

Annual Report

THE EAGLE-PICHER COMPANY
AND SUBSIDIARIES

FOR THE FISCAL YEAR ENDED

NOVEMBER 30, 1947

THE EAGLE-PICHER COMPANY
AND SUBSIDIARIES

N11806

Annual Report

THE EAGLE-PICHER COMPANY AND SUBSIDIARIES

TO THE SHAREHOLDERS OF
THE EAGLE-PICHER COMPANY:

Under date of March 5, 1948, there were mailed to all shareholders comparative consolidated balance sheets of your Company and its consolidated subsidiaries as at November 30, 1947 and 1946; 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, independent accountants and auditors selected by a nonmanagement committee of the Board of Directors and approved by the Shareholders. 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 23.

FOREWORD

In succeeding sections of this Annual Report, the more significant items in the accompanying financial statements will be commented upon. However, it is axiomatic that it is difficult to maintain reader interest in a report of this nature. Hence, it seems desirable to summarize in the opening paragraphs the more important developments of the year under review; and the outlook for the immediate future.

In the Income Statement, the first figure that will attract attention is the increase of nearly 90% in net sales. Likewise, with rising prices the corollary of the present inflationary trend, it may be assumed that all of the increase in sales volume resulted from a corresponding increase in unit prices. Such is not the case. Of the total increase of \$36,679,022.72, approximately \$11,000,000 represented new production from recently acquired plants and companies; some \$5,000,000 reflected increased production from previously owned plants; and only \$20,000,000 was attributable to a moderate price increase on various products, where required to offset in part rising costs of labor, raw materials and freight.

The next outstanding feature of the Income Account is the net profit before appropriations of \$3,000,000 to reserves for future decline in inventory values, amounting to \$6,605,842.59 in comparison with \$2,102,196.85 for the preceding year—an increase of \$4,503,645.74. Here, again, the indicated profit for the current accounting period may seem exorbitant. To the consumer, it may appear to warrant reduced prices; to the employee, shorter hours and higher wages; and, to the shareholder, a larger dividend distribution.

Management's interest embraces equally the interests of all of the foregoing classes. It is management's function and responsibility to expand productive facilities to the extent warranted by its estimate of the probable long range demand within the industries which its products serve; and to initiate procedures whereby the cost of its products may be reduced. As these results are accomplished, the consumer benefits from reduced prices in competitive periods when cost of component products is vital; the employee benefits from improved working conditions, job security and greater freedom

to enjoy the fruits of his labors; and the shareholder benefits from the strengthening of the industry position of his company and a consistent return on his capital. As regards your Company, progress has been made in these accomplishments in the past year as in previous years.

However, the expansion and modernization of productive facilities; the liberalization of labor relationships; and the maintenance of a volume of business that permits these forward steps, requires the employment of an ever increasing volume of funds. It is another function and responsibility of management to see that these funds are available when required; and that they are provided in a manner that strengthens rather than weakens the capital structure of the company.

The sources of new capital are the equity markets, where funds are obtained from the sale of equity stocks; common or preference; the debt markets, where funds are obtained from the sale of obligations to the public or are borrowed from banks and insurance companies; and, retained earnings. Under present stock market conditions, equity financing is prohibitive in cost. Debt financing has been available and has been utilized by your management, as will be commented upon later herein, but it is essential that a sound ratio of debt to equity be maintained in the corporate capital structure. Hence, prudent policy dictates the retention of earnings to the fullest extent consistent with a reasonable return to shareholders based on the market appraisal of stock values.

Of the net profit of \$6,605,842.59, \$1,333,614.00 was disbursed as dividends at the rate of \$1.50 per share, leaving a retention of \$5,272,228.59. This amount was insufficient to cover the increase of \$6,352,653.10 in receivables (\$2,209,729.97) and inventories (\$4,142,923.13)—occasioned by a substantially larger unit volume of business on a rising commodity market. Even though no other need for funds existed, the foregoing justified the retention of the 1947 fiscal year earnings.

However, there is another and an even greater need—the capital requirements of your Company, in common with all industry. A very high level of capital expenditures must be maintained if annual national production is to be maintained at levels comparable with 1947. Capital requirements fall in two general areas: capital for expansion; and capital for modernization, for mechanization, for reducing unit costs of production. Over the past several years, your management has invested substantial sums in both areas—investments which have borne fruit in the steadily rising unit volume of production and sales. For the four years from December 1, 1941 to November 30, 1945, such expenditures aggregated \$4,447,553.58. Following termination of the war, new demands arose and new opportunities offered. As a result, expenditures for the 1946 fiscal year amounted to \$3,716,805.57; and, for 1947, to \$3,559,183.22—a total for the six years of \$11,723,542.37. While a substantial amount requires to be expended in the completion of projects heretofore authorized, the present expansion program of the Company is largely completed and future capital expenditures will be confined in the main to projects which give assurance of short term liquidation through cost reduction.

In the Annual Report for the preceding year, it was noted that, largely as a result of capital expenditures made in that year, \$1,348,642.77 was utilized from previously accumulated earnings, producing a decrease of that amount in the excess of current assets over total liabilities. Early in 1947, your management foresaw a further deterioration of the Company's working capital position and obtained authorization from your Board of Directors to negotiate for a refunding of the Fifteen-year 3½% Sinking Fund Debentures, then outstanding in the principal amount of \$3,145,000. These negotiations were concluded on September 16, 1947, by the private sale to Metropolitan Life Insurance Company and The Mutual Life Insurance Company of New York of \$7,500,000 principal amount of 3% notes, payable serially in equal annual amounts of \$500,000 on September 1, 1953 to 1967, inclusive. The terms of the note agreement are very moderate. While it contains certain provisions relating to the payment of dividends, unconditionally unrestricted accumulated earnings at November 30, 1947 amounted to \$5,272,228.59. The consummation of this loan restores your Company to a highly favorable working capital position. Additional funds available through the annual provisions for depletion and depreciation and a moderate retention of future earnings should be adequate to finance such capital expenditures as are presently contemplated.

Despite a general uneasiness as to the business trend for 1948, the year is starting out well for your Company and the only visible cloud on the horizon is the extreme shortness of the lead supply. Domes-

tic primary and secondary production is not sufficient to meet consumption demands. Foreign metal is in supply—but not at the domestic price. The domestic price should really be increased to the approximate level at which foreign lead is being offered. Without such an increase, we see little likelihood of our being able to obtain enough metal to maintain lead pigment output at the 1947 level. Producers, however, have apparently been deterred—first, by the sharp decline in commodity prices, and, more recently, by the political furor which followed the increase in the price of semi-finished steel. Your management feels free to express itself on this subject, since your Company is not a seller of pig lead, but a large purchaser; and, in the main, its lead pigments are sold at fixed differentials over the price of the raw metal, so that it neither profits nor loses materially as lead prices fluctuate.

Earnings for 1948 will not equal the \$6,605,842.59 reported for 1947, as these earnings included substantial gains from liquidation on a rising market of inventories accumulated at lower prices. The appropriations to reserves for inventory declines more than offset the gains of this nature. Hence, on a comparable sales tonnage, earnings for 1948 should approximate the net profit of \$3,605,842.59.

EARNINGS AND SALES

Consolidated net profit to surplus amounted to \$3,605,842.59, or \$4.05 per common share, after all charges, including provision of \$4,000,000 for Federal and State taxes on income and the appropriation of an additional \$3,000,000 to reserves for future decline in inventory values. Net profit before the reserve appropriation was \$6,605,842.59, equivalent to \$7.43 per share. The corresponding figure for the preceding year was \$2,102,196.85, or \$2.36 per share, after provision of \$825,000 for Federal and State income taxes.

Net sales for the 1947 fiscal year aggregated \$77,668,421, in comparison with \$40,989,398 for the preceding year, and constituted the largest dollar volume in the Company's long history. The increase was shared in by all divisions of the Company's business, although by far the larger portion—nearly 90%—was attributable to the Manufacturing or Processing Divisions; and reflected new business produced by companies acquired during the latter part of 1946 or in 1947, a substantial increase in unit sales, and a moderate increase in selling prices following the expiration of OPA controls in November, 1946.

The lead price stood at 11.80 cents per pound, New York, at the beginning of the fiscal year. On December 16, 1946, producers advanced the price to 12.55¢; on January 7, 1947, to 13¢; on February 25, to 14¢; and on March 3, to 15¢, at which it has since held. The price of prime western zinc held firm at 10.50 cents per pound, E. St. Louis, throughout the fiscal year. On January 21, 1948, it was advanced to 12 cents.

DIVIDENDS

Dividends on common stock aggregated \$1.50 per share during the 1947 calendar year. Regular quarterly payments of 30¢ per share were made throughout the year; and the September and December payments were increased by the declaration of extra dividends of 15¢ per share. At the January 23, 1948 meeting, the Directors placed the stock on a regular quarterly dividend basis of 45¢ per share for the 1948 calendar year.

BALANCE SHEET

Net working capital at November 30, 1947, with inventories valued at the lower of cost or market and before the deduction of reserves for future decline in value, amounted to \$22,281,762.19. On a similar basis, current assets exceeded total liabilities by \$14,278,753.32, in comparison with \$11,578,318.78 at the end of the preceding fiscal year.

At November 30, 1947, the 889,076 common shares outstanding had a book value of \$29.24 per share, of which \$15.77 was represented by the excess of current assets over all liabilities; \$10.67 was

...and intangible assets, and \$2.00 was represented by other assets. The corresponding figures at November 30, 1946, were \$23.28, \$13.02, \$7.96 and \$2.30.

Operations of the year under report, after provision for income taxes but before the deduction of charges classified as depletion, depreciation, etc., produced cash income of \$7,736,554.94. Of this amount, \$3,541,097.74 was expended in the improvement and expansion of productive facilities and in the acquisition of additional properties; a net amount of \$161,408.66 was invested in other accounts; and \$1,333,614.00 was paid or accrued as dividends to shareholders. The residue of cash income amounting to \$2,700,434.54 was retained in the business and reflects the aforementioned increase in the excess of current assets over total liabilities.

Accounts receivable at November 30, 1947, had increased approximately 50% over the corresponding figure at November 30, 1946. This increase is a natural consequence of a larger volume of business at a substantially higher price level—as a matter of fact, the increase in receivables has not been commensurate with the larger volume of business. The Company's policy with respect to providing reserves for receivables has been explained in previous reports. No additional provision was made during the current year as the accumulated reserve at the balance sheet date was considered fully adequate.

Consolidated inventories at November 30, 1947, were valued at \$13,440,360.84, an increase of \$4,142,923.13 over the corresponding valuation at November 30, 1946. Of the increase, \$2,187,563.44 represented inventories required by plants whose operations were not reflected in the consolidated accounts at the close of the preceding year. In comparison with the substantial increase in unit volume, metal tonnages showed a very modest increase to 55,173 tons from 51,979 tons at November 30, 1946—equivalent to 3,194 tons or approximately 6%. Here, again, the inventory of a newly acquired plant accounted for 6,112 tons, so that actually the inventories used in previously owned operations showed a decrease.

Effective with the fiscal year ended November 30, 1941, the direction and management of your Company, as a measure of prudent conservatism, initiated the procedure of providing, by appropriations of net income, reserves for future decline in inventory values and for contingencies. At November 30, 1946, these reserves aggregated \$2,100,000, of which \$1,300,000 was designated as an inventory reserve and \$800,000 as a contingency reserve. At May 31, 1947, an additional amount of \$2,600,000 was appropriated to the inventory reserve, to cover the estimated effect on inventory values of the rapid and substantial increase in metal prices which took place following the termination of OPA on November 9, 1946; and to provide a reserve adequate to margin inventory tonnages at that date to minimum prices of 6.50¢ per pound for lead and 5¢ per pound for zinc. At November 30, 1947, to preserve the same margin, the inventory reserve was increased to \$4,600,000 by the appropriation of an additional \$400,000 from current income and the transfer of \$300,000 from the reserve for contingencies. In previous balance sheets, U. S. Government obligations, in an amount approximately equivalent to combined operating reserves, were transferred from current assets to reserve fund investments. At November 30, 1947, these reserves had grown so large that it seemed uneconomic to maintain equivalent investments in low rate short term Government securities. Hence, a similar effect upon the current position shown in the attached balance sheet was accomplished by including in current assets the securities formerly carried as reserve fund investments and deducting from inventories of ores, metals and metal-bearing products the reserves provided for future decline in the value of those products.

MINING AND SMELTING OPERATIONS

During the year under review, the Company's Central Mill, in the Tri-State area, treated 3,110,483 tons of ore, in comparison with 3,430,312 tons in 1946; and produced 111,016 tons of concentrates, in comparison with 116,998 in the preceding year. The Henryetta (Okla.) zinc smelter maintained fairly normal operation and produced 37,161 tons of slab zinc.

Operations of the St. Xavier mine and Suaharita mill, near Tucson (Arizona), produced 14,777 concentrate tons and a net profit of \$355,447.93, before provision for Federal and State income taxes.

for its acquisition through royalty payments and the substantial amortization of mining and milling facilities, yielded a net return, before taxes, of \$1,660,252.33. Progressive exploration has consistently developed new ore bodies.

The properties of Minas de Guerrero, at Taxco (Republic of Mexico), were mined out during the year, and operations were discontinued in March, 1947. During its life, this property produced 155,157 net tons of zinc-lead concentrates; and a profit of \$721,794.82, after payment or provision for Mexican income taxes in the amount of \$462,227.51. It is anticipated that, upon liquidation, the foregoing net profit will approximate \$900,000, after Mexican taxes. No portion of this income has been taken into account in present or prior consolidated accounts of The Eagle-Picher Company. The parent company has, however, received and included interest payments aggregating \$112,675.40, paid under the requirement of Mexican law, which are in addition to the profits noted above. Hence, final recovery from this project should exceed \$1,000,000, subject to United States income taxes as and when transferred to the parent company.

Through its other Mexican subsidiaries, Eagle-Picher de Mexico, Minas de Durango and Minas de Iguala, your Company has carried on investigations and exploration in other sections of the Republic. It is now engaged in developing two properties in the State of Chihuahua. These should be in production within the present fiscal year. The attached balance sheet shows investments in and advances to Mexican affiliates of \$792,921.23 at November 30, 1947. In addition thereto, Minas de Guerrero has reinvested \$683,691.45 of its aforementioned realized profits, by advancing funds to other Mexican affiliates. Hence, at the balance sheet date, the total investment in Mexico aggregated \$1,476,612.68. Of this amount, \$140,791.08 was represented by net current assets of the combined companies; the remainder of \$1,335,821.60 consisting of mining claims patented or held under lease and option agreements, exploration and development work thereon, and mine and mill buildings and equipment installed or in process of construction.

This report has been prepared with the aim of presenting to shareholders, employees, customers, dealers and distributors, the policies of the direction and management of the companies comprising The Eagle-Picher group and the steps being taken to assure the financial soundness and continued growth so essential to the self-interest of all classes—and attainable only by their full and whole-hearted cooperation.

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

JOSEPH HUMMEL, JR.
Chairman

JOEL M. BOWLBY
President

CINCINNATI, OHIO
March 15, 1948

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

THE EAGLE-PICHER COMPANY AND
Consolidated Balance Sheets as a

ASSETS

CURRENT ASSETS:	NOVEMBER 30, 1947		NOVEMBER 30, 1946	
Cash in Banks and on Hand.....		\$ 6,252,716.51		\$ 2,959,945.19
U. S. Government Obligations—at cost (Market value at November 30, 1947—\$3,004,546.29)		3,003,162.31		3,586,803.00
Accounts and Notes Receivable.....	\$6,760,265.57		\$4,531,403.52	
Less: Reserves for Doubtful Accounts and Notes.....	373,167.72	6,387,097.85	354,035.64	4,177,367.88
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.....	9,853,514.37		6,943,597.08	
Less: Reserves for Future Decline in Value.....	4,600,000.00		1,300,000.00	
	5,253,514.37		5,643,597.08	
Other Products, Merchandise for Resale, and Manufacturing Materials and Supplies—at cost	3,586,846.47	8,840,360.84	2,353,840.63	7,997,437.71
		24,483,337.51		18,721,553.78
OTHER ASSETS:				
Repair Parts, Maintenance Supplies, etc.....	903,559.26		743,236.63	
Miscellaneous Accounts, Advances, etc.....	162,487.63		65,400.04	
Sundry Securities—at or below cost.....	5,392.93	1,071,439.82	4,892.93	813,529.60
INVESTMENT IN AND ADVANCES TO AFFILIATES:				
Mexican Subsidiaries not consolidated.....	792,921.23		520,835.75	
Other Affiliates.....	216,419.98	1,009,341.21	470,419.98	991,255.73
FIXED AND INTANGIBLE ASSETS:				
Mining Lands and Leases; Mills, Smelters and Fabricating Plants; and Railroad and Miscellaneous Properties.....	36,247,340.48		33,513,773.32	
Less: Reserves for Depletion, Depreciation, etc.....	28,132,451.00		27,928,054.57	
	8,114,889.48		5,585,718.75	
Cost of stock of consolidated subsidiaries in excess of book value, at dates of acquisition, of net assets acquired	1,375,505.50		1,490,475.48	
Patents, Goodwill, etc.....	1.00	9,490,395.98	1.00	7,076,195.23
TREASURY STOCK—10,924 shares at cost		61,797.56		61,797.56
PREPAID AND DEFERRED CHARGES:				
Prepaid Freight, Insurance, etc.....	201,097.31		124,334.61	
Miscellaneous Deferred Charges.....	205,257.75	406,355.06	111,896.04	236,230.65
		\$36,522,667.14		\$27,900,562.55

ND CONSOLIDATED SUBSIDIARIES

at November 30, 1947 and 1946

LIABILITIES

	NOVEMBER 30, 1947		NOVEMBER 30, 1946	
CURRENT LIABILITIES:				
Accounts Payable.....	\$ 3,397,436.85		\$ 2,744,423.28	
Dividend Declared.....	400,084.20		266,722.80	
Accrued Liabilities:				
Wages and Salaries.....	\$ 489,866.95	\$ 353,574.01		
Taxes—other than taxes on income.....	228,402.94	175,942.17		
Other.....	301,460.72	188,433.66	717,949.84	
Provision for Federal and State Taxes on Income.....	4,997,893.66	1,909,126.84		
Less: U. S. Treasury Tax Savings Notes.....	3,013,570.00	1,984,323.66	1,002,030.00	907,096.84
Debtenture Sinking Fund Payment.....				285,000.00
		6,801,575.32		4,921,192.76
PURCHASE MONEY OBLIGATION:				
Payable serially to March 1, 1952.....	1,103,403.49	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	441,361.25		
Fixed Obligation.....	662,042.24	1,103,403.32		
Less: Payments due currently (included in Accounts Payable).....	159,033.37	503,008.87	441,361.08	662,042.24
NOTES, 3%, PAYABLE SERIALY SEPTEMBER 1, 1953 TO SEPTEMBER 1, 1967.....		7,500,000.00		
FIFTEEN YEAR 3½% SINKING FUND DEBENTURES.....				2,860,000.00
RESERVES:				
For Self Insurance:				
Workmen's Compensation.....	347,587.40	322,362.38		
Fire and Tornado.....	112,462.00	108,157.49		
	460,049.40	430,519.87		
For Contingencies.....	500,000.00	960,049.40	800,000.00	1,230,519.87
MINORITY INTEREST IN CONSOLIDATED SUBSIDIARY		258,997.28		
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.....	9,598,036.95	11,499,036.27	7,325,808.36	9,226,807.68
		\$36,522,667.14		\$27,900,562.55

THE EAGLE-PICHER COMPANY AND CONSOLIDATED SUBSIDIARIES
Consolidated Statements of Profit and Loss and Earned Surplus
FOR THE YEARS ENDED NOVEMBER 30, 1947 AND 1946

	NOVEMBER 30, 1947		NOVEMBER 30, 1946	
NET SALES (including production premiums) ...		\$77,668,421.09		\$40,989,398.37
PRODUCTION AND MANUFACTURING COSTS ...		<u>61,846,230.51</u>		<u>33,637,348.23</u>
GROSS OPERATING PROFIT — before Depletion and Depreciation.....		15,822,190.58		7,352,050.14
EXPENSES:				
Selling.....	\$1,780,994.40		\$1,342,331.05	
Traffic, Warehousing and Shipping.....	700,464.86		610,181.95	
General and Administrative.....	<u>2,221,531.59</u>	<u>4,702,990.85</u>	<u>1,497,848.94</u>	<u>3,450,361.94</u>
NET OPERATING INCOME—before Depletion and Depreciation:				
Mining and Manufacturing.....		11,119,199.73		3,901,688.20
Northeast Oklahoma Railroad Company.....		<u>341,849.19</u>		<u>263,679.47</u>
		11,461,048.92		4,165,367.67
OTHER INCOME.....		<u>456,181.71</u>		<u>249,269.33</u>
		11,917,230.63		4,414,637.00
INTEREST PAID:				
On Long Term Debt.....	135,484.60		120,050.00	
Other.....	<u>45,191.09</u>	<u>180,675.69</u>		<u>120,050.00</u>
		11,736,554.94		4,294,587.00
DEPLETION, DEPRECIATION, ETC.:				
Provision for Depletion and Depreciation.....	1,042,544.62		902,213.27	
Provision for Write-down of Properties.....	40,625.96		54,628.28	
Abandoned Projects, Prospecting Expenses and Loss or Gain on Disposition of Capital Assets	<u>13,544.49</u>	<u>1,096,715.07</u>	<u>410,548.60</u>	<u>1,367,390.15</u>
NET PROFIT — before Provision for Federal and State Income Taxes.....		10,639,839.87		2,927,196.85
PROVISION FOR FEDERAL AND STATE INCOME TAXES		<u>4,000,000.00</u>		<u>825,000.00</u>
		6,639,839.87		2,102,196.85
MINORITY INTEREST IN NET EARNINGS OF CONSOLIDATED SUBSIDIARY.....		<u>33,997.28</u>		
NET PROFIT FOR YEAR.....		6,605,842.59		2,102,196.85
APPROPRIATIONS TO RESERVES FOR FUTURE DECLINE IN INVENTORY VALUES.....	3,300,000.00			
Less: Transfer from Reserves for Contingencies.....	<u>300,000.00</u>	<u>3,000,000.00</u>		
BALANCE OF NET PROFIT TO SURPLUS.....		3,605,842.59		2,102,196.85
EARNED SURPLUS AT BEGINNING OF YEAR ...		7,325,808.36		6,112,687.51
		<u>10,931,650.95</u>		<u>8,214,884.36</u>
DIVIDENDS PAID AND ACCRUED.....		<u>1,333,614.00</u>		<u>889,076.00</u>
EARNED SURPLUS AT END OF YEAR		<u>\$ 9,598,036.95</u>		<u>\$ 7,325,808.36</u>