EAGLE EP PICHER

FOR THE FISCAL YEAR
ENDED NOVEMBER 30 1954

THE EAGLE-PICHER COMPAN

N11813

TO OUR SHAREHOLDERS:

The year 1954 was one of outstanding progress and achievement for The Eagle-Picher Company. Important acquisitions and expansion of facilities have increased actual and potential earning power, and shareholders' investment is now more broadly diversified and, in our opinion, more effectively employed than ever before.

Despite this basic progress, operating results for 1954 were disappointing. Earnings for the first six months of the year were affected by lower industrial activity and the tendency of many of our customers to adjust inventories downward. As the year drew to a close, it appeared that these trends had been checked and, in most cases, reversed.

Net sales of The Eagle-Picher Company for the fiscal year ended November 30, 1954 amounted to $83,233,880 compared with $85,033,403 for the preceding year, a decline of 2.1%.

Net profit for 1954 was $2,446,829, equivalent to $2.47 per share, compared with $3,242,966, or $3.28 per share, for 1953.

Dividends aggregating $1.50 per share were paid in both years.

As at November 30, 1954, net worth was $31,610,917, equivalent to $31.96 per share, a new all-time high.

New Activities

In July, The Eagle-Picher Company offered to purchase the entire stock of Fabricon Products, Inc. at $33 per share. Subsequently, all of the 300,000 shares outstanding were acquired and the company was dissolved. Its operations are now conducted as Fabricon Products, a division of The Eagle-Picher Company.

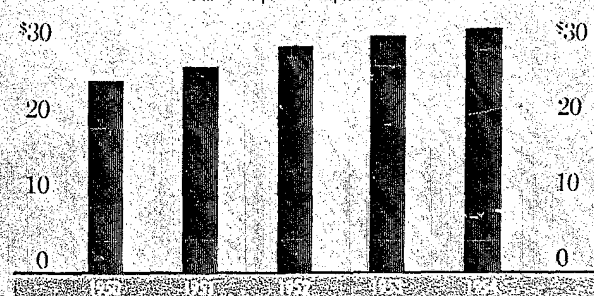
Fabricon Products is a leading producer of trim foundation panels, deadener felt and other fibre products for the automobile industry. It also manufactures various types of plastic products and waxed paper and cellophane wrappers. For its fiscal year ended November 30, 1953, net sales amounted to $27,058,000 and net profit was $1,218,000. For the seven months ended June 30, 1954, net sales were $14,903,000 and net profit was $651,000; net sales of $12,600,000 and net profit of $525,000 for the five months ended November 30, 1954 are included in our statement.

The Company's new zinc roasting and sulphuric acid plant at Galena, Kansas, was completed and commenced operations in August. It was gratifying that the final cost and completion date coincided closely with the original estimates made two years earlier. However, many operating problems have been encountered as often happens in a complex new operation of this character. Operating costs to date have been high but we are confident that results will meet our expectations.

Also in August, The Eagle-Picher Company purchased the zinc properties of Calumet & Hecla, Inc. in the Wisconsin-Illinois field, comprising leaseholds on approximately 3,650 acres of land, as well as a mill, supplies and materials. This acquisition, which more than doubled our ore reserves in that area, is another instance of the policy of increasing reserves whenever favorable opportunities arise.

During the past two-and-one-half years, the Company has invested approximately $30,000,000

NET WORTH PER SHARE
(At November 30)
(Based on present capitalization)



in furtherance of its expansion program, a sum nearly equal to its net worth of $31,610,917 as at November 30, 1954. There has been no increase in stock capitalization while this was being accomplished.

Sales

Net sales of $83,233,880 for the 1954 fiscal year were the second largest in the Company's history, being exceeded only by $85,033,403 recorded in 1953. Sales declined from the first quarter of 1953 through the first quarter of 1954 but have been in a steady uptrend since that time. Sales for the full year were only 2.1% below 1953 despite a decline of nearly 29% in the first six months. Sales for the second half of 1954 were $50,832,974, or at an annual rate of slightly better than $100,000,000.

Earnings

For the fiscal year ended November 30, 1954, net profit amounted to $2,446,829, or $2.47 per share, compared with $3,242,966, or $3.28 per share, for 1953. Net profit for the second half year exceeded that for the second half of 1953 but the gain was not sufficient to offset the decline in the first six months.

The Company adopted the base-stock method of inventory valuation as at November 30, 1949 when it established 25,000 tons of metal as a base-stock, consisting of 15,000 tons of lead valued at 6½ cents per pound and 10,000 tons of zinc valued at 5 cents per pound. Because of a materially different composition of the Company's business, base-stock quantities were adjusted in 1951 to 12,500 tons of lead and 12,500 tons of zinc. Reflecting improved inventory controls and the changed nature of the business, metal content of lead inventory has remained below 12,500 tons for two years. Therefore, the base-stock quantity of lead was reduced further in 1954 to 9,000 tons and that of zinc was increased to 16,000 tons. It should be noted that aggregate base-stocks have been maintained at 25,000 tons and valuation prices have remained unchanged.

The adjustment of base-stock quantities in 1954 resulted in a credit to other income of $402,673. However, production and manufacturing costs were charged with $481,698, arising from higher market prices for both lead and zinc. Since the debit to production and manufacturing costs exceeded the credit to other income, the base-stock method of inventory valuation did not materially affect 1954 earnings.

Balance Sheet

The most striking change in the balance sheet as at November 30, 1954 compared with that of a year earlier is an increase of $8,240,424 in net property, plant and equipment and a decrease of $7,361,701 in working capital. This major shift in assets reflects the substantial capital expenditures made during 1954.

Net property account has increased by $14,722,003 over the past three years to a total of $25,824,409 as at November 30, 1954. As a consequence, more cash will be generated from operations by virtue of higher depreciation and depletion charges.

Working capital of $18,447,048 at the close of 1954, while well below the past two years, is believed adequate for the needs of the business under present conditions and should rise over the next year. The increase of $3,369,649 in inven-

YEAR-TO-YEAR COMPARISON

	Net Sales		Net Profit Before Taxes		Net Profit		Net Profit Per Share	
	1954	1953	1954	1953	1954	1953	1954	1953
First Half	$32,400,906	$45,477,688	$1,394,188	$3,312,107	$ 609,188	$1,787,107	$0.62	$1.81
Second Half	50,832,974	39,555,715	3,552,641	2,640,859	1,837,641	1,455,859	1.85	1.47
Year	$83,233,880	$85,033,403	$4,946,829	$5,952,966	$2,446,829	$3,242,966	$2.47	$3.28

tories during the year was due largely to the acquisition of Fabricon Products, Inc.

The Company's investment in Mexico at November 30, 1954 was $426,682, a reduction of $180,470 for the year. At November 30, 1949, investments in and advances to foreign subsidiaries amounted to $3,683,142, of which $2,934,670 represented Mexican subsidiaries and $748,472 was investment in Canada. Our stock in the Canadian company was sold in 1953 and the Mexican investment has been reduced to its present amount by repayment of advances. Funds derived from these sources have provided an important part of the funds spent on new facilities.

A term loan was arranged during 1954 with a more favorable maturity schedule and the same principal amount and interest rate as the loan which it replaced. The present $15,000,000 3¾% notes are to be paid $1,000,000 annually starting in 1960 whereas the preceding loan called for payments aggregating $4,300,000 prior to 1960.

Customers

The Company's business is now quite different from that of a few years ago. The automobile industry in the aggregate is the largest user of our products. The storage battery, paint and steel industries, comparable in importance, are next in size. Other major industries constituting important customers include the building, food, farm equipment, fertilizer, rayon and ceramics industries.

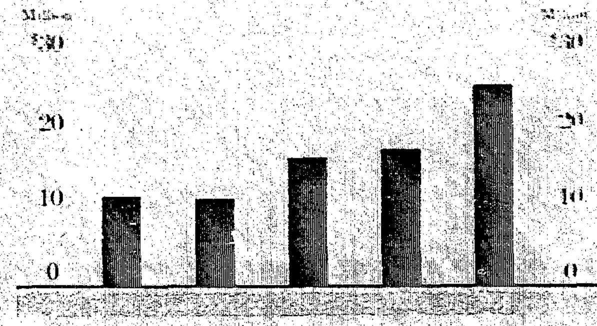
Most of Eagle-Picher's sales are made to other industrial companies, rather than the ultimate consumer, so that the term "a manufacturer's manufacturer" is descriptive of its economic function. The Company ranks as a principal supplier of most of the products it sells. Inventory fluctuations have been reduced considerably by better inventory control, the new character of our business, and the base-stock method of inventory valuation followed for the past five years. The present operating divisions of the Company all appear to have a favorable growth potential and each one is, in effect, competing with the others for funds available for expansion.

Management Changes

Mr. Orson A. Rockwell, formerly Vice President of Calumet & Hecla, Inc., was elected a Vice President and Director of The Eagle-Picher Com-

NET PROPERTY, PLANT AND EQUIPMENT

At November 30



pany in March 1954. Mr. Rockwell serves as General Manager of the Mining and Smelting Division.

At the same time, Mr. Glen J. Christner, General Manager of the Insulation Division, was elected a Vice President, and Mr. Richard Serviss, formerly Assistant Secretary, was elected Secretary.

Mr. Louis A. Fisher, formerly President of Fabricon Products, Inc., and now President and General Manager of the Fabricon Products Division, was elected a Vice President of The Eagle-Picher Company in November 1954.

Outlook

It appears that general industrial activity will be on a higher level during 1955 and might approximate or even exceed the peak year 1953. Given such a background, the coming year should be a more profitable one for The Eagle-Picher Company. In addition to benefitting from a higher level of business, the expansion program of the past two years should improve earnings.

We are extremely optimistic about the long-term growth of the American economy. We believe that business organizations with capable management, skilled workmen and essential products will find opportunities to expand and to employ capital profitably. We shall strive constantly to be an active, dynamic and growing company so that our shareholders may benefit from this larger economy.

Joel M. Bowlby
Chairman

T. Spencer Shore
President

Cincinnati, Ohio
February 1, 1955

ASSETS	1954	1953
CURRENT ASSETS:		
Cash	$ 7,668,660	$ 9,154,389
U. S. Government obligations—at cost (market value $383,697 at November 30, 1954)	385,035	8,118,968
Accounts and notes receivable, less allowance for doubtful receivables, $252,920 and $249,425	9,851,385	5,765,206
Inventories of raw materials, work in process, finished products and supplies (note 1):		
Ores, metals and metal bearing products	4,466,352	3,061,404
Other	7,679,751	5,715,050
	12,146,103	8,776,454
TOTAL CURRENT ASSETS	30,051,183	31,815,017
OTHER ASSETS:		
Repair parts and maintenance supplies	864,810	1,026,668
Investment in and advances to associated company and sundry securities—at or below cost	314,678	316,927
Miscellaneous accounts and advances	370,151	438,133
	1,549,639	1,781,728
INVESTMENT, AT COST, AND ADVANCES—MEXICAN SUBSIDIARIES	426,682	607,152
PROPERTY, PLANT AND EQUIPMENT:		
Mining lands and leases; mills, smelters and manufacturing plants; railroad and other properties—at cost	58,758,426	47,648,494
Less: Allowance for depletion, depreciation, etc.	32,934,017	30,064,509
	25,824,409	17,583,985
PREPAID AND DEFERRED CHARGES:		
Prepaid freight, insurance, etc.	415,819	296,678
Miscellaneous deferred charges	863,155	436,885
	1,278,974	733,563
	$59,130,887	$52,521,445

The accompanying notes are an

Y AND DOMESTIC SUBSIDIARIES

AS AT NOVEMBER 30, 1954 AND 1953

LIABILITIES	1954	1953
CURRENT LIABILITIES:		
Accounts payable	$ 4,759,061	$ 3,136,202
Dividend payable	593,506	593,506
Accrued liabilities	2,357,827	2,126,560
Federal taxes on income, less U. S. Government obligations, $3,443,325 at November 30, 1953	3,893,741	
Long-term debt — current portion		150,000
TOTAL CURRENT LIABILITIES	11,604,135	6,006,268
LONG-TERM DEBT (note 4):		
3¾% notes, maturing serially to September 1, 1972, less payment due within one year, $150,000		15,000,000
3¾% notes, maturing serially to July 15, 1974	15,000,000	
RESERVES FOR SELF-INSURANCE:		
Workmen's compensation	759,259	719,286
Fire and tornado	156,576	149,846
	915,835	869,132
STOCKHOLDERS' EQUITY:		
Capital stock — par value $10 per share; authorized 1,500,000 shares; issued and outstanding 989,177 shares (note 5)	9,891,770	9,891,770
Surplus:		
Capital surplus	2,771,681	2,769,116
Earned surplus (note 4)	18,947,466	17,985,159
	31,610,917	30,646,045
	$59,130,887	$52,521,445

integral part of this balance sheet.

THE EAGLE-PICHER COMPANY AND DOMESTIC SUBSIDIARIES

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YEARS ENDED NOVEMBER 30, 1954 AND 1953

	1954	1953
NET SALES	$83,233,880	$85,033,403
PRODUCTION AND MANUFACTURING COSTS	69,241,556	70,245,380
GROSS PROFIT – before depletion and depreciation	13,992,324	14,788,023
SELLING, GENERAL, ADMINISTRATIVE AND EXPLORATION EXPENSES	7,063,445	7,076,984
OPERATING PROFIT – before depletion and depreciation	6,928,879	7,711,039
OTHER DEDUCTIONS, NET:		
Interest	569,386	644,899
Other income (note 1)	(577,914)	(444,198)
	(8,528)	200,701
	6,937,407	7,510,338
PROVISION FOR DEPLETION AND DEPRECIATION	1,990,578	1,557,372
NET PROFIT – before Federal and State taxes on income	4,946,829	5,952,966
FEDERAL AND STATE TAXES ON INCOME	2,500,000	2,710,000
NET PROFIT FOR YEAR	2,446,829	3,242,966
EARNED SURPLUS AT BEGINNING OF YEAR	17,985,159	16,243,025
	20,431,988	19,485,991
CASH DIVIDENDS PAID AND ACCRUED	1,484,522	1,500,832
EARNED SURPLUS AT END OF YEAR (note 4)	$18,947,466	$17,985,159

The accompanying notes are an integral part of this statement. ( ) Denotes credit.

THE EAGLE-PICHER COMPANY AND DOMESTIC SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

NOVEMBER 30, 1954

1. Ores, metals and metal bearing products have been valued at the lower of cost or market which has been reduced to state basic quantities of lead and zinc at fixed prices, based on 6.5 cents per pound for lead (New York) and 5 cents per pound for zinc (East St. Louis), under the base stock method of inventory valuation adopted at November 30, 1949. At November 30, 1954, basic quantities were 9,000 tons of lead and 16,000 tons of zinc compared with 12,500 tons of each metal at November 30, 1953, or a total of 25,000 tons of both metals at the beginning and end of the year. This shift in basic quantities has been made because of the materially changed nature of the company's operations and its basic inventory requirements. For the past two years the metal content of lead inventory has been substantially below the established quantity of 12,500 tons. To give recognition to the changed operating conditions and inventory requirements, the basic quantities of inventories were restated at November 30, 1954, with a resultant credit of $402,673 to other income. Due to the rise in metal prices during the year, a charge to production costs of $481,698 was required to maintain basic quantities at the stipulated fixed prices.

   Other inventories have been valued at average and standard costs, or lower, which approximate replacement market.

2. In July 1954 The Eagle-Picher Company acquired substantially all of the outstanding capital stock of Fabricon Products, Inc. at a cost which was approximately $950,000 in excess of the book value of the net assets. This excess has been allocated to property, plant and equipment in the consolidated financial statements. The statement of consolidated profit and loss includes operations of this subsidiary from July 1 to November 30, 1954. For this period the acquired company had net sales of $12,600,000 and net profit of $525,000.

3. The company has secured certificates of necessity on certain facilities, which permit $2,719,000 of the cost to be amortized over a sixty month period for the determination of income subject to Federal taxes. In the financial statements depreciation of such facilities has been computed on the basis of the estimated useful lives of the assets in accordance with the company's established depreciation policy. The amortization deducted for Federal income tax purposes is $166,000 in excess of the depreciation recorded in the accounts. Federal taxes on income have been reduced by $86,000 as a result of this additional taxable deduction.

4. Under the provisions of the loan agreements pertaining to the 3¾% notes due July 15, 1974 (entered into on July 15, 1954 and replacing the agreements pertaining to the notes due September 1, 1972), the company is required to prepay $1,000,000 on July 15 of each year to maturity commencing in 1960.

   The 3¾% notes contain a covenant which, so long as any of the notes remain outstanding, restricts the amount which may be declared as dividends (other than those payable in capital stock of the company) or applied to the purchase, redemption or retirement of the company's capital stock. At November 30, 1954 the amount not so restricted was $5,628,426.

5. On March 23, 1954, the stockholders of the company approved a stock option plan under which options to purchase an aggregate of 75,000 shares of the capital stock of the company may be granted to key employees.

   Options granted under this plan shall be for terms not to exceed ten years and shall not be exercisable until one year from the date granted or unless the last sales price (market quotation) before the date of exercise is at least 20% above the option price, the option price being the fair market value at the date of granting but not less than the last sales price of such stock on the New York Stock Exchange. The shares subject to each option shall become purchasable to the extent of 25% on the first and each successive anniversary of the date on which the option was granted, the installment rights being cumulative.

   Options were granted on March 23, 1954 and November 3, 1954 entitling the holders thereof to purchase 62,500 shares at $19.375 per share and 7,000 shares at $26.375 per share, respectively.

6. A portion of the company's sales for the year ended November 30, 1954 is subject to renegotiation under the Renegotiation Act of 1951. Management is of the opinion that adjustment, if any, for the year then ended will not be significant.

FIVE-YEAR SUMMARY

FOR THE FISCAL YEARS 1950 – 1954

SOURCE OF FUNDS		APPLICATION OF FUNDS	
Net Profit	$16,358,542	Dividends Paid	$ 7,231,323
Depreciation and Depletion	8,360,921	Capital Additions	25,684,561
Increase in Long-Term Debt	7,500,000	Increase in Working Capital (Cash & U. S. Govts., $4,271,161)	5,827,476
Decrease in Foreign Investments	3,256,460	Increase in Other Assets	807,828
Net Proceeds Sale of Fixed Assets	3,628,509	Surplus Adjustment	376,985
Reserves and Other Sources	823,741		
	$39,928,173		$39,928,173

FOR THE YEARS ENDED NOVEMBER 30	1954	1953	1952	1951	1950
INCOME STATEMENT					
Net Sales	$83,233,880	$85,033,403	$81,893,067	$82,086,318	$69,123,903
Depletion and Depreciation	1,990,578	1,557,372	1,623,123	1,497,202	1,692,646
Net Profit Before Income Taxes	4,946,829	5,952,966	4,323,643	9,503,807	6,399,296
Net Profit	2,446,829	3,242,966	4,035,643	3,703,807	2,929,296
Net Profit Per Share*	2.47	3.28	4.08	3.74	2.96
Dividend Per Share* – Calendar Year	1.50	1.50	1.50	1.36	1.36
BALANCE SHEET					
Property, Plant & Equipment, net	$25,824,409	$17,583,985	$16,493,018	$11,102,406	$11,325,613
Working Capital	18,447,048	25,808,749	25,176,975	18,625,755	15,486,220
Investment in Foreign Subsidiaries	426,682	607,152	1,318,155	2,296,776	3,354,493
Long-Term Debt	15,000,000	15,000,000	13,575,000	7,500,000	7,500,000
Net Worth	31,610,917	30,646,045	28,898,443	26,398,195	24,441,894
Net Worth Per Share*	31.96	30.98	29.21	26.68	24.71

*Per share data based on 989,177 shares presently outstanding.

PRINCIPAL PROPERTIES AND PRODUCTS

FABRICON PRODUCTS DIVISION	MANUFACTURING PLANTS: RIVER ROUGE, MICHIGAN; PHILADELPHIA, PENNSYLVANIA; PITTSBURGH, PENNSYLVANIA; LOS ANGELES, CALIFORNIA PRINCIPAL PRODUCTS — Automotive: door riser panels, trunk linings, foundation parts, sound deadeners, floor carpet mats, sun visors, dash mats, glove boxes; waxed papers: bread, candy and food wrappers, printed or plain, roll or sheet; aniline printed cellophane and polyethylene food wrappers; plastics; custom impregnated papers, textiles and glass cloth; molded polyester Fiberglas parts
INSULATION DIVISION	MANUFACTURING PLANTS: CLARK, NEVADA; DOVER, NEW JERSEY; JOPLIN, MISSOURI; WABASH, INDIANA PRINCIPAL PRODUCTS — Mineral wool insulations: cements, blocks, blankets, felts; aluminum storm windows and screens, storm and screen doors; diatomaceous earth products
MINING AND SMELTING DIVISION	MINES: TRI-STATE DISTRICT (Missouri, Kansas, Oklahoma); GALENA, ILLINOIS; SHULLSBURG, WISCONSIN; PARRAL, MEXICO ZINC SMELTER: HENRYETTA, OKLAHOMA CONCENTRATING MILLS: COMMERCE, OKLAHOMA; GALENA, ILLINOIS; PARRAL, MEXICO GERMANIUM PLANT: MIAMI, OKLAHOMA CONSOLIDATED SUPPLY COMPANY: TREECE, KANSAS NORTHEAST OKLAHOMA RAILROAD COMPANY: MIAMI, OKLAHOMA PRINCIPAL PRODUCTS — Slab zinc; chat; cadmium; germanium; gallium
OHIO RUBBER COMPANY DIVISION	MANUFACTURING PLANTS: WILLOUGHBY, OHIO; CONNEAUTVILLE, PENNSYLVANIA; LONG BEACH, CALIFORNIA PRINCIPAL PRODUCTS — Molded, extruded rubber-to-metal mechanical rubber products: automobile floor mats, miscellaneous mats, weatherstrip, tubing, vibration mountings, handle grips, semi-pneumatic tires, defroster hose, tracks for track-laying vehicles, flexible vinyl parts and perforated materials; products manufactured from natural, synthetic and silicone rubbers
PIGMENT DIVISION	MANUFACTURING PLANTS: GALENA, KANSAS; HILLSBORO, ILLINOIS; JOPLIN, MISSOURI; NEWARK, NEW JERSEY PRINCIPAL PRODUCTS — Lead free zinc oxides, leaded zinc oxides, white lead carbonate, super sublimed white lead, sublimed blue lead, basic silicate white lead, lead silicates, red lead, lead peroxide, orange mineral, litharge, sublimed litharge, lithopone, germanium metal and dioxide, sulphuric acid