ST. JOSEPH LEAD COMPANY

NINETEEN HUNDRED AND SIXTY FIVE ANNUAL REPORT

HIGHLIGHTS OF THE 102nd YEAR

	1965	1964
Sales of metals, etc.	$136,156,901	$109,509,039
Federal and State income taxes	$ 11,601,802	$ 6,521,990
Net income (after taxes) and special items	$ 22,781,108	$ 20,244,494
Dividends paid:		
Cash	$ 10,503,786	$ 7,588,828
3-for-2 stock split effected in the form of a stock dividend	—	50%
Shares of capital stock outstanding	4,570,564	4,560,077
Per share on capital stock:		
Taxes on income	$2 54	$1.43
Net earnings (and special credit — 1964, $0.51)	$4 98	$4.44
Dividends	$2 30	$1.66
Current assets	$ 74,347,349	$ 70,071,803
Current liabilities	$ 17,129,015	$ 14,222,293
Net current assets	$ 57,218,334	$ 55,849,510
Ratio of current assets to current liabilities	4 34 to 1	4 93 to 1
Long-term debt (excluding amounts in current liabilities)	$ 19,216,669	$ 30,388,098
Cash	$ 3,935,327	$ 3,281,913
Marketable securities (at cost)	$ 43,211,538	$ 44,932,844
Capital expenditures (excluding Meramec Mining Co.)	$ 10,377,266	$ 8,314,200
Number of employees	3,820	3,769
Number of stockholders	11,792	9,107
Stockholders' investment in the business:		
Total	$117,290,252	$104,778,131
Per share	$25 66	$22.98

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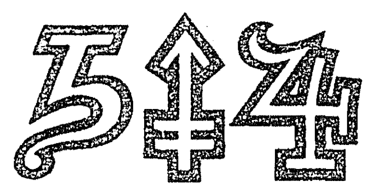
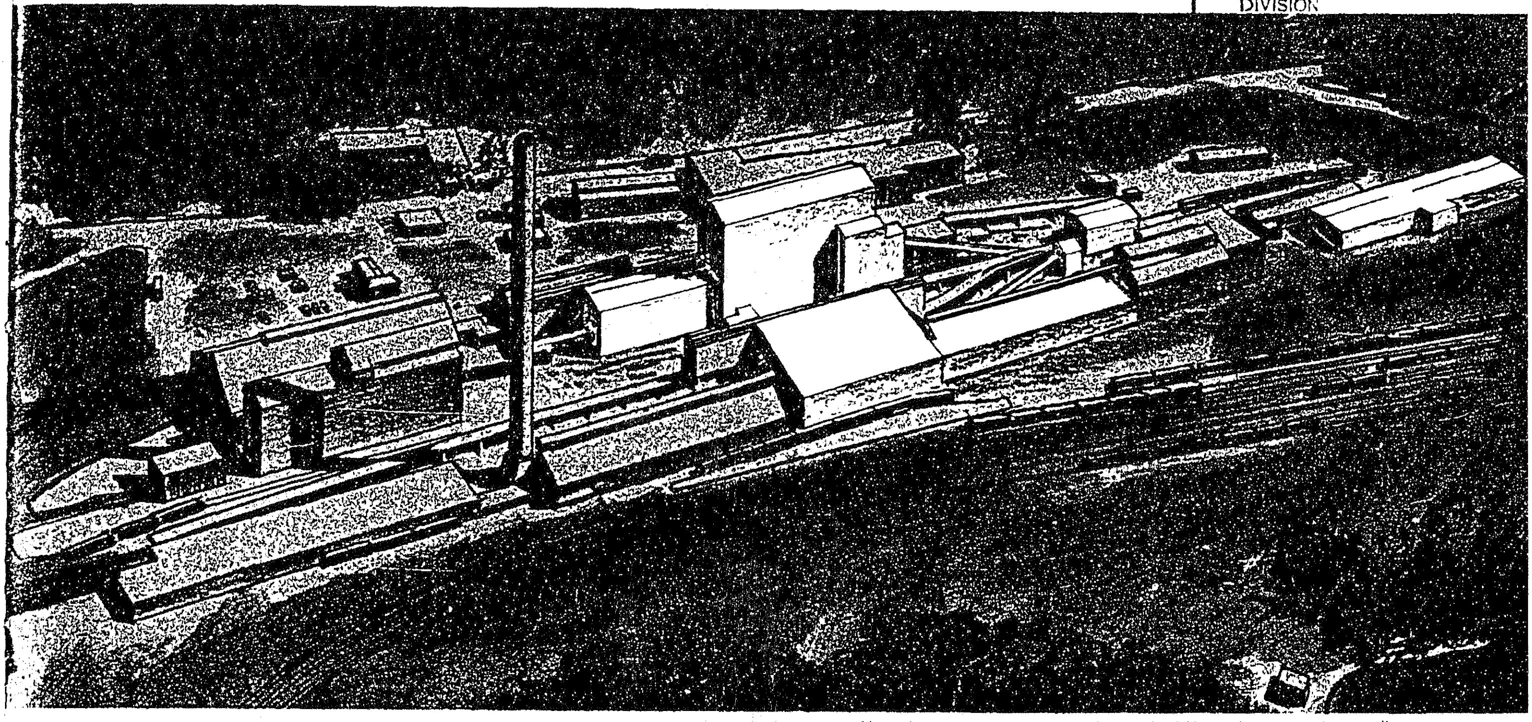


ST. JOE ANNUAL REPORT COVER

Lead, iron, and zinc—St. Joe's principal metals—are among the oldest of the useful metals found in the earth's crust The early Greek alchemists originated a system of identifying metals by symbols, and assigned the symbol for Saturn to lead (♄) and that of Mars (♂) to iron Later, when the distinctive properties of zinc became known in the 15th century, the medieval alchemists assigned a variety of symbols to zinc, including the one shown above (♃)

Today, the symbols commonly used for lead, iron, and zinc are Pb, Fe, and Zn



Herculaneum expansion, with new buildings shown in white, will make this the most modern lead smelter in the United States

ST. JOSEPH LEAD COMPANY 1965 ANNUAL REPORT

TO THE STOCKHOLDERS:

Your Company's net income for 1965, the 102nd year of operation, amounted to $22,766,498, equivalent to $4.98 per share on the 4,570,564.5 shares outstanding at the year end, and was the highest in the Company's history. In addition, an after-tax profit of $506,979 was realized from the sale of the Company's holdings of stock in New Jersey Zinc Company, which was largely offset by an after-tax loss of $492,369 incurred as a result of the insolvency of the general contractor in charge of building the Fletcher Mine surface facilities, resulting in a net gain of $14,610. By comparison, in 1964 net income was $17,911,779, or $3.93 per share, to which was added net after-tax profit of $2,332,715 from the sale of the Company's investment in stock of the Missouri-Illinois Railroad Company, equivalent to 51¢ per share.

Earnings were principally derived from the Company's domestic operations. Although net profits of the Company's foreign based affiliates in 1965 amounted to $6,420,992 (computed on the basis of year-end official exchange rates), the operation of exchange restrictions reduced the amount of dividends and interest received by the Company from such operations to $2,013,534, as against $4,310,437 received in 1964. Of the income received from foreign operations, $1,148,000 was in the form of Argentine government 5% External Dollar Bonds, payable over the next 3-4 years.

The record earnings in 1965 reflected the excellent metal prices which prevailed and the Company's ability to operate at capacity without interruption throughout the year. The new facilities at Viburnum were operated in excess of rated capacity and the zinc smelter at Josephtown produced 202,657 tons of metal equivalent, a new record, compared with the former record of 193,444 tons set in 1964. In addition, Meramec Mining Company increased its output of iron ore pellets and contributed to St. Joe's net earnings for the first time.

The Board of Trustees on August 17, 1965 increased the quarterly dividend rate from 50¢ to 65¢ per share, and a total of $2.30 per share was distributed during the year. Earlier in the year, the Board authorized prepayment of the entire remaining unpaid long term bank debt of the Company, amounting to $10,000,000. Despite increased cash dividend payments, retirement of bank debt and capital expenditures of $10,377,266, working capital increased from $55,849,510 at the end of 1964 to $57,218,334 at December 31, 1965.

For the past two years world-wide demand for both lead and zinc has increased more rapidly than industry's ability to enlarge its production capacity. The increased U. S. consumption of lead and zinc kept both metals in short supply throughout the year. Critical potential shortages were forestalled by releases from the Government stockpiles.

In October the President of the United States announced the elimination of import quotas on foreign importation of lead and zinc metal, and on concentrates. This action followed a report by the Tariff Commission concluding that such restrictions were no longer necessary. Elimination of the 1958 quotas had no immediate effect on the prices of either metal or on industry efforts to complete expansion projects. It is well known, however, that large deposits of both lead and zinc are under development in the U. S., Canada, Australia and elsewhere, with the result that the potential supply of these metals within two to three years may be in excess of presently anticipated increases in demand. Your management does not foresee a decrease in demand or a material increase in supply developing during 1966. This situation could change should business activity decline or should the Government's present policy with regard to the release of stockpile metals be changed.

Your Company's new lead mining and milling facilities at the Fletcher project, and the expanded lead smelting facilities at Herculaneum, should come into operation in the 4th quarter of 1966. During the past year, No. 29 shaft unit at Viburnum came on-stream and contributed substantially to the production at this operation. At Edwards the new mill facilities became operative, and the resultant increased production helped ease the tight supply situation in zinc.

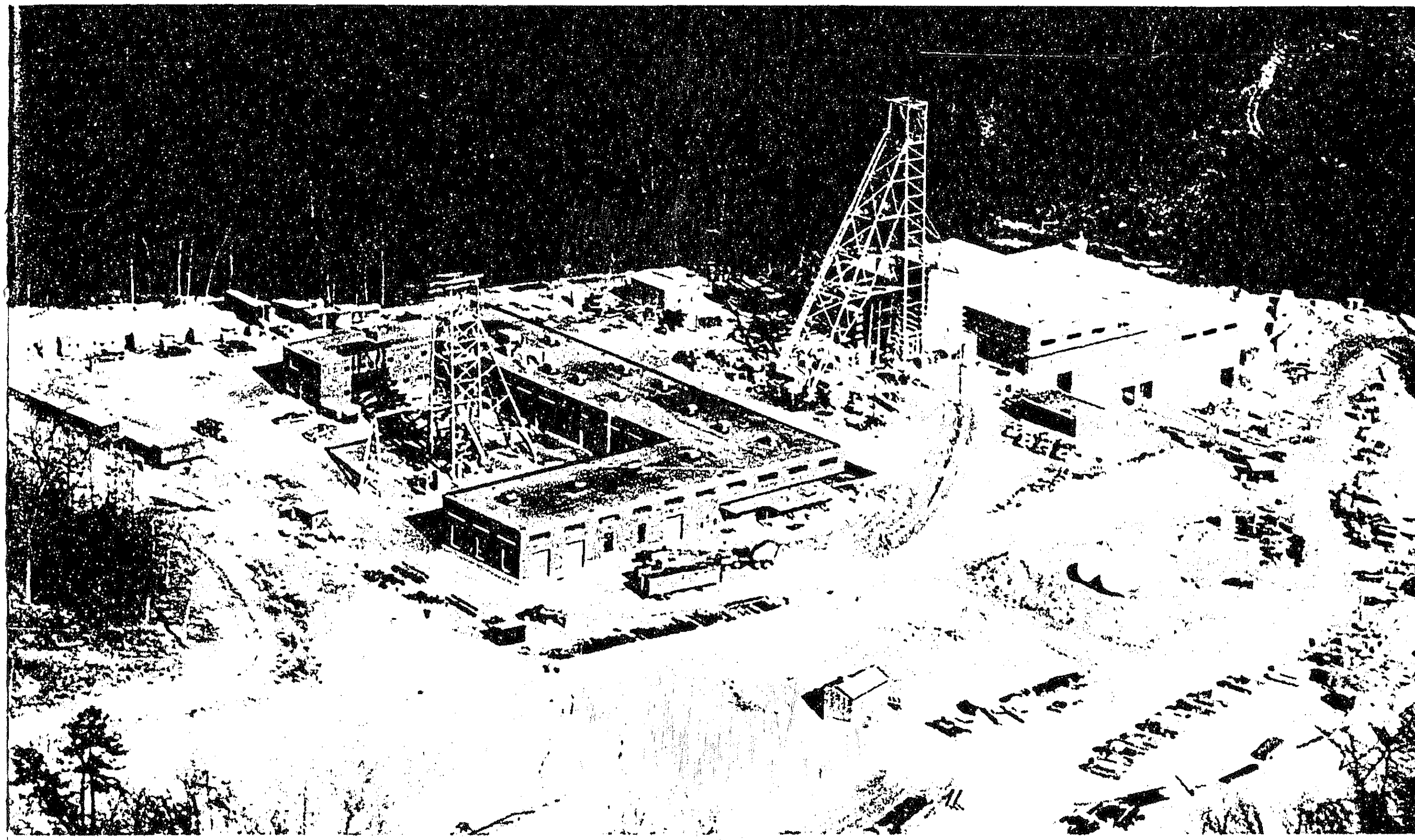
Exploration efforts in Missouri continue to add to the Company's already large reserves in the new Lead Belt, and at Balmat deep drilling has indicated what may prove to be substantial additions to the zinc reserves of this property. St. Joe's exploration activity elsewhere, both in this country and abroad, continues at a somewhat accelerated pace but without any discoveries worthy of reporting.

The 1966 outlook is favorable, although earnings will be affected by having to close the Herculaneaum smelter for four to six weeks during the third quarter to effect a changeover to the new smelting facilities. Contributions to St. Joe earnings from our overseas companies are difficult to assess because of continuing exchange difficulties in those countries in which we operate. Physically, your Company's mines and treatment plants are in excellent condition and have never operated at greater efficiency. The Company's new domestic mines, mills and expanded and modernized smelters should be in operation before the major effect of future competitive pressures is felt. Continuing our policy of modernization and improvement of facilities, to achieve greater efficiencies and lower costs, capital expenditures in 1966 are budgeted at $9,300,000. In addition, the Research and Development budget for the year has been substantially increased.

During the course of the past year there were no material changes in personnel, and labor relations at all Divisions of the Company were harmonious. Mr. James G. Colvin, our Treasurer, was elected by the Trustees to the additional office of Vice President in August. Our employees put forth extra effort to enable us to achieve the records established in 1965, and we take this opportunity to express to them and to our stockholders our appreciation of their support.

CHAIRMAN

PRESIDENT



Construction at Fletcher Mine is proceeding on schedule to meet the target completion date of late 1966

LEAD OPERATIONS

The Company's mining and milling operations in southeast Missouri, comprising the Federal Division, the Indian Creek Division, and the Viburnum Division, operated continuously during the year on a 40-hour week basis. Lead concentrate production for the year amounted to 186,367 tons from all units, up from a production in 1964 of 167,623 tons. The increased production was primarily from the Viburnum area, where all of the Company's new mines were in full operation. In addition to lead concentrates, the Federal unit produced a minor quantity of by-product copper concentrates, the Indian Creek unit small tonnages of zinc concentrates, and the Viburnum unit both by-product copper and zinc concentrates. For many years the Federal plant has also recovered from the tailings it produces, an agricultural limestone product which is sold in the Mid-West farming states for soil improvement.

The development of the Fletcher mine and mill complex south of Viburnum is proceeding on schedule and it is expected that the first production from this unit will be obtained late this year. Construction has also started on new surface facilities and a hoisting shaft, located about 1½ miles from the Indian Creek mill. Production from this facility is not planned for at least two years, and the ore from this mine will be milled at the present Indian Creek plant.

The modernization and expansion program of the Company's lead smelter at Herculaneum is scheduled for completion during the fourth quarter of 1966. It will increase the Company's lead smelting capacity to in excess of 200,000 tons per year of refined lead metal. Upon completion it is expected to be one of the most modern and efficient lead smelters in the world, and will incorporate a number of new technological features which should be effective both in improving efficiency and lowering costs. Over-all plans for Herculaneum call for the eventual construction of a by-product sulphuric acid plant to utilize the waste gases produced from the sinter plant.

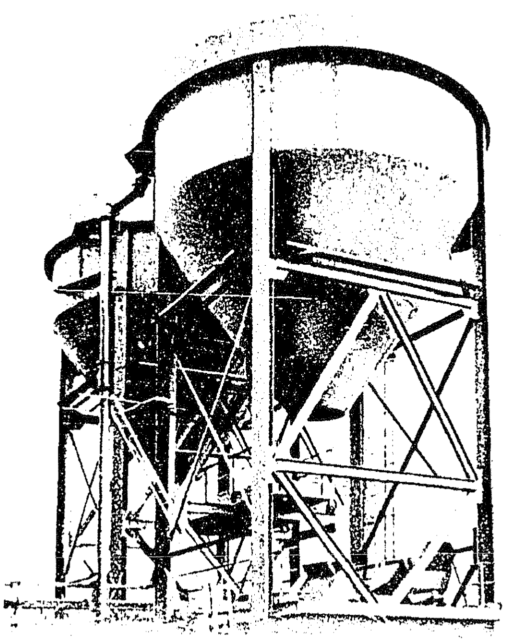
Despite disruptions caused by the construction program in progress, the Herculaneum smelter produced 105,799 tons of refined pig lead during 1965, as compared with a production of 117,643 tons in 1964. The excess of concentrates produced by the Company's mines was smelted on a toll basis by other lead smelters. Although further disruptions of smelter operations will be experienced during 1966—due to the change-over to the new facilities—the smelter's total production of refined lead for the year should approximate that of 1965. A substantial portion of the excess mine production will again be smelted on a toll basis by others.

ZINC OPERATIONS

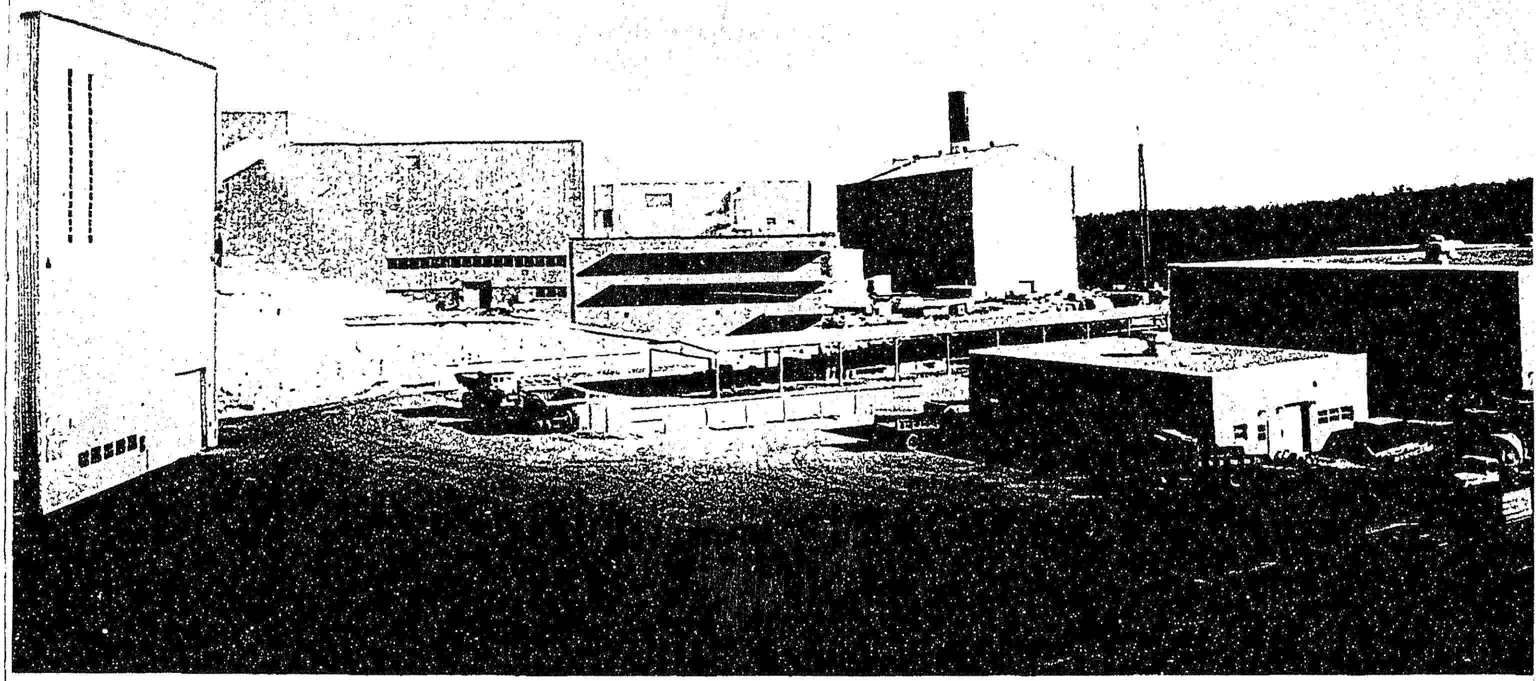
The mines and mills of the Balmat-Edwards Division in northern New York State operated without interruption on a six-day week basis throughout the year. The tonnage of ore mined and of zinc concentrates produced established a record for this Division. Zinc concentrate production totaled 131,492 tons, all of which was shipped to the Josephtown smelter, as compared with 114,383 tons in 1964. In addition, the Balmat mill produced a minor tonnage of lead concentrates which was shipped to Herculaneum for smelting.

The increase in production at this Division resulted largely from the completion, in the second quarter, of the expansion and modernization program undertaken last year at the Edwards mine and mill.

The Company's Zinc Smelting Division at Josephtown, Pennsylvania, for the second year in a row established a new production record, producing 202,657 tons of zinc metal equivalent for the year, as compared with 193,444 tons in 1964. The continuing increase in productivity resulted more from improvements in operating techniques than from other factors, as new productive capacities planned and under construction will not be operative until mid-1966.



Slag de-watering tanks at the Herculaneum lead smelter, part of the improved system for preparing the blast furnace charge.



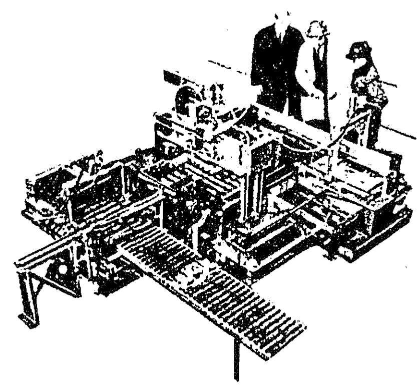
Meramec Mining Company, showing the secondary crushing plant, mill, pellet plant, carpenter shop, and stores-repair building.

IRON ORE MINING AND PELLETIZING

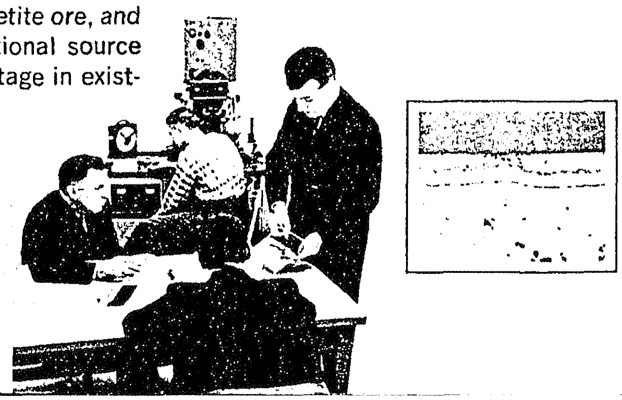
Meramec Mining Company, the Company's joint venture with Bethlehem Steel, gradually increased the rate of pellet production from 1,250,000 long tons early in the year, to a rate of over 1,700,000 long tons by the year end. Total pellet production for the year amounted to 1,581,736 long tons.

Because of the premium quality of these pellets, demand exceeded available supply. Long term contracts were negotiated during the year for the sale of St. Joe's share of the anticipated annual pellet production. Meramec operations returned a profit (after all charges) to the Company in 1965 as against a loss in 1964, although development and experimental work continued to be carried on at a rate well in excess of normal.

Continuing research has been conducted into methods for handling efficiently the very large tonnage of high grade hematite ore encountered in the mining of the basically magnetite orebody. The existing concentrating plant and pelletizing furnace were designed primarily for the processing of magnetite ore, and although the hematite represents a valuable additional source of iron, it presently cannot be utilized to full advantage in existing facilities.



Zinc slab stacker, designed and built by the Zinc Smelting Division, receives and stacks the slabs and pallets of the zinc metal ready for conveyance to the shipping area



Customer technical service is an important part of the Zinc Smelting Division's sales effort Here, Division Manager Charles D Henderson (left) reviews a photomicrograph of a galvanized coating, shown enlarged in the inset, with Technical Service Representative William Tunney

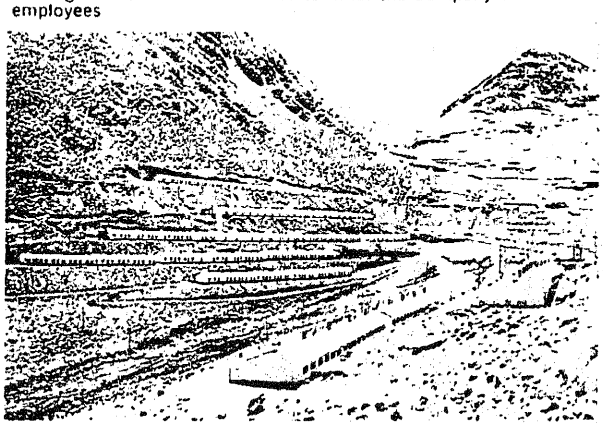
ARGENTINA

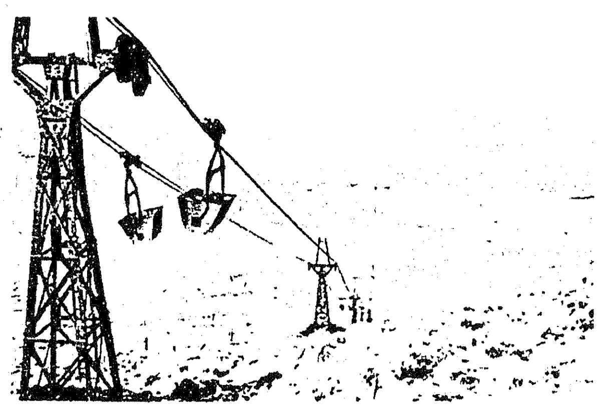
Cia. Minera Aguilar, S. A., St. Joe's Argentine affiliate, with its associated companies had a very satisfactory year. The Aguilar mine production in 1965 amounted to 35,339 metric tons of lead concentrates and 57,758 metric tons of zinc concentrates, as against 27,889 metric tons of lead concentrates and 41,240 metric tons of zinc concentrates in 1964. The demand for lead and zinc in Argentina continued to be such that the entire production in 1965 of both metals was sold in that country. With the growing demand within Argentina for metals, Aguilar has embarked on an expansion program which will increase its capacity by a minimum of 50%. Engineering and design work on this expansion project is under way and it is hoped that the additional capacity will be available commencing in 1968.

Cia. Metalurgica Austral, an Argentine company 43% owned by Aguilar, which operates a zinc smelter at Comodora Rivadavia, produced all the Prime Western zinc in 1965 that the availability of electric power would permit. The entire production for 1965, as well as previously accumulated inventory, was sold during the year within Argentina.

Cia. Sulfacid, S.A., an Argentine corporation 50% owned by Aguilar, likewise operated at capacity during 1965, producing Special High Grade zinc from its recently completed electrolytic plant, and by-product sulfuric acid. An expansion program completed late in the year increased Sulfacid's electrolytic zinc productive capacity from a previous 6,600 metric ton per year rate to approximately 12,000 metric tons per year. The high purity zinc produced by Sulfacid has found ready acceptance among Argentine consumers, and both sales and earnings have been satisfactory.

Aguilar mining community, high in the mountains of Northern Argentina, is a self contained town for the Company's employees





Overhead conveyor transports ore from the Aguilar mine, well up in the mountainside, down to the mill in the valley below

Inflation, federal budget deficits, and currency softness continue to present major difficulties to be overcome in improving Argentina's basic economic condition. The Government is searching earnestly for a solution, and there is reason to hope that it may be successful in stabilizing and reversing the present inflationary trend. Aguilar, because of its faith in the country's ability to overcome present economic problems and effectively develop the country's natural wealth, has been actively investigating opportunities to reinvest substantial portions of its current earnings in Argentine industry.

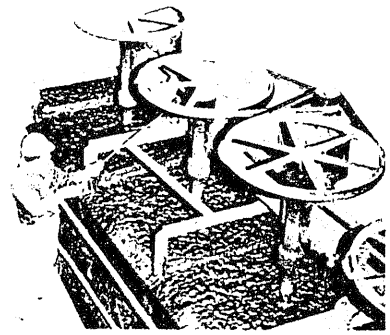
PERU

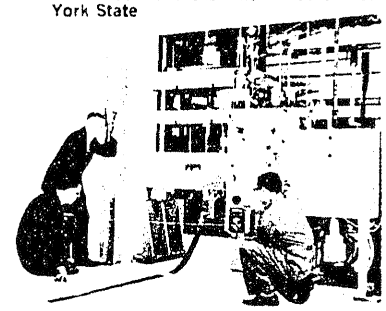
The Company's mining operations in Peru, carried on through Compania Minerales Santander, Inc., had a record production in 1965 of 10,827 tons of lead concentrates and 54,717 tons of zinc concentrates, as compared with 9,169 tons of lead concentrates and 45,382 tons of zinc concentrates in 1964. Increased efficiency and reduced costs, with excellent metal prices received during the year, provided Santander with a new high in earnings and permitted the declaration of its first dividend.

As the life of the present open pit mine is limited, active preparations are under way for a gradual transfer to an underground mining operation. The shift to underground mining should add years to the life of the operation, and although costs may be greater and earnings somewhat reduced, it is believed that the operation should remain economically attractive.

The economic and political outlook in Peru appears favorable if the present Government is successful in its continuing efforts to forestall threatening inflationary pressures. Large scale public works programs have put a severe strain on government budgets and on the exchange value of the sol. However, the country's traditional exports of fish meal, metals and agricultural products continue to expand, providing a stabilizing influence.


Santander, in the Peruvian Andes, is also a self contained community


Flotation process used to separate lead and zinc ores from rock is basically the same at Santander as at the lead mines of Missouri and the zinc mines of New York State


Multi purpose hydraulic press in the metal product laboratory at Josephtown is used for experimental extrusion of lead, compacting powders, press forming material, and other metalworking techniques requiring high pressure

EXPLORATION

The Company's exploration activities during 1965 were centered, as in the recent past, largely in this country and in Argentina and Peru. Drilling programs in Southeast Missouri added additional tonnages to an already large lead ore reserve. In the Balmat area, likewise, drilling indicated substantial additions to the potential zinc ore reserves of the Balmat operation. In Argentina an active program outside of the Aguilar area was carried on, but failed to develop properties of significant interest. In Peru, where the higher price of silver has greatly stimulated the interest of many international mining companies, an active investigation program was also carried on with encouraging prospects for the future. The continuing search for new reserves to replace those being exhausted is a prime function of any progressive mining company, and it is the policy of your Company to vigorously pursue such a search in those areas which we consider attractive. In 1966 our exploration expenditures in the U.S. and elsewhere can be expected to be increased.

RESEARCH AND DEVELOPMENT

In 1965, combined direct and indirect expenditures for research and development increased to approximately $2,000,000, including the Company's contributions to the programs of the Lead Industries Association, the American Zinc Institute, and the International Lead-Zinc Research Organization, Inc. This industry-sponsored product research has demonstrated the soundness of undertaking non-proprietary research on a cooperative basis. In the area of proprietary research, the Company in 1965 established at its Josephtown Zinc Smelter Division a new laboratory for research on products and processes aimed at new applications for lead and zinc which will hopefully broaden our markets for these metals.

ASSETS

	1965		1964	
CURRENT ASSETS:				
Cash	$ 3,935,327		$ 3,281,913	
Marketable securities (at cost)	43,211,538		44,932,844	
Accounts receivable—trade	12,191,583		9,885,059	
Other accounts receivable	1,203,286		918,509	
Inventories (Note 1):				
Lead, zinc, etc.	7,440,362		5,241,508	
Materials and supplies	6,365,253	$ 74,347,349	5,811,970	$ 70,071,803
INVESTMENTS AND ADVANCES (Note 2)		18,077,125		25,192,184
PROPERTY, PLANT AND EQUIPMENT (Note 3)	153,916,527		145,505,033	
Less accumulated depreciation and depletion	97,041,384	56,875,143	94,089,993	51,415,040
OTHER ASSETS:				
Securities on deposit with Governmental agencies	963,429		963,812	
Cash and marketable securities—Fire Insurance Fund (see contra)	360,574	1,324,003	360,743	1,324,555
DEFERRED CHARGES:				
Deferred shaft sinking, development and exploration charges (Note 4)	6,290,119		4,890,212	
Other deferred charges	1,819,561	8,109,680	813,807	5,704,019
TOTAL		$158,733,300		$153,707,601

See Notes to Financial Statements.

LIABILITIES AND STOCKHOLDERS' EQUITY

	1965		1964	
CURRENT LIABILITIES:				
Accounts payable and accrued liabilities	$ 9,333,008		$ 7,226,971	
Long-term debt due within one year (Note 5)	1,425,000		4,282,143	
Federal income taxes	6,371,007	$ 17,129,015	2,713,179	$ 14,222,293
LONG-TERM DEBT (Note 5)		19,216,669		30,388,098
DEFERRED FEDERAL INCOME TAXES—related to accelerated amortization and depreciation		3,874,050		2,978,452
RESERVES:				
Injury claims and workmen's liability insurance	612,679		717,374	
Employees life insurance and retirement	250,061		262,510	
Fire insurance (see contra)	360,574	1,223,314	360,743	1,340,627
STOCKHOLDERS' EQUITY (Notes 5 and 6):				
Capital stock, par value $10 per share: Authorized—10,000,000 shares Outstanding—1965, 4,570,564.5 shares; 1964, 4,560,077.5 shares (after deducting 21,386.35 shares in treasury)	45,705,645		45,600,775	
Other Capital—representing principally excess of amount of stock dividends over par value of capital stock	23,057,292		22,927,363	
Retained Earnings	48,527,315	117,290,252	36,249,993	104,778,131
TOTAL		$158,733,300		$153,707,601

See Notes to Financial Statements.

ST. JOSEPH LEAD COMPANY and CONSOLIDATED SUBSIDIARIES STATEMENT OF CONSOLIDATED INCOME

FOR THE YEARS ENDED DECEMBER 31, 1965 AND 1964

	1965	1964
NET SALES	$136,156,901	$109,509,039
COST OF SALES	96,979,226	83,481,096
	39,177,675	26,027,943
OTHER INCOME:		
Dividends on:		
Foreign investments	1,815,760	4,180,634
Domestic investments	166,793	274,860
Interest	1,945,655	1,544,327
Royalty, Meramec Mining Company	1,250,000	1,250,000
Sundry—net	354,680	235,528
TOTAL	44,710,563	33,513,292
DEDUCT:		
Selling, general and administrative expenses	2,629,666	2,495,910
Research expenses	695,363	559,611
Shaft sinking and development expenses Meramec, Viburnum and Fletcher Projects (Note 4)	365,850	501,176
Other exploration and development expenses	229,546	217,490
Past service annuities (Note 7)	153,581	153,580
Depreciation	4,343,765	4,183,059
Depletion	517,069	368,196
Interest on indebtedness	1,121,922	1,378,073
TOTAL DEDUCTIONS	10,056,762	9,857,095
INCOME BEFORE INCOME TAXES AND SPECIAL ITEMS	34,653,801	23,656,197
FEDERAL AND STATE INCOME TAXES	11,887,303	5,744,418
NET INCOME FOR THE YEAR (1965, $4.98 per share on 4,570,564.5 shares; 1964, $3.93 per share on 4,560,077.5 shares)	22,766,498	17,911,779
SPECIAL ITEMS (Note 9)	14,610	2,332,715
NET INCOME FOR THE YEAR AND SPECIAL ITEMS	$ 22,781,108	$ 20,244,494
PER SHARE	$4.98	$4.44

STATEMENT OF CONSOLIDATED RETAINED EARNINGS FOR THE YEARS ENDED DECEMBER 31, 1965 AND 1964

	1965	1964
RETAINED EARNINGS AT BEGINNING OF THE YEAR	$ 36,249,993	$ 38,781,252
NET INCOME for the Year and Special Items	22,781,108	20,244,494
TOTAL	59,031,101	59,025,746
DIVIDENDS PAID:		
Cash (1965, $2.30 per share; 1964, $1.66 per share reflecting 3-for-2 stock split)	10,503,786	7,588,828
Stock	—	15,186,925
TOTAL	10,503,786	22,775,753
RETAINED EARNINGS AT END OF THE YEAR	$ 48,527,315	$ 36,249,993

See Notes to Financial Statements.

1. INVENTORIES

Inventories of lead, zinc, etc. (finished, in process, and concentrates) are valued at cost (not in excess of market), determined substantially on the last-in, first-out (LIFO) method. Materials and supplies are valued at average cost.

2. INVESTMENTS AND ADVANCES

The carrying values of investments in the consolidated balance sheet, which are stated at cost, except as noted below, do not indicate the current value of such investments. The following is a summary of investments and advances:

Subsidiaries not Consolidated:	
Compania Minera Aguilar, S.A.—99.9% owned, capital stock (nominal value) (note 10)	$ 1
Compania Minerales Santander, Inc.—wholly owned (capital stock $899,071 and debentures $1,473,536)	2,372,607
Fifty-Percent Owned Companies:	
Meramec Mining Company (capital stock $2,500 and advances, net $15,636,651)	15,639,151
Mine La Motte Corporation capital stock (nominal value)	1
Other Securities, Loans, etc.:	
North Africa Investment:	
Societe des Mines de Zellidja (at less than cost)	52,115
Societe Nouvelles des Mines D'Ain-Arko (nominal value)	1
The Bunker Hill Company—400 shares capital stock at cost	4,000
Sundry securities, loans, etc.	9,249
	$18,077,125

The net assets of Compania Minerales Santander, Inc. and its liability to the Company on debentures, totaled $4,535,464 at December 31, 1965 and its net income for the year then ended was $1,111,762 after provision for interest on indebtedness to the Company, depreciation and depletion, of $81,625, $306,188, and $59,161, respectively. Development costs for 1965 were $281,733, which were charged against income.

During the year 1965, Bethlehem Steel Corporation and the Company, each reimbursed Meramec Mining Company to the extent of $9,113,373 for expenditures made by it. Of this amount, $120,313 was recorded in the Company's accounts as additional investment in that 50% owned Company, and $8,993,060 as the cost of production.

For financial accounting purposes, depreciation is provided in the accounts of the Company on its share of the depreciable property of Meramec Mining Company over twenty years, but for Federal income tax purposes on the declining balance method over ten years. Depreciation was provided in 1965, in the amounts of $883,646 and $2,588,231, for book and tax purposes, respectively and deferred U.S. income taxes of $818,201, based on current tax rates, applied to the difference in the depreciation amounts, were charged against income.

The Company's equity in the net assets of Mine La Motte Corporation at December 31, 1965, was $289,511 and its equity in the corporation's net loss for the year then ended, was $54,082.

3. PROPERTY, PLANT AND EQUIPMENT

All properties are stated at cost except for $17,000,000 of mining properties and mineral rights stated at appraised values, for which full allowances for depletion have been provided.

The net amount of property, plant and equipment as shown in the consolidated balance sheet does not indicate the present value of these assets, as such value could be arrived at only by current estimates which would vary from time to time depending on the price of metals, rate of production, cost of labor, and other factors.

4. SHAFT SINKING AND DEVELOPMENT EXPENDITURES

In 1963 the Company adopted the practice of capitalizing for financial accounting purposes, shaft sinking and development expenditures reduced by amounts equal to the current tax reductions. The amounts so capitalized are to be written off over the life of the property or the lives of the related mine equipment.

5. LONG-TERM DEBT

Long-term debt, exclusive of amounts due within one year, at December 31, 1965 was as follows:

3⅞% Notes payable to Consolidation Coal Company	$ 2,550,000
4½% Notes payable to Bethlehem Steel Corporation	16,666,669
	$19,216,669

The 3⅞% Notes are payable in fixed semi-annual instalments of $425,000 each on January 1 and July 1 through July 1, 1969. The instalment due January 1, 1966 was paid on December 31, 1965. The 4½% Notes Payable to *Bethlehem Steel Corporation are due on* March 31, 1984.

Under its Credit Agreement with Bethlehem Steel Corporation, the Company has assigned royalties to be received from Meramec Mining Company up to $1,000,000 annually as collateral security for the 4½% Notes Payable.

6. STOCK OPTION INCENTIVE PLAN

Under the Stock Option Incentive Plan approved by the stockholders in 1958, 130,000 shares of the Company's unissued stock was reserved for issuance and sale to officers and other key employees under 60 years of age, at a price not less than the market price at the time the options are granted. Due to the 10% stock dividend in 1962 and the three-for-two stock split declared in 1964, the total amount of shares so reserved was increased to 189,589 after the elimination of shares applicable to options exercised totaling 49,403 shares.

The options may be exercised in equal annual instalments on the anniversary date of each grant and any part of an option not exercised at the end of five years from the date of the grant becomes void and available for future grants.

During the year 1965, options for 33,100 shares were granted at $41.25 per share, options for 10,487 shares were exercised, and options for 750 shares were cancelled. The excess of the aggregate option price over the par value of 10,487 shares issued upon exercise of options in 1965, which amounted to $129,929, was credited to Other Capital.

Outstanding options at December 31, 1965 adjusted to reflect the 10% stock dividend and the three-for-two stock split, both in the number of shares and the option prices, are as follows:

Date of Grant	Number of Shares	Option Price
April 28, 1961	495	$18.2576
January 10, 1964	45,574	35.5833
July 8, 1965	32,350	41.25
	78,419	

At December 31, 1965 there remained available for future grants, 47,280 shares.

7. RETIREMENT AND PENSION PLANS

The Company and its consolidated subsidiaries have a Retirement Plan for Salaried Employees and a Pension Plan for Payroll Employees, covered either by a contract with an insurance company or by funds deposited with a Trustee. The assets of the Plans are not included in the accompanying consolidated balance sheet. Both Plans are non-contributory and all past service costs have been funded. At December 31, 1965, the deferred past service costs were $1,495,493, which amount is to be amortized over the period as allowed by the Internal Revenue Code. Current service costs of both the Retirement Plan and Pension Plan aggregated $1,042,167 in 1965.

8. INCOME

Sales and cost of sales for the year ended December 31, 1965, include $8,657,384 for lead and zinc sold from the Government stockpile on which, by law, no profit was realized.

Amounts of depreciation and depletion for 1964 reflect reclassification to conform with the classifications used in 1965.

9. SPECIAL ITEMS

Special items comprise the following:

1965:	
Profit from sale of investment in The New Jersey Zinc Company after taxes of $168,993	$506,979
Less — Abnormal costs incurred through insolvency of contractor in construction of new mine facilities after taxes of $454,494	492,369
	$ 14,610

and for 1964, profit from sale of investment in Missouri-Illinois Railroad Company (after taxes of $777,572), $2,332,715.

10. COMPANIA MINERA AGUILAR, S.A.

A balance sheet of Compania Minera Aguilar, S.A., as of December 31, 1965, and a related statement of income for the year then ended, both in summary form and stated in Argentine pesos, follow:

BALANCE SHEET

	Argentine Pesos*
Current Assets	2,293,112,528
Investments (at cost)	272,992,072
Capital Assets	562,657,025
Deferred Charges	13,113,477
Total Assets	3,141,875,102
Current Liabilities	732,942,086
Deferred Credits	30,818,408
Reserves	896,992,173
Stockholders' Equity	1,481,122,435
Total Liabilities and Stockholders' Equity	3,141,875,102

STATEMENT OF INCOME

	Argentine Pesos*
Gross Profit on Sales	1,655,856,496
Other Income	247,546,198
Total	1,903,402,694
Expenses, Other Taxes, Depreciation and Depletion, and Other Deductions	192,494,407
Argentine Income and Emergency Taxes, net .	610,835,674
Special Appropriation for Replacement of Capital Assets	114,431,930
Total	917,762,011
Net Income for the Year....	985,640,683

*The quoted free rate of exchange for a peso was approximately $.0053 at December 31, 1965.

The above financial statements are in conformity with accounting principles generally accepted in Argentina, which differ in respect to the accounting for capital assets and related depletion and depreciation and for special appropriations out of income for the replacement of capital assets, from that generally accepted in the United States of America.

The equity of the Company in the net income of the Argentine subsidiary, exceeded dividends received by 671,558,091 pesos. Dividends received are recorded as they are converted into U.S. dollars or into U.S. dollar bonds of the Argentine Government.

ACCOUNTANTS' OPINION

HASKINS & SELLS
CERTIFIED PUBLIC ACCOUNTANTS

TWO BROADWAY
NEW YORK 10004

To the Stockholders of St. Joseph Lead Company:

We have examined the consolidated balance sheet of St. Joseph Lead Company and its consolidated subsidiaries as of December 31, 1965 and the related statements of consolidated income and consolidated retained earnings for the year then ended. Our examination 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.

In our opinion, the accompanying consolidated balance sheet and statements of consolidated income and consolidated retained earnings present fairly the financial position of St. Joseph Lead Company and its consolidated subsidiaries at December 31, 1965 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.

HASKINS & SELLS

February 23, 1966

	1965	1964	1963	1962
AVERAGE METAL PRICES (Cents per pound)				
Lead, New York	16.000	13.596	11.137	9.631
Zinc, St. Louis	14.500	13.568	11.997	11.625
SALES	$136,156,901	$109,509,039	$ 75,598,525	$ 67,981,883
Cost of Sales	96,979,226	83,481,096	57,932,666	58,106,248
Gross profit on sales	39,177,675	26,027,943	17,665,859	9,875,635
OTHER INCOME:				
Dividends	1,982,553	4,455,494	2,613,188	3,588,027
Interest and other (net)	2,300,335	1,779,855	781,304	952,053
Royalty—Meramec Mining Company	1,250,000	1,250,000	1,250,000	729,166
Total	44,710,563	33,513,292	22,310,351	15,144,881
DEDUCT:				
Selling, general administrative, research, etc.	3,478,610	3,209,101	2,657,207	2,542,330
Strike and shutdown expense	—	—	1,566,461	1,844,107
Shaft sinking, development and exploration	595,396	718,666	1,657,847	2,770,751
Depreciation and depletion	4,860,834	4,551,255	3,897,981	3,538,848
Interest on indebtedness	1,121,922	1,378,073	975,111	1,142,997
U.S. and foreign income taxes	11,887,303	5,744,418	1,651,971	518,216
Total Deductions	21,944,065	15,601,513	12,406,578	12,357,249
NET INCOME BEFORE SPECIAL ITEMS	22,766,498	17,911,779	9,903,773	2,787,632
SPECIAL ITEMS	14,610	2,332,715	—	1,532,241
NET INCOME	$ 22,781,108	$ 20,244,494	$ 9,903,773	$ 4,319,873
PER SHARE OUTSTANDING AT END OF YEAR*	$4.98	$4.44	$2.18	$.96
PERCENT GROSS PROFITS ON SALES APPLICABLE TO:				
Lead	50	41	29	6
Zinc	43	59	71	94
Iron	7	—	—	—
Total Assets	$158,733,300	$153,707,601	$123,611,533	$117,897,308
Current Assets	74,347,349	70,071,803	45,422,385	46,823,524
Current Liabilities	17,129,015	14,222,293	11,352,128	8,753,333
Current Ratio (to 1)	4.34	4.93	4.00	5.35
STOCKHOLDERS' EQUITY:				
Amount	$117,290,252	$104,778,131	$ 91,795,960	$ 84,578,891
Per share outstanding at end of year*	$25.66	$22.98	$20.21	$18.86

*Adjusted to reflect the 10% stock dividend paid December 21, 1962, and the three-for-two stock split effected September 30, 1964.

1961	1960	1959	1958	1957	1956
10.871	11.948	12.211	12.109	14.658	16.013
11.542	12.946	11.448	10.309	11.399	13.494
$ 71,008,301	$ 79,970,908	$ 86,611,677	$ 76,075,865	$107,473,568	$120,229,545
58,063,668	69,062,502	72,804,292	67,370,230	92,042,828	100,905,492
12,944,633	10,908,406	13,807,385	8,705,635	15,430,740	19,324,053
1,634,422	1,991,830	2,276,864	2,762,943	2,042,879	1,065,833
2,493,264	551,587	732,196	321,775	639,177	284,534
—	—	—	—	—	—
17,072,319	13,451,823	16,816,445	11,790,353	18,112,796	20,674,420
2,272,135	2,322,476	2,355,219	2,310,268	2,468,540	2,286,583
—	—	316,272	—	—	—
2,304,202	2,880,829	1,850,551	1,522,462	561,676	166,740
3,180,607	3,766,920	3,334,648	2,754,733	2,935,632	2,649,221
1,136,735	1,172,042	1,154,307	513,973	118,833	—
1,846,444	337,488	1,542,372	702,037	4,001,842	5,280,519
10,740,123	10,479,755	10,553,369	7,803,473	10,086,523	10,383,063
6,332,196	2,972,068	6,263,076	3,986,880	8,026,273	10,291,357
—	—	—	—	—	—
$ 6,332,196	$ 2,972,068	$ 6,263,076	$ 3,986,880	$ 8,026,273	$ 10,291,357
$1.41	$.66	$1.40	$.89	$1.79	$2.30
26	26	42	33	42	53
74	74	58	67	58	47
—	—	—	—	—	—
$120,298,163	$116,545,876	$117,549,738	$107,679,085	$ 94,327,695	$ 85,320,288
54,787,270	45,178,167	50,098,983	45,791,438	42,707,719	49,625,248
11,276,912	7,485,650	7,456,767	5,786,183	9,148,775	11,383,335
4.86	6.04	6.72	7.91	4.67	4.36
$ 82,967,539	$ 79,349,540	$ 79,064,194	$ 75,517,340	$ 74,246,682	$ 71,652,895
$18.50	$17.70	$17.64	$16.85	$16.57	$15.99

WORKING CAPITAL

SOURCE	1965	1964	1963	1962
Earnings	$ 22,781,108	$ 20,244,494	$ 9,903,773	$ 4,319,873
Provision for Depreciation and Depletion	4,860,834	4,551,255	3,897,981	3,538,848
Long-term Borrowings	—	18,000,000	—	3,000,000
Sale of Investments	5,724,028	197,213	—	—
Other, net	663,198	1,773,262	—	—
Total	$ 34,029,168	$ 44,766,224	$ 13,801,754	$ 10,858,721
USE				
Dividends Paid:				
Shares outstanding at end of year	4,570,565	4,560,078	3,028,217	2,989,382
Per share	$2.30	$1.66	$1.25	$1.00
Amount	$ 10,503,786	$ 7,588,828	$ 3,763,404	$ 2,717,622
Capital Expenditures	10,377,266	8,314,200	3,186,963	3,750,014
Investments	607,863	2,376,800	5,866,947	4,634,987
Repayment of Debt	11,171,429	4,707,143	4,290,476	4,290,476
Other, Net	—	—	693,897	905,790
Total	$ 32,660,344	$ 22,986,971	$ 17,801,687	$ 16,298,889
WORKING CAPITAL AT END OF YEAR	$ 57,218,334	$ 55,849,510	$ 34,070,257	$ 38,070,190

GENERAL STATISTICS

	1965	1964	1963	1962
Number of Stockholders	11,792	9,107	8,772	8,986
United States Employees:				
Number	3,820	3,769	3,621	3,774
Salary and wage costs	$ 27,900,722	$ 24,926,760	$ 20,813,527	$ 19,781,411
Pension and Retirement Plans:				
Members	2,911	2,788	2,628	2,777
Contributions	$ 2,384,779	$ 1,314,415	$ 814,733	$ 939,017
Pensioners	1,047	1,023	937	920
Pension Payments	606,841	$ 537,621	$ 496,194	$ 457,701
Deferred Profit Sharing Plan:				
Eligible employees	666	669	687	683
Contributions	$ 636,135	$ 590,768	$ 297,113	—

1961	1960	1959	1958	1957	1956
$ 6,332,196	$ 2,972,068	$ 6,263,076	$ 3,986,880	$ 8,026,273	$ 10,291,357
3,180,607	3,766,920	3,334,648	2,754,733	2,935,632	2,649,221
—	—	5,000,000	15,000,000	8,500,000	—
8,549,758	—	—	—	—	5,437,827
179,429	—	1,509,628	1,108,897	399,130	—
$ 18,241,990	$ 6,738,988	$ 16,107,352	$ 22,850,510	$ 19,861,035	$ 18,378,405
2,717,322	2,717,222	2,716,222	2,716,222	2,716,222	2,716,222
$1.00	$1.00	$1.00	$1.00	$2.00	$3.00
$ 2,717,247	$ 2,717,222	$ 2,716,222	$ 2,716,222	$ 5,432,486	$ 8,148,666
2,445,243	5,912,656	9,283,290	11,830,509	15,017,048	3,533,984
3,554,516	1,891,994	620,879	1,857,468	4,094,470	1,326,339
3,707,143	850,000	850,000	—	—	—
—	316,815	—	—	—	743,533
$ 12,424,149	$ 11,688,687	$ 13,470,391	$ 16,404,199	$ 24,544,004	$ 13,752,522
$ 43,510,358	$ 37,692,517	$ 42,642,216	$ 40,005,255	$ 33,558,944	$ 38,241,913
9,740	10,651	11,812	13,315	14,267	13,219
3,871	4,171	4,263	4,581	5,076	5,213
$ 22,598,389	$ 24,803,687	$ 22,670,522	$ 23,755,404	$ 27,832,266	$ 25,682,126
2,789	2,690	2,622	2,448	2,582	2,656
$ 944,152	$ 1,049,557	$ 780,000	$ 826,198	$ 800,928	$ 2,170,872
886	819	822	780	710	671
$ 434,517	$ 355,782	$ 331,550	$ 303,019	$ 276,461	$ 254,942
702	698	682	693	685	662
$ 189,966	—	$ 187,892	—	$ 240,788	$ 308,741

UNITED STATES LEAD STATISTICS IN SHORT TONS

	1965 (Estimated)	1964 (Final)
CURRENT SUPPLY:		
Recoverable U. S. mine production	293,000	286,000
From U. S. stockpile	37,000	50,000
From scrap	560,000	520,000
Imports of concentrates and bullion (lead content)	128,000	128,000
Metal imports (net)	214,000	199,000
Total Lead Metal Available	1,232,000	1,183,000
CONSUMPTION:		
Batteries	433,000	429,000
Ethyl gasoline	230,000	223,000
Cables	60,000	56,000
Construction	125,000	125,000
Pigments	105,000	104,000
Other uses	277,000	265,000
Total Consumption	1,230,000	1,202,000
APPARENT SURPLUS (DEFICIT)	2,000	(19,000)

ST. JOSEPH LEAD COMPANY LEAD STATISTICS IN SHORT TONS

Year	Lead Concentrates Produced from Company's Mines	Net Lead Raw Materials Purchased	Pig Lead Production	Pig Lead Purchased	Pig Lead Sales Including 1956-1960 Sales Under Agency Contracts
1956	158,861	44,353	137,429	61,522	199,294
1957	163,079	46,309	137,940	62,392	183,942
1958	149,624	25,102	116,799	51,569	139,131
1959	143,167	8,300	101,478	50,306	164,084
1960	147,879	13,656	98,447	33,209	131,852
1961	139,817	4,927	116,148	17	108,447
1962	86,375	4,453	77,156	—	112,857
1963	113,801	2,773	81,319	10,357	96,692
1964	170,704	3,528	117,643	8,724	125,177
1965	189,962	4,086	133,601	9,135	142,243

	1965 (Estimated)	1964 (Final)
CURRENT SUPPLY:		
Recoverable U. S. mine production	610,000	575,000
Less — used to make pigments	97,000	92,000
Recoverable domestic zinc available to metal smelters	513,000	483,000
From U. S. stockpile	150,000	75,000
From scrap	75,000	63,000
Imports of concentrates (recoverable zinc content)	401,000	312,000
Imports of slab zinc	154,000	133,000
Total Zinc Metal Available	1,293,000	1,066,000
CONSUMPTION:		
Galvanizing	475,000	456,000
Zinc-base alloys	630,000	525,000
Brass	130,000	135,000
Rolled zinc	46,000	44,000
Oxides	27,000	20,000
Other	32,000	27,000
Total Consumption	1,340,000	1,207,000
Exports	6,000	27,000
Total Zinc Metal Consumed and Exported	1,346,000	1,234,000
APPARENT DEFICIT	53,000	168,000

ST. JOSEPH LEAD COMPANY ZINC STATISTICS IN SHORT TONS

Year	Zinc Concentrates Produced from Company's Mines	Net Zinc Raw Materials Purchased	Slab Zinc Equivalent of Smelter Production	Purchased Zinc	Slab Zinc Equivalent of Sales	Sulphuric Acid Sales
1956	114,138	151,452	136,879	48,672	181,324	190,004
1957	123,417	129,847	151,554	56,613	192,112	204,255
1958	99,523	110,182	122,774	46,453	174,083	171,938
1959	81,292	121,611	128,670	44,334	179,478	176,607
1960	128,762	166,613	148,788	26,730	158,276	186,722
1961	111,598	123,882	141,209	8,511	162,005	194,327
1962	104,080	170,281	153,968	4,709	152,258	189,866
1963	99,914	153,053	174,089	6,726	178,515	211,930
1964	117,473	214,772	193,444	15,538	211,731	243,920
1965	140,284	229,958	202,657	21,058	221,329	237,305

ST. JOSEPH LEAD COMPANY

Incorporated March 25, 1864, under the laws of the State of New York
EXECUTIVE OFFICE 250 Park Avenue, New York, N. Y. 10017

EXECUTIVE OFFICERS

Andrew Fletcher
Chairman

Francis Cameron
President

Malcolm Bonynge
Vice President—Sales

John R. Englehorn
Vice President

Robert H. Ramsey
Vice President

Lawrason Riggs III
Vice President

James G. Colvin
Vice President and Treasurer

D. Broward Craig
Secretary

William L. Murphy, Jr.
Comptroller & Assistant Secretary

Edward P. Merrell
Assistant Treasurer

Frank J. Reidy
Assistant Comptroller

MANAGER OF EXPLORATIONS

Norman H. Donald, Jr.

UNITED STATES DIVISION MANAGERS

Mines
Elmer A. Jones, Southeast Missouri
Marshall G. Jones, Balmat-Edwards, N.Y.

Smelters
John W. Sherman, Herculaneum, Missouri
Charles D. Henderson, Josephtown, Pennsylvania

CIA. MINERA AGUILAR, S. A., ARGENTINA

Wing L. Lew,
Managing Director

CIA. MINERALES SANTANDER, INC., PERU

Clinton L. Miller,
Vice President & General Manager

MERAMEC MINING COMPANY

Robert G. Peets,
Resident Manager

GENERAL COUNSEL

Debevoise, Plimpton, Lyons & Gates
320 Park Avenue, New York, N.Y. 10022

TRANSFER OFFICE

St. Josepn Lead Company, 250 Park Avenue, New York, N.Y. 10017

AUDITORS

Haskins & Sells, Two Broadway, New York, N.Y. 10004

REGISTRAR

The First National City Bank, 55 Wall Street, New York, N.Y. 10005

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