Annual Report of The President

of

THE NATIONAL LEAD TRUST

February 5th, 1890

Annual Report

The Deed of Agreement under which the Trustees are operating requires that at the annual meeting certain statements of the condition of the Association shall be made to the shareholders. For reasons stated at the last annual meeting no such report was made, and in default of this I now summarize the operations of the Trust from its organization in October first, 1887, to the first of January, 1890.

Prior to October first, 1887, the Companies whose stocks were then associated in the National Lead Trust, with but few exceptions, had materially impaired their capital by reason of the fierce competition in which their interests had been engaged. Their union was one of simple self-defense, but was so imperfect in its character that the end sought for was not obtained, and the impairment of capital of these organizations continued through the year 1888, so that the aggregate losses of the Companies, a majority of whose stocks were held in The Trust from the period of its formation until January first, 1889, amounted to $262,600.75.

An effort had been made on the part of the Companies engaged in a similar character of business to find some relief from the violent and injurious competition which had in great measure rendered the large capital involved valueless, and was bringing continued disaster and injury to the trade. This culminated in a quite imperfect organization known as the American Corroders' Association, which ameliorated the condition to some extent, but gave no adequate return for the capital and labor invested in this very large business.

The original Trustees, therefore, continued their efforts to place the business on a basis of intelligent co-operation, by associating the large corroders of white lead with The Trust, and in May, 1889, commenced to secure this desirable result, which has been in very large measure accomplished by practically uniting the white lead business of the United States.

The Trustees now hold a majority of the stock of thirty-one different companies. Included in these properties are three large smelters and one of the most complete refineries in the country for the production and refining of pig lead. We have also three linseed oil mills, one of which is second largest in the country, by which we are able to not only supply all of our own requirements, but produce a large and profitable surplus. The rest of the Companies are for the manufacture of white lead and oxides in all of their different forms, and also lead pipe and sheet lead.

The amount manufactured and sold by the organizations during the year 1889 was 77,010 tons. We have, however, a capacity for the manufacture of 97,000 tons. And under favorable conditions it is expected that this entire capacity can be eventually employed. As heretofore stated, the Companies whose stocks are associated in The Trust made losses up to the first of January 1889. In the first six months of that year the twenty Companies whose stocks were then held by the Trustees, notwithstanding the imperfect terms of their association, realized a profit of $309,848.92.

During the last six months of 1889 all the Companies made a net profit of $792,173.04. This, too, notwithstanding that a more rigid character of inventory according to the report of Auditor Davison, diminished the actual profit made by more than $52,000.

The profit realized by the important factory and oil mill of Armstrong & McKelvy, whose stock was not received until late in December, is not included, and two other large factories, viz: The Maryland and Davis Chambers Co., were in association only during the months of November and December.

In June 1889 it was found that our Smelting Companies requiring to purchase vast amounts of bullion and lead and silver ores, were laboring under the necessity of borrowing large sums from the banks at high rates of interest. This will be appreciated when I state that the value of the products of this branch of industry for the year 1889 amounted to $7,537,956.54.

It was thought advisable to increase the capital of our Smelters which has been done to the extent of placing with them a cash capital in addition to what they had, of Nine Hundred Thousand Dollars, which makes them amply strong for all of their necessities, and has effected a large saving in their interest charges. Besides this amount, we have paid out in cash in the acquirement of some of the properties mentioned $227,200.59.

It is fair to say that all of the Companies in the Association, and especially those which came into the organization after July 1st, were seriously handicapped in realizing the profits they were fairly entitled to, by the fact of carrying large contracts made prior to their association, and pending the fierce conflict in which they were engaged, which in many cases resulted in actual loss. It is confidently expected that all the Companies will be able to secure very much better results in the coming year than they have heretofore had, not by material increase in prices, but simply by a steady maintenance of their trade without the fear of losses that come through trade being taken by competitors at reduced prices, and by economies that are being steadily introduced.

It is certainly expected, too, by the consolidation of management of the Companies where they are authorized to do so by law, will result in very great economy in the direction of manufacture of our material and in its distribution. The savings in freight alone by intelligent distribution from the various factories, will be an item of great magnitude, and when it is taken into consideration that a factory of five thousand tons capacity can secure a very handsome profit by selling at exactly what it costs a thousand or fifteen hundred tons factory to manufacture at, it will be readily seen that such consolidations as may be properly affected will work greatly to the advantage of the associated interests.

In this connection it is proper to say that the Trustees of this Trust believe they are engaged in a perfectly legal and proper enterprise, and it is their purpose in all cases to invoke the aid of the laws of the States in which the Companies whose stocks are held in the Association are operating, in the firm belief that the doctrine of intelligent co-operation through a Trust organization, will finally meet the favor and protection of the Government of each of the States and of the United States. About it there is no mystery, and will be no greater secrecy than is found in all of the partnership or corporate organizations of the country. To this end, and that the shareholders may thoroughly understand the whole principles of the organization, the Trustees have very properly caused the Deed of Agreement which binds all shareholders, to be printed for distribution among

hem, and have directed that this report, which practi-
lly exhibits the course of action of the Trustees
ince the organizations to this time, shall be spread
efore you.

The amount of actual cash assets held by the dif-
erent Companies over and above all their liabilities
fter paying for all of the plant is $5,594,189.29.
his is not at present a s well distributed as could be
esired, that is to say, some Companies have an excess
f capital while others whose capital had been impaired
re still under the necessity of having financial assist-
nce. Effort is now being made to successfully correct
hese inequalities and prevent payment of interest un-
ecessarily.

It is thought by the Trustees that it is of par-
ount importance to make each one of the interests in
sociation with us strong and able to carry themselves
ithout the necessity of borrowing. It is confidently
pected that before the expiration of this year this
ll have been done, and that thereafter dividends can
commenced and continuously paid to the shareholders.
d it is hoped, if no untoward circumstances arise and
e Trustees are aided by the shareholders as herein-
ter stated, that this may be commenced within the
cceeding six months.

This brings us to the consideration of the present
pitalization of The Trust. The aggregate valuation
the properties brought into this Trust amounts to
$2,361,900. included in which is a reasonable valuation
or brands, goodwill and earning capacity. On these
luations certificates have been issued on the basis of
ur for one, which makes the present capitalization of
e Trust $89,447,600, for which certificates are out-
anding.

In my judgement it was improvident to expand the
pitalization of the Companies to so great an extent.

The lead business usually increases each year from
ive to twenty per cent. It, of course, has limitations
d it is not to be expected that within any reasonable
ngth of time the property can be made to increase to
ch an enormous extent as will justify the belief that
value anything like equal to the present capitalizat-
n at par can be reached.

It is very readily perceived by the course of ad-
ncing profits resulting from intelligent co-operation

that on the basis of thirty millions of dollars the properties aggregated in The Trust would be on a very reasonable basis. It is believed if these properties were aggregated in the hands of a few individuals or in a corporation of limited holders that they would not part with them on that basis. The present very large capitalization overshadows the real values, and the enormous amount of property that has been aggregated together in practical co-operation, and is certainly misleading.

It is believed by the Trustees that if the outstanding certificates were surrendered on the basis of securing one consolidated certificate for three shares, thus practically reducing the capitalization to one-third of what it is at present, that the shares would not only rapidly appreciate to par, but that they could be thoroughly recommended as a safe investment on that basis.

They have, therefore, caused to be perfected a plan for voluntary relinquishment of the certificates at present held, to be merged into a consolidated certificate, one of the new certificates representing three of the old.

I feel confident that after a careful investigation of the matter, all of the certificate holders will perceive that this is a wise and just plan to be adopted. No one accustomed to the consideration of fair equivalents in value but will readily see that there is but little inducement to endeavor to bring the present capitalization to anything like par value; but with the capitalization reduced by two-thirds, we can hope by reasonable ability in management and honest administration to secure favorable and satisfactory results.

With the capitalization reduced to the sum I have mentioned, I believe that the judgement of the Trustees, expressed after careful examination, that these certificates will be worth par and a fair dividend paid on that sum, is certain of accomplishment. And I, therefore, very earnestly recommend that the plan suggested by the Trustees for consolidating the certificates be adopted.

Respectfully,

W. P. Thompson,,

President.

The following resolution, relating to the reduction of the capitalization, was adopted by the Certificate-holders at the Annual Meeting February 5th, 1899:

RESOLVED:-That the Trustees of The National Lead Trust be directed to take such proceedings as they deem advisable and practicable to reduce the total capital represented by all the Certificates of the said Trust by two-thirds of the amount thereof, provided that said reduction can be accomplished without affecting the relative interests of the holders of said Certificates in the Trust Estate, or their rights under the original Trust Agreement.