying out the foregoing program with all the intelligence and effectiveness at its command—in addition to conducting daily operations under not the easiest conditions. The achievements of the year have been made possible only by a unity of purpose and effort of the officers and the entire staff. We are confident that these efforts will continue to bear fruit during the coming year.

By order of the Board of Directors and on behalf of your management.

JOSEPH HUMMEL, JR.
Chairman

JOEL M. BOWLBY
President

CINCINNATI, OHIO
March 17, 1947

The common shares of the Company are dealt in on the New York Stock Exchange.

THE EAGLE-PICHER COMPANY AND

Consolidated Balance Sheets as at

ASSETS

	NOVEMBER 30, 1946		NOVEMBER 30, 1945	
CURRENT ASSETS:				
Cash in Banks and on Hand		$ 2,959,945.19		$ 3,830,428.99
U. S. Government Obligations—at cost (Market value at November 30, 1946—$1,057,040.15)		1,057,000.00		1,313,440.31
Accounts and Notes Receivable	$ 4,531,403.52		$ 4,362,031.02	
Less: Reserves for Doubtful Accounts and Notes	354,035.64	4,177,367.88	345,423.00	4,016,608.02
Inventories of Raw Materials, Work in Process, Finished Products and Supplies:				
Ores, Metals, and Metal-bearing Products—valued at the lower of cost or market price of metal content, plus manufacturing costs on Materials in Process and Finished Products	6,943,597.08		6,193,629.63	
Merchandise for Resale, Other Products in Process, and Manufacturing Materials and Supplies—at cost	2,353,840.63	9,297,437.71	1,143,548.68	7,337,178.31
		17,491,750.78		16,497,655.63
RESERVE FUND INVESTMENTS:				
U. S. Government Obligations—at cost (Market value at November 30, 1946—$2,532,355.66)		2,529,803.00		2,516,051.75
OTHER ASSETS:				
Repair Parts, Maintenance Supplies, etc.	743,236.63		648,332.28	
Miscellaneous Accounts, Advances, etc.	65,400.04		217,211.85	
Sundry Securities—at or below cost	4,892.93	813,529.60	18,427.93	883,972.06
INVESTMENT IN AND ADVANCES TO AFFILIATES:				
Mexican Subsidiaries not consolidated	520,835.75		490,835.00	
Other Affiliates	470,419.98	991,255.73	205,500.95	696,335.95
FIXED AND INTANGIBLE ASSETS:				
Mining Lands and Leases; Mills, Smelters and Fabricating Plants; and Railroad and Miscellaneous Properties	33,513,773.32		32,441,706.07	
Less: Reserves for Depletion, Depreciation, etc.	27,928,054.57		27,754,707.62	
	5,585,718.75		4,686,998.45	
Cost of stock of consolidated subsidiaries in excess of book value, at dates of acquisition, of net assets acquired	1,490,475.48		64,777.33	
Patents, Goodwill, etc.	1.00	7,076,195.23	1.00	4,751,776.78
TREASURY STOCK—10,924 shares at cost		61,797.56		61,797.56
PREPAID AND DEFERRED CHARGES:				
Prepaid Freight, Insurance, etc.	124,334.61		104,581.05	
Miscellaneous Deferred Charges	111,896.04	236,230.65	105,560.24	210,141.29
		$29,200,562.55		$25,617,731.02

ND CONSOLIDATED SUBSIDIARIES

ts at November 30, 1946 and 1945

LIABILITIES

	NOVEMBER 30, 1946		NOVEMBER 30, 1945	
CURRENT LIABILITIES:				
Accounts Payable		$ 2,744,423.28		$ 1,444,484.11
Dividend on Common Stock		266,722.80		177,815.20
Accrued Liabilities:				
Wages and Salaries	$ 353,574.01		$ 333,611.01	
Taxes—other than taxes on income	175,942.17		140,382.64	
Other	188,433.66	717,949.84	167,450.63	641,444.28
Provision for Federal and State Taxes on Income	1,909,126.84		1,137,761.24	
Less: U. S. Treasury Tax Savings Notes	1,002,030.00	907,096.84	744,759.00	393,002.24
Debenture Sinking Fund Payment		285,000.00		285,000.00
		4,921,192.76		2,941,745.83
PURCHASE MONEY OBLIGATION:				
Payable serially to March 1, 1952	1,544,764.57			
Less: Contingent Obligation, payable from earnings of acquired subsidiary, if and to the extent earned, not in excess of	441,361.25			
Fixed Obligation	1,103,403.32			
Less: Payment due January 2, 1947 (included in Accounts Payable)	441,361.08	662,042.24		
FIFTEEN YEAR 3½% SINKING FUND DEBENTURES—DUE NOVEMBER 30, 1957	3,145,000.00		3,430,000.00	
Less: Sinking Fund Payment due within one year (included in Current Liabilities)	285,000.00	2,860,000.00	285,000.00	3,145,000.00
RESERVES:				
For Self Insurance:				
Workmen's Compensation	322,362.38		315,751.19	
Fire and Tornado	108,157.49		101,547.17	
	430,519.87		417,298.36	
For Future Decline in Inventory Values	1,300,000.00		1,300,000.00	
For Contingencies	800,000.00	2,530,519.87	800,000.00	2,517,298.36
COMMON STOCK—Par value $10:				
Authorized ... 1,000,000 shares				
Issued and Outstanding ... 900,000 shares		9,000,000.00		9,000,000.00
SURPLUS:				
Capital Surplus	1,900,999.32		1,900,999.32	
Earned Surplus—per accompanying statement	7,325,808.36	9,226,807.68	6,112,687.51	8,013,686.83
		$29,200,562.55		$25,617,731.02

"Portal to portal pay" suits, claiming an aggregate amount of some $13,000,000, were filed against the company and certain of its subsidiaries subsequent to November 30, 1946

THE EAGLE-PICHER COMPANY AND CONSOLIDATED SUBSIDIARIES

Consolidated Statements of Profit and Loss and Earned Surplus

FOR THE YEARS ENDED NOVEMBER 30, 1946 AND 1945

	NOVEMBER 30, 1946		NOVEMBER 30, 1945	
NET SALES (including production premiums)...		$40,989,398.37		$41,290,803.05
PRODUCTION AND MANUFACTURING COSTS...		33,637,348.23		35,532,733.66
GROSS OPERATING PROFIT — before Depletion and Depreciation..........................		7,352,050.14		5,758,069.39
EXPENSES:				
Selling....................................	$1,342,331.05		$1,004,846.95	
Traffic, Warehousing and Shipping...........	610,181.95		434,791.97	
General and Administrative.................	1,497,848.94	3,450,361.94	1,333,802.93	2,773,441.85
NET OPERATING INCOME—before Depletion and Depreciation:				
Mining and Manufacturing..................		3,901,688.20		2,984,627.54
Northeast Oklahoma Railroad Company......		263,679.47		244,963.89
		4,165,367.67		3,229,591.43
OTHER INCOME:				
Royalties..................................	53,359.30		75,382.25	
Interest from Subsidiary not consolidated.....	13,873.22		31,054.15	
Other Interest and Dividends................	50,110.78		58,148.18	
Miscellaneous.............................	131,926.03	249,269.33	120,127.17	284,711.75
		4,414,637.00		3,514,303.18
INTEREST PAID:				
On Debentures............................	120,050.00		130,025.00	
On Federal tax deficiency..................		120,050.00	47,634.38	177,659.38
		4,294,587.00		3,336,643.80
DEPLETION, DEPRECIATION, ETC.:				
Provision for Depletion and Depreciation.....	902,213.27		1,053,484.74	
Provision for Write-down of Properties.......	54,628.28		25,000.00	
Abandoned Projects, Prospecting Expenses and Loss on Retirement or Sale of Capital Assets	410,548.60	1,367,390.15	290,747.06	1,369,231.80
NET PROFIT — before provision for Federal and State Income Taxes......................		2,927,196.85		1,967,412.00
PROVISION FOR FEDERAL AND STATE INCOME TAXES..................................		825,000.00		275,000.00
NET PROFIT FOR YEAR......................		2,102,196.85		1,692,412.00
SURPLUS CHARGES — Settlement of National Labor Relations Board case (including legal fee)				300,000.00
SURPLUS NET PROFIT......................		2,102,196.85		1,392,412.00
EARNED SURPLUS AT BEGINNING OF YEAR ..		6,112,687.51		5,298,174.91
		8,214,884.36		6,690,586.91
DIVIDENDS PAID AND ACCRUED............		889,076.00		577,899.40
EARNED SURPLUS AT END OF YEAR........		$ 7,325,808.36		$ 6,112,687.51