Annual Report

THE EAGLE-PICHER COMPANY

AND SUBSIDIARIES

N11804

FOR THE FISCAL YEAR ENDED

NOVEMBER 30, 194[illegible]

Annual Report

THE EAGLE-PICHER COMPANY AND SUBSIDIARIES

To the Stockholders of
THE EAGLE-PICHER COMPANY:

The annual report of your Company for the fiscal year ended November 30, 1945, together with financial statements as reported upon by Messrs. Barrow, Wade, Guthrie & Company, Accountants and Auditors, is presented herewith in advance of the Annual Meeting of Shareholders, which will be held on Thursday, May 9.

EARNINGS AND SALES

Consolidated net profit for the year amounted to $1,392,412, or $1.56 per common share, after all charges, including $300,000 in settlement of the long-litigated order of the National Labor Relations Board, which had its origin in 1935. The corresponding figure for the preceding year was $1,259,299.69, equivalent to $1.38 per common share, after provision for dividend requirements on preferred stock then outstanding and the appropriation of $300,000 to the reserve for contingencies. On the basis of net profit before surplus charges, per share earnings for the respective years were $1.90 and $1.71.

Net sales, as reported in the accompanying financial statements, show a decline from $46,962,692 in 1944 to $41,290,803 in 1945. This reduction, however, is more apparent than real. It is largely accounted for by a decrease in production premium payments; a change in the arrangements under which foreign concentrates have been smelted for the account of Government agencies; and a substantial shrinkage in the volume of business of the Insulation Contract Department. The decrease in production premium payments was in line with expectations and, as anticipated in last year's annual report, was more than offset by diminishing charges for depletion and depreciation. With respect to the smelting of Mexican concentrates for U. S. Government account, the proceeds of the sale of metal recovered therefrom and the cost of smelting have, heretofore, appeared in sales and production costs, respectively. Under the revised procedure, only a net treatment cost or smelting toll is reflected in sales. The reduction in volume of the Insulation Contract Department reflects curtailment of defense plant construction. During the war, substantial tonnages of our insulation products were utilized in the construction of many types of plants. In order to obtain this business, it was frequently necessary for us to contract to install a complete insulation job, utilizing many products other than those of our own manufacture. This had a much greater effect on sales than on profits. While a normal profit was realized on our own products, we made only a jobbing profit on other materials. With the curtailment of defense plant construction, the volume of such contracts declined correspondingly—but without significant effect upon profits. If consideration be given to the combined effect of the foregoing factors, sales of our own products—both in dollar volume and tonnage—showed a decline of less than 4%.

DEPLETION AND DEPRECIATION

Provision for depletion and depreciation and for adjustment of the values of certain specific properties; and charges in respect of mine exploration and prospecting and net loss on the retirement or sale of capital assets, aggregated $1,369,231.80 for the year under review, in comparison with $3,188,036.97 for the preceding year. Of the net decrease of $1,818,805.17, $1,580,387.16 applied to depletion and depreciation; $38,163.82, to adjustment of property values; $205,129.49, to loss on retirement or sale of capital assets--while exploration and prospecting expenses increased $4,875.30.

For the current year, charges for depletion and depreciation amounted to $1,053,484.74, which does not vary widely from the estimate of $1,170,000 contained in last year's report. It is again estimated that the corresponding charges for the 1946 fiscal year will be in that approximate range.

Loss on disposition and revaluation of physical properties during the year aggregated $70,329.52. Only a few non-operating properties remain to be disposed of, loss on which, if any, will be insignificant.

The investigation, drilling and exploration of new mining properties is following a well considered program and funds for that purpose will be appropriated to the extent that intelligent use thereof can be made.

TAXES

Provision for Federal and State taxes on estimated taxable income of the 1945 fiscal year amounted to $275,000, in comparison with $1,000,000 for the preceding year. Reported income, before taxes, was subject to reduction by the amount of the payment in settlement of the National Labor Relations Board case; by the credit, long allowed under Revenue Acts, in respect of percentage depletion; and by a substantial taxable loss on property dispositions, which had been anticipated and, in large part, previously reserved for.

During the year under review, tax returns of the combined group were examined by the Treasury Department to November 30, 1941—that year involving the initial determination of invested capital for excess profits tax purposes. As a result, your companies paid an additional tax of $259,139.97, which was charged against the appropriate reserves; and interest of $47,634.38, which was charged against the current year's operations. At November 30, 1945, consolidated tax reserves, carried in current liabilities, amounted to $1,137,761.24, against which were held United States Tax Savings Notes of a redemption value of $744,759. Reserves applicable to prior years aggregated $873,821.92, which should be more than adequate to cover any liability that may be asserted and maintained by the Treasury Department. Pending examination of years subsequent to 1941, it is impossible to determine whether or not the Company is entitled to any credit under the carry-back provisions of the Excess Profit Tax Act.

As previously reported, renegotiation proceedings under the War Profits Control Act were concluded for the fiscal years ended November 30, 1942 and 1943, by a finding that no excessive profits were realized. Such proceedings, for the 1944 fiscal year, were waived by the reviewing authorities; and it is the opinion of your management that any thought of liability under the provisions of this Act can be dismissed.

DIVIDENDS

Throughout the 1945 fiscal year, the annual dividend rate of 60c per share was maintained by regular quarterly payments of 15c per share. Effective with the December, 1945, quarterly payment the rate was increased to 20c—equivalent to an annual rate of 80c per share.

There has been no change in the dividend policy of your Directors from that enunciated in last year's report. If future earnings exceed dividend requirements under the present scale and if the conduct and development of your Company's operations does not necessitate the retention of such excess, your Directors will continue to give sympathetic consideration to a further increase in the regular rate or to periodic declaration of extra payments.

BALANCE SHEET

Net working capital at November 30, 1945, as reflected by the excess of current assets over total liabilities (including unmatured debentures), amounted to $10,410,909.80, in comparison with $8,684,310.33 at November 30, 1944. If reserve fund investments in United States Government securities be included, the corresponding figures were $12,926,961.55 and $11,157,628.77, respectively—an increase of $1,769,332.78.

Operating income for the year, after provision for income taxes but before deducting charges classified as depletion, depreciation, etc., amounted to $2,761,643.80. Of this amount, $607,209.62 was expended for capital additions and $245,417.54, for exploration and prospecting. Acquisition of a forty per cent interest in McArthur-Irwin, Ltd., of Canada absorbed $205,500.95; and other minor accounts increased in the net amount of $78,333.98. Common dividends paid or accrued during the year totalled $577,899.40. These disbursements aggregated $1,714,361.49, leaving $1,047,282.31 available from operating income. Progress in liquidation of the company's investment in Mexico, reported upon hereinafter, produced $722,050.47, raising the foregoing balance to $1,769,332.78, which represents the above mentioned increase in the excess of current assets (including reserve fund investments) over total liabilities.

At November 30, 1945, the 889,076 common shares outstanding had a book value of $21.90 per share, of which $14.54 was covered by net current assets; $5.35 was invested in fixed assets; and $2.01 was represented by all other assets.

Reserve funds were again fully invested at November 30, 1945, and excess investments in United States Government securities were included in current assets. Reserves for future decline in inventory values and for contingencies remained unchanged at $2,100,000. While no specific conditions are apparent which would require substantial charges to these reserves, it is deemed advisable to retain them pending the establishment of more stable economic conditions.

Accounts receivable at November 30, 1945, were almost incredibly current. The Company's policy is to provide reserves for doubtful receivables on the basis of the age of the individual accounts. At the balance sheet date, the accumulated reserve was some $140,000 in excess of estimated requirements. Hence, the current year's provision was reduced by $80,000, as was done in the preceding year.

Consolidated inventories increased $1,018,855.26 during the year. The increase in value of metal content of ores, metals and metal-bearing products was in direct ratio to the tonnage increase. The increase in manufacturing materials and supplies reflected moderate accumulation of certain basic commodities, future delivery of which could be adversely affected by strikes within the producing industry.

As explained in previous reports, the indenture, under which the Company's debentures are issued, contains certain provisions relating to the payment of dividends. At the present level of indebtedness, maintenance of net working capital of $5,145,000 is required. In comparison therewith, net working capital (as defined in the indenture) at November 30, 1945, amounted to $16,356,961.55 or an excess of $11,211,961.55. With respect to net quick assets, the corresponding excess was $8,734,783.24. Accumulated earnings to November 30, 1945, available for payment of dividends, amounted to $3,809,243.

MINING AND SMELTING OPERATIONS

During the year under review, the Company's Tri-State mills beneficiated 3,222,960 tons of ore, in comparison with 3,869,721 tons in 1944; and produced therefrom 123,035 tons of concentrates, in comparison with 170,039 tons in the preceding year. The reduction in ore mined and milled was approximately 17%—which continues to be substantially below the corresponding decrease of over 26% in the number of employees. In October, 1945—for the first time in many months—employment showed an increase; and, at date of this report, the improvement in the available labor supply is making itself apparent in a proportionate increase in mine production. Of the reduction of 47,004 tons in concentrate production, approximately 40% resulted from a decline in grade of ore; while 60% resulted from the decrease in ore milled as explained above.

At November 30, 1945, the investment in and advances to Mexican subsidiaries had been reduced to $490,835, represented by the following assets:

Net current and working assets	$ 34,174.19
Repair parts, maintenance supplies, etc.	122,556.31
Mining lands, leases and development work; and mine and mill buildings and equipment—less depletion and depreciation	321,932.87
Prepaid and deferred charges	10,916.83
	$489,580.20
Accumulated operating deficit to date (after provision of $657,540.52 for depletion and depreciation)	1,564.08
	$491,144.28
Minority interest (6%) in Minas de Guerrero, S. A.	309.28
	$490,835.00

As explained in previous reports, the stock investment in the Mexican parent company, Eagle-Picher de Mexico, S. A., was restricted to $20,618.56 (100,000 pesos). All other funds required for the development of the Mexican properties were supplied as advances, so that they might be recovered without being subjected to United States income taxes. Consolidated operating income of Eagle-Picher de Mexico and subsidiaries, for the fiscal year ended November 30, 1945, after provision of $126,738.22 for Mexican income taxes but before provision for depletion and depreciation, amounted to $532,510.62. Liquidation of various assets produced an additional $216,223.91. Of the total funds of $748,734.53 so provided, $26,684.06 was expended for capital additions and the balance of $722,050.47 was applied in reduction of the above advances, which, at November 30, 1944, had amounted to $1,212,885.47 and were thereby reduced to $490,835 at November 30, 1945. In addition to liquidation payments, your Company has received $94,474.83 as interest on its advances, paid by the Mexican corporation under the requirements of Mexican law and taken into account, from year to year, in the income account of The Eagle-Picher Company. Production of the Mexican operation, for the year under review, amounted to 52,342 short tons of concentrates.

Operations of the St. Xavier mine and Suaharita mill, near Tucson, Arizona, produced 32,464 concentrate tons and a net profit of $465,074.98, before provision for Federal income taxes. As previously reported, the St. Xavier mine is operated under a royalty agreement, whereby your Company becomes owner of the fee when royalty payments shall have aggregated $300,000. To November 30, 1945, such payments amounted to $217,501.32.

GENERAL

Pursuant to the recommendations of your Board of Directors, the stockholders, at the annual meeting held on March 25, 1945, approved an Employees' Retirement Plan. The entire cost of the Plan is borne by the Company. The funds, as computed by independent actuaries, are presently being paid over to three non-management directors and, by them, invested in United States Government securities. The Company's contribution for the fiscal years ended November 30, 1944 and 1945, amounted to $155,000, all of which was charged to operations of the current year. The net cost to the Company, after Federal income taxes, was approximately $90,000. Payments during the first ten years of operation of the Plan will include such amounts as are required to liquidate the accumulated prior service cost; thereafter, only the current cost will have to be paid each year to maintain the Plan.

While, as consistently pointed out in these reports, your Company has no reconversion problem in the usual sense of the word, it cannot avoid the impact of general economic conditions. Whether or not progress is made in the solution of the many problems which hamper resumption of much-needed full-scale production, your Company is well equipped—both in facilities and personnel—to maintain and improve its position.

In conclusion, it is again our privilege to express to our associates in the management and to all employees of the affiliated companies, wherever and in whatever capacities they may be employed, recognition of their contribution to the year's accomplishments; and, to customers, dealers and distributors, appreciation of their continued confidence, loyalty and tolerance under conditions that have not shown the improvement that we had hoped for and expected.

For the Board of Directors,

JOSEPH HUMMEL, JR.
Chairman

JOEL M. BOWLBY
President

CINCINNATI, OHIO
April 23, 1946

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

THE EAGLE-PICHER COMPANY /

Consolidated Balance Sheets as at No

ASSETS

	NOVEMBER 30, 1945		NOVEMBER 30, 1944	
CURRENT ASSETS:				
Cash in Banks and on Hand		$ 3,830,428.99		$ 3,311,698.31
U. S. Government Obligations—at cost (Market value at November 30, 1945—$1,313,549.21)		1,313,440.31		1,530,000.00
Accounts and Notes Receivable	$ 4,362,031.02		$ 4,514,909.09	
Less: Reserves for Doubtful Accounts and Notes	345,423.00	4,016,608.02	358,722.31	4,156,186.78
Inventories of Raw Materials, Work in Process, Finished Products and Supplies:				
Ores, Metals, and Metal-bearing Products—valued at the lower of cost or market price of metal content, plus manufacturing costs on Materials in Process and Finished Products	6,193,629.63		5,349,860.48	
Other Products and Merchandise for Resale—at cost	367,468.10		346,938.54	
	6,561,097.73		5,696,799.02	
Manufacturing Materials and Supplies—at cost	776,080.58	7,337,178.31	621,524.03	6,318,323.05
		16,497,655.63		15,316,208.14
RESERVE FUND INVESTMENTS:				
U. S. Government Obligations—at cost (Market value at November 30, 1945—$2,519,050.12)		2,516,051.75		2,473,318.44
OTHER ASSETS:				
Repair Parts, Maintenance Supplies, etc.	648,332.28		638,564.86	
Miscellaneous Accounts, Advances, etc.	217,211.85		118,557.89	
Sundry Securities—at or below cost	18,427.93	883,972.06	15,667.70	772,790.45
INVESTMENT IN AND ADVANCES TO AFFILIATES:				
Subsidiary not consolidated	490,835.00		1,212,885.47	
Other Affiliate	205,500.95	696,335.95		1,212,885.47
FIXED ASSETS:				
Mining Lands and Leases; Mills, Smelters and Fabricating Plants and Equipment; Railroad Trackage and Equipment; and Miscellaneous Properties and Equipment (including $64,777.33 excess cost of acquisition over book value of net assets acquired)	32,506,483.40		32,971,242.06	
Less: Reserves for Depletion, Depreciation, etc.	27,754,707.62	4,751,775.78	27,702,861.64	5,268,380.42
TREASURY STOCK—10,924 shares at cost		61,797.56		61,797.56
PREPAID AND DEFERRED CHARGES:				
Prepaid Freight, Insurance, etc.	104,581.05		118,909.67	
Miscellaneous Deferred Charges	105,560.24	210,141.29	81,101.70	200,011.37
PATENTS, GOODWILL, etc.		1.00		1.00
		$25,617,731.02		$25,305,392.85

COMPANY AND SUBSIDIARIES

ts as at November 30, 1945 and 1944

LIABILITIES

		NOVEMBER 30, 1945		NOVEMBER 30, 1944
CURRENT LIABILITIES:				
Accounts Payable		$ 1,444,484.11		$ 1,529,300.78
Dividend on Common Stock		177,815.20		133,361.40
Accrued Liabilities:				
Wages and Salaries	$ 333,611.01		$ 288,041.13	
Taxes—other than taxes on income	140,382.64		186,306.78	
Other	167,450.63	641,444.28	88,760.21	563,108.12
Provision for Federal and State Taxes on Income	1,137,761.24		2,190,864.91	
Less: U. S. Treasury Tax Savings Notes at redemption value	744,759.00	393,002.24	1,499,737.40	691,127.51
Debenture Sinking Fund Payment		285,000.00		285,000.00
		2,941,745.83		3,201,897.81
FIFTEEN YEAR 3½% SINKING FUND DEBENTURES—DUE NOVEMBER 30, 1957	3,430,000.00		3,715,000.00	
Less: Sinking Fund Payment due within one year (included in Current Liabilities)	285,000.00	3,145,000.00	285,000.00	3,430,000.00
RESERVES:				
For Self Insurance:				
Workmen's Compensation	315,751.19		280,526.55	
Fire and Tornado	101,547.17		93,794.26	
	417,298.36		374,320.81	
For Future Decline in Inventory Values	1,300,000.00		1,300,000.00	
For Contingencies	800,000.00	2,517,298.36	800,000.00	2,474,320.81
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	6,112,687.51	8,013,686.83	5,298,174.91	7,199,174.23
		$25,617,731.02		$25,305,392.85

THE EAGLE-PICHER COMPANY AND SUBSIDIARIES

Consolidated Statements of Profit and Loss and Earned Surplus

FOR THE YEARS ENDED NOVEMBER 30, 1945 AND 1944

	NOVEMBER 30, 1945		NOVEMBER 30, 1944	
NET SALES (including production premiums)		$41,290,803.05		$46,962,692.64
PRODUCTION AND MANUFACTURING COSTS		35,532,733.66		39,045,481.70
GROSS OPERATING PROFIT — before Depletion and Depreciation		5,758,069.39		7,917,210.94
EXPENSES:				
Selling	$1,004,846.95		$1,035,111.29	
Traffic, Warehousing and Shipping	434,791.97		352,013.88	
General and Administrative	1,333,802.93	2,773,441.85	1,304,440.90	2,691,566.07
NET OPERATING INCOME—before Depletion and Depreciation:				
Mining and Manufacturing		2,984,627.54		5,225,644.87
Northeast Oklahoma Railroad Company		244,963.89		367,344.21
		3,229,591.43		5,592,989.08
OTHER INCOME:				
Royalties	75,382.25		96,856.31	
Interest from Subsidiary not consolidated	31,054.15		43,839.24	
Other Interest and Dividends	58,148.18		35,568.11	
Miscellaneous	120,127.17	284,711.75	129,756.42	306,020.08
		3,514,303.18		5,899,009.16
INTEREST PAID:				
On Debentures	130,025.00		151,672.50	
On Federal tax deficiency	47,634.38	177,659.38		151,672.50
		3,336,643.80		5,747,336.66
DEPLETION, DEPRECIATION, ETC.:				
Provision for Depletion and Depreciation	1,053,484.74		2,633,871.90	
Provision for Write-down of Properties	25,000.00		63,163.82	
Abandoned Projects, Prospecting Expenses and Loss on Retirement or Sale of Capital Assets	290,747.06	1,369,231.80	491,001.25	3,188,036.97
NET PROFIT — before provision for Federal and State Income Taxes		1,967,412.00		2,559,299.69
PROVISION FOR FEDERAL AND STATE INCOME TAXES (Excess Profits Tax—nil)		275,000.00		1,000,000.00
NET PROFIT FOR YEAR		1,692,412.00		1,559,299.69
SURPLUS CHARGES:				
Settlement of National Labor Relations Board case (including legal fee)		300,000.00		
Appropriation to Reserve for Contingencies				300,000.00
SURPLUS NET PROFIT		1,392,412.00		1,259,299.69
EARNED SURPLUS AT BEGINNING OF YEAR		5,298,174.91		4,605,254.82
		6,690,586.91		5,864,554.51
DIVIDENDS PAID AND ACCRUED:				
Preferred			32,934.00	
Common		577,899.40	533,445.60	566,379.60
EARNED SURPLUS AT END OF YEAR		$6,112,687.51		$5,298,174.91