Cont

NATIONAL LEAD COMPANY

Seventy-second Annual Report

1963

National Lead Company

Board of Directors

George B. Coale
Graham W. Corddry
Alfred H. Drewes
John B. Henrich
J. Paul Kirk
Joseph A. Martino
Claude M. Merrell
David A. Merson
Thomas F. Owens
Edward R. Rowley
William J. Welch
Harry C. Wildner

Executive Committee

Chairman
Joseph A. Martino
Graham W. Corddry
Alfred H. Drewes
John B. Henrich
David A. Merson
Thomas F. Owens
William J. Welch
Harry C. Wildner

Executive Officers

President
Joseph A. Martino

Executive Vice-President
Alfred H. Drewes

Vice-Presidents
Alfred F. Bauer
George B. Coale
Graham W. Corddry
J. Murray Johnston
Claude M. Merrell
Edward M. Van Winkle
William J. Welch

Secretary
John B. Henrich

Treasurer
Thomas F. Owens

Comptroller
George A. Dewey

Assistant Secretaries
John J. Lawlor
Thomas P. Mesick

Assistant Treasurer
Archer D. Sargent

Assistant Comptrollers
Albert H. Hoffman
Archer D. Sargent
G. Warren Waite

Microphotograph of cellulose fibers encapsulated in plastic by Company's newly developed Nalcon process.

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Financial Highlights

	1963	1962
Net Sales	$618,580,159	$570,721,363
Net Earnings	$ 49,592,590	$ 49,039,833
Net Earnings Per Common Share	$ 4.20	$ 4.01
Cash Dividends	$ 38,423,378	$ 40,139,526
Common Dividends Per Share	$ 3.25	$ 3.25
Taxes:		
Income Taxes	$ 45,087,815	$ 44,740,176
Other Taxes	$ 12,311,639	$ 11,240,199
Retained Earnings	$ 11,169,212	$ 8,900,307

Executive Offices:
111 Broadway
New York, N. Y. 10006

General Counsel:
Alexander & Green
120 Broadway
New York, N. Y. 10005

Stock Transfer Agents:
The Chase Manhattan Bank
One Chase Manhattan Plaza
New York, N. Y. 10015

Old Colony Trust Company
45 Milk Street
Boston,
Massachusetts 02106

National Trust Company,
Limited
21 King Street East
Toronto 1, Canada

Registrars of Stocks:
Bankers Trust Company
16 Wall Street
New York, N. Y. 10015

The First National Bank
of Boston
45 Milk Street
Boston,
Massachusetts 02106

The Royal Trust
Company
66 King Street West
Toronto 1, Canada

The President's Letter

To the Shareholders:

National Lead Company had a successful year in 1963 and reported higher sales and earnings. Contributory factors were the broadened base of the Company's operations and the generally prosperous economic conditions in the United States, Canada and Europe. As this report is written, there are strong indications that the momentum which business enjoyed in the fourth quarter will continue into the months ahead.

Sales and Earnings

The Company's consolidated sales rose 8 per cent, from $570,721,363 in 1962 to $618,580,159 in 1963. Net income was $49,592,590 for the year 1963, an increase of 1 per cent over the $49,039,833 reported in 1962. Earnings per share of common stock were $4.20, a gain of 5 per cent over the $4.01 reported for 1962.

The increase in dollar sales was due mainly to increased physical volume which was shared by all major segments of the Company's business and to rising metal prices for lead, zinc and tin. The most pronounced improvement in the sales picture occurred in the fourth quarter as may be seen from the following figures:

	1963	1962	Per Cent Increase
First Quarter	$143,640,000	$138,439,000	4
Second Quarter	$159,948,000	$147,957,000	8
Third Quarter	$153,897,000	$143,078,000	8
Fourth Quarter	$161,095,000	$141,247,000	14

Substantial gains in sales volume were recorded by such product groups as aluminum and zinc die castings, railroad journal bearings, fabricated metals, antimonial lead, Kirksite dies, precious metals, refractories, screws and metal fasteners, and lead chemicals. An increase in sales volume of titanium dioxide took place in all three

The Verrazano-Narrows bridge linking Staten Island with the other boroughs of New York City contains over 160,000 tons of structural steel all of which is protected with paint pigmented with M50 anticorrosive pigment, a development of National Lead Company research.

major markets, United States, Europe and Canada, with the latter showing the most marked improvement. Continuing consumer acceptance of the Company's well-known line of Dutch Boy paints was reflected in a gain in sales. There was an increase in over-all sales of oil well drilling muds and chemicals, despite a decrease in domestic demand due to reduced drilling activity in the United States.

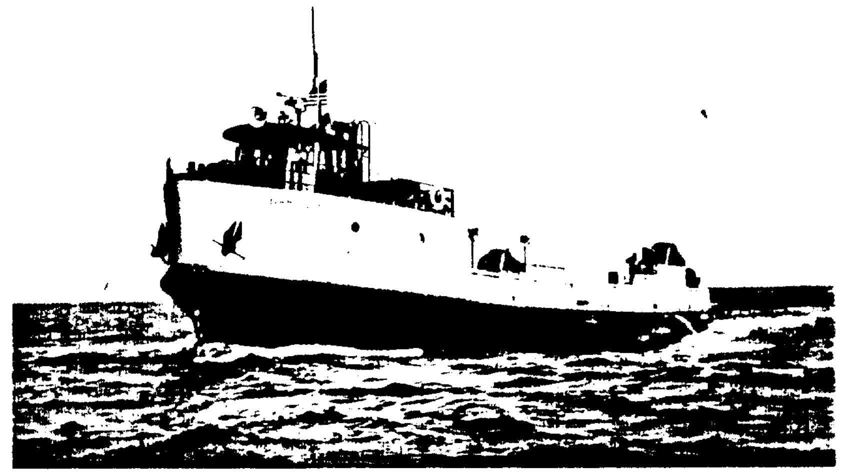
It is most gratifying again to report that all of the Company's major divisions operated profitably in 1963, with some showing substantially increased earnings. As indicated above, earnings per share of common stock increased 5 per cent, while consolidated net earnings rose 1 per cent. The retirement of the preferred stock and the consequent reduction of dividend requirements contributed to the improved per share earnings. An interest charge of $1,024,290 on the newly issued debentures was a limiting factor on the improvement in dollar earnings.

The portion of the increase in dollar sales resulting from higher prices for lead, tin and zinc did not contribute to increased net earnings. Many of the Company's products are sold at fixed differentials over metal prices. Therefore, while fluctuations in market prices of metals are reflected in dollar sales, they have little effect on net earnings and may even adversely affect the ratio of earnings to sales. The method of valuing metal inventories which the Company has followed for many years has a stabilizing effect on reported earnings. In years such as 1963 when metal prices were rising sharply this method tended to hold down net profits.

Costs and expenses were carefully controlled in 1963. Selling and administrative expense remained virtually unchanged during a period when sales volume increased substantially. Costs of warehousing and delivering Company products were held in line with the greater physical volume. Expenditures for research and development were higher as a matter of Company policy, reflecting expanded effort in this area. Manufacturing costs were under constant review, with emphasis on increased efficiency and improved production techniques.

Dividends

Common stock dividends of $38,048,890, equal to $3.25 per share, were paid during the year and consisted of quarterly payments of 75¢ per share in March, June, and September, and $1.00 per share in December. The same per share payments were made on the common stock in 1962. Preferred stock dividends, which in 1962 totaled



The recently launched Baroid Hustler delivers oil well drilling muds and materials directly to rigs located off the Louisiana coast.

$2,105,562, amounted to only $374,488 in 1963 because of the retirement of the preferred stock early in the year. Total dividends during the year amounted to $38,423,378.

The Company has an uninterrupted record of cash dividend payments on common stock dating back to 1906.

Taxes

National Lead Company's tax provision for the year 1963 totaled $57,399,454. United States and foreign income taxes accounted for $45,087,815 of this amount, while the remaining $12,311,639 covered state, local and other direct taxes.

The total provision exceeded the corresponding 1962 amount by $1,419,079 due to the increase in taxable income and the continuing rise in state and municipal taxes. Of interest to the shareholder is the fact that the total tax provision for 1963 exceeded net income by $7,806,864 and dividends by $18,976,076.

Retirement of Preferred Stock

On April 19, 1963 all of the outstanding shares of the Class A preferred stock and Class B preferred stock were retired under a plan approved by the shareholders at the 1963 Annual Meeting. Under the terms of this plan, preferred shareholders were offered an option of exchanging their shares for either $51,304,480 aggregate principal amount of 4⅜ per cent twenty-five year subordinated debentures, due April 1, 1988 or an equivalent amount of cash. Holders of the retired shares elected to receive an aggregate of $32,416,400 principal amount of such debentures and $18,888,080 in cash. In addition, as part of the redemption price, they received cash payments equivalent to accrued dividends through April 18, 1963.

As previously mentioned, interest of $1,024,290 on the debentures was charged against earnings in 1963. However, earnings per share of common stock benefited by the reduction in preferred dividend requirements.

As can be seen from the balance sheet of the Company, set forth on page 22, the general effect of the recapitalization was to reduce cash, capital stock and earned surplus, and to reflect a new liability for the issue of 4⅜ per cent subordinated debentures.

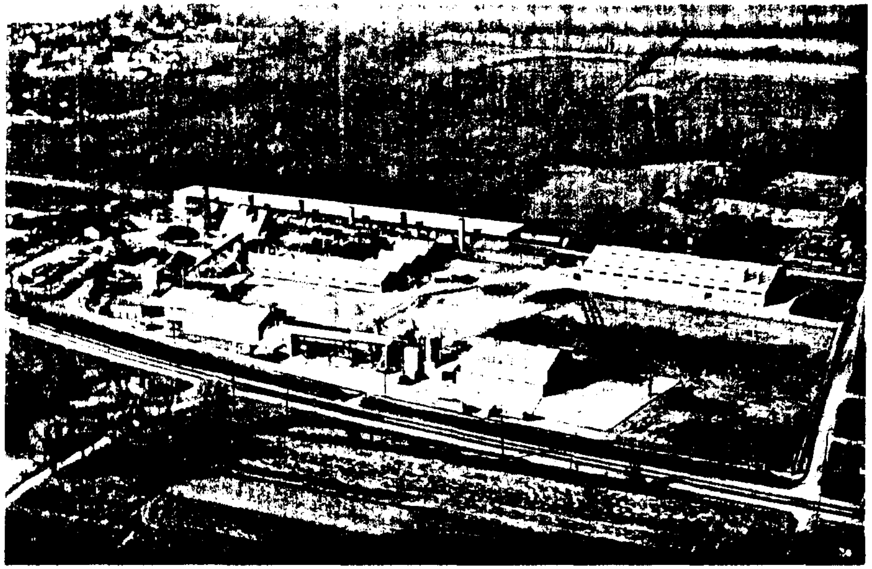
Financial Position

The financial position of the Company continues strong. As indicated above, most of the major changes in the balance sheet accounts resulted from the retirement of the preferred stock. Inventories showed very little change during a year when sales increased substantially. Accounts receivables rose from $65,525,028 to $74,593,053, reflecting in a large part, the increased sales in the last quarter of the year. The total of cash, government obligations and marketable securities continues adequate for the Company's requirements. In comparison with the prior year this total is somewhat lower due to outlays for the retirement of the preferred stock. At year end working capital amounted to $169,399,108 and total assets were $442,480,074.

Ilmenite from Titanium Division's open pit mine at Tahawus, New York, is shipped to the Company's domestic titanium pigment plants. Mining operations have begun in a new extension of the ore body (foreground) which contains reserves for many years to come.

Plant Investment

National Lead Company's capital expenditures in 1963 totalled $13,981,915, while the charge for depreciation, depletion and amortization amounted to $14,899,748. During 1963 the gross value of fully depreciated assets retired and assets sold, discarded or otherwise disposed of, amounted to $10,092,361. At the end of the year the Company's net investment in plant, property and equipment was $164,493,160, as compared with $165,855,569 at the end of 1962.



The Taylor, Kentucky, plant of The Chas. Taylor's Sons Company completed new facilities in 1963 for the production of synthetic mullite.

The Chas. Taylor's Sons Company which is celebrating in 1964 the 100th anniversary of its founding, completed new facilities at its Taylor, Kentucky, plant, specifically engineered for the production of synthetic mullite used as a feed material in the manufacture of high temperature refractories for the steel industry.

During 1963, the Company's Tennents Brook plant at Sayreville, New Jersey, installed additional equipment to further improve quality control and increase packaging capacity. Using the Nalcon process developed by the Company, this plant encapsulates cellulose fibers in polyethylene and produces storage battery separators which are marketed under the trade mark "Polysep." Encapsulated cellulose is also made in sheet form for use in industrial filters. Sales of these Nalcon products, on which patents have been granted, are expected to become increasingly important in 1964.

A substantial addition to facilities for the processing of precious metals and the production of related chemicals is nearing completion at the Chicago plant of Goldsmith Bros. Division. The new equipment is designed to produce high quality silver nitrates and silver chlorides for manufacturers of photographic film and special purpose batteries.

The die casting plant at Hamilton, Ontario, operated by the Barber Die Casting Co. Limited, is undergoing a sizable expansion to provide for the increasing Canadian demand for aluminum, brass, magnesium, and zinc die castings.

The Canada Metal Company, Limited is enlarging its capacity to produce hot brass forgings, and has acquired facilities to manufacture a series of new products made from powdered metals.

There has been a marked increase in oil well drilling activity off the coast of Louisiana. To better serve customers in this area, the Baroid Division has purchased a second vessel, the Baroid Hustler, which delivers oil well drilling muds and materials directly to the offshore locations.

The production facilities for die cast aluminum flooring and especially designed site-environmental systems were transferred from Newark, New Jersey to Toledo, Ohio. These products are sold by Floating Floors Inc. for use in computer installations.

A new titanium dioxide plant, now under construction at Fredrikstad, Norway, will be ready for operation in April. Upon completion of this unit, the Company's world-wide production facilities for titanium pigments will consist of two plants in the United States, one in Canada, and three in Europe, located in West Germany, Belgium and Norway. During 1963, expenditures were made at all plants to further improve the quality of pigments offered to customers. In recent years the Company has enlarged the production capacity of its European and Canadian plants. This expansion has the helpful effect of making additional tonnage available for sale to domestic customers, since requirements in those areas were formerly supplied, in part, by Company plants in the United States.

National Lead Company has mining operations at Hauge i Dalane, Norway and Tahawus, New York, which provide ilmenite for the production of titanium pigments. The Company's European plants use the Norwegian ilmenite, while the Tahawus mine supplies the Sayreville, New Jersey and St. Louis, Missouri, pigment plants with their ilmenite requirements. The Tahawus mining operations have expanded to a newly developed extension of the ore body which contains sufficient ilmenite reserves for many years to come. Additional heavy duty mining equipment has been purchased to work the new extension. The buildings comprising the village of Tahawus have been moved to a new location ten miles away at Newcomb.

The Company's metal fabricating plant and warehouse at Cincinnati, Ohio, was relocated to larger and more modern facilities in the same area.

Hoyt Metal Company of Great Britain, Ltd., a wholly owned subsidiary which produces antifriction metals and bearings, has sold its plant at Chessington and consolidated its operations at Putney, England.

Unconsolidated Affiliated Companies

Titanium Metals Corporation of America experienced a satisfactory year in 1963. Sales and earnings showed gains and dividend payments were resumed. TMCA expended $4,171,000 in 1963 under its long range program to further integrate and expand its manufacturing facilities.

Titanium is a unique metal, combining light weight, high strength, and resistance to chemical corrosion, and exhibiting certain other desirable physical characteristics over a wide temperature range. These properties have resulted in titanium being selected for many new applications in the aerospace and chemical processing industries. Currently about one-third of the industry's production is used for missile and space hardware, and one-half for jet engines and military airframes, with the remainder going into civilian aircraft and chemical processing equipment. A steadily increasing demand for titanium metal is expected. Projected uses in a number of new fields include supersonic commercial airplanes, deep diving submarines and processing plants to convert salt water into fresh water.

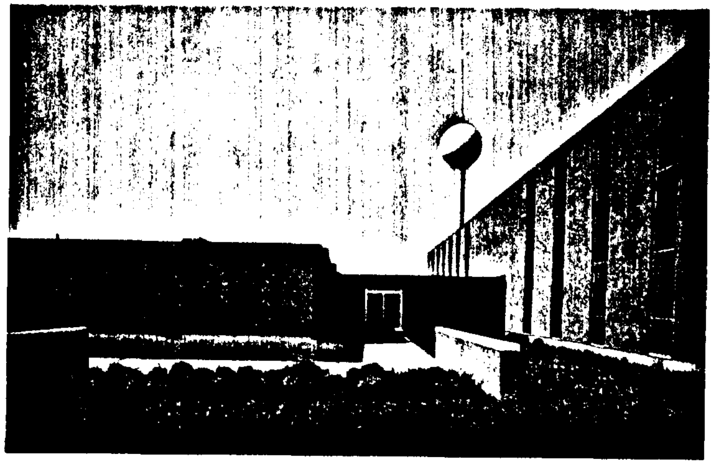
Morris P. Kirk & Son, Inc. and its subsidiary, Pioneer Aluminum Inc., showed significant improvement in both sales and earnings during 1963. Kirk produces lead and zinc products, while Pioneer

At TMCA's Toronto, Ohio, plant special equipment is being installed for the continuous vacuum annealing of titanium sheet and strip.

makes tooling plate, and warehouses and distributes aluminum extrusions and sheet to the aircraft industry. Pioneer established warehouses at Marietta, Georgia and Wichita, Kansas, to satisfy the growing demand for these products and to provide better geographical distribution.

The Baker Castor Oil Company had an excellent year. For many years Baker has conducted an agronomy program for the development of adequate domestic sources of castor beans. This program has been very successful and in 1963 there was a record castor bean crop. This subsidiary produces numerous chemical compounds from castor oil which are sold to the paint, cosmetic and other industries.

A substantial part of the Company's international business in oil well drilling materials is carried on by subsidiaries located in Italy, Venezuela and Trinidad. During 1963, the Company increased its percentage of ownership in Baroid International, S.p.A., formerly



New Technical Service Laboratories at Hightstown, New Jersey, develop technical information on the use and application of titanium dioxide pigments in various industrial products.

Baroid-Maffei, S.p.A. This subsidiary is now actively engaged in expanding its business in the oil producing areas of the Mediterranean, Middle East and Africa. Barytes & Minerals Limited of Trinidad and Baroid de Venezuela, S.A. both had a good year.

The Company engages in die casting operations through affiliates located in Brazil, Canada and England. All three operations showed a satisfactory increase in earnings in 1963. Growing interest on the part of the automotive industry in large and complex die castings holds great promise for the British company, Metal Castings Doehler Limited.

Derives du Titane S.A., a Belgium subsidiary, which operates a titanium pigment plant at Langerbrugge, shared in the increased European demand for titanium pigments and reported substantially increased earnings. This is the second titanium pigment plant which the Company operates in the Common Market area, the other being that of its wholly owned subsidiary, Titangesellschaft m.b.H. at Leverkusen, West Germany.

Mineral Deposits Pty. Limited, an Australian affiliate engaged in the mining of rutile and zircon, also enjoyed a highly satisfactory year. The world-wide demand for rutile is increasing and arrangements have been made to increase the output of this company.

During 1963, National Lead Company disposed of its interest in Zinnwerke Wilhelmsburg G.m.b.H., West Germany. This business was not closely related to the Company's other activities and its potential was limited by lack of economical sources of raw materials.

New Products and Processes

Enenco, Incorporated, a new subsidiary jointly owned by the Company and National Dairy Products Corporation, has built a plant at Memphis, Tennessee, to produce a line of fatty amines and related products. These are used by the Company in its production of Bentone gelling agents which are sold to producers of paints and greases. Fatty amines are also used in the textile, oil and mining industries as water softeners, biocides and flotation agents.

Baroid Division has developed improved oil base drilling muds which greatly increase drilling efficiency in certain locations. The division has formulated high specific gravity fluids for use as ship ballast which can be conveniently handled by pumping. Baroid is also manufacturing and marketing automatic gas detectors for industrial safety applications.

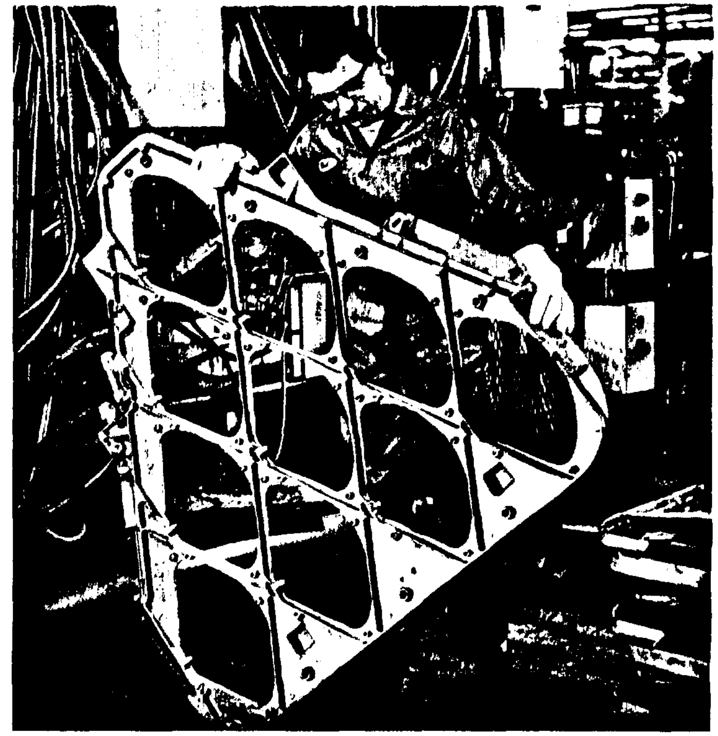
Substantial technical work continued in 1963 on National Lead Company's new Nalcon process, a chemical technique that encapsulates individual microscopic fibers and particles in a shell of polyethylene or similar olefin. It has been found that a wide variety of materials, including cellulose fiber, textile fiber, glass fiber, carbon black, asbestos fiber, metal powders, pigments and salts can be encapsulated in plastics. Substances so encapsulated become new materials having the combined properties of the original substance and those of the plastic shell. A long range program to evaluate the economic potentials of these materials is under way.

Competitive activity in the titanium pigment field necessitates a product line of the highest quality. The Company, through its research and technical service programs, has maintained a leading position in this field. During 1963, a number of important new grades were brought onto the market to meet the special requirements of certain customers. In September 1963 the Company's Technical Service Laboratories for titanium pigments were moved from New York City to a new building at Hightstown, New Jersey. This new facility has the most modern laboratory equipment for the development of technical information on the use and application of titanium pigments in the manufacture of various products such as paints, paper, rubber, plastics and ceramics. The paint exposure test station, which the Company has operated at Sayville, New York since 1917, has been transferred to a new ten-acre site at Hightstown. The new service laboratories and test station adjoin the research laboratories opened by the Company in 1962.

The Titanium Alloy Manufacturing Division has entered into the production of lead zirconate titanate, a compound used by the electronic industry. This compound has the property of generating electricity when subjected to pressure.

The Chas. Taylor's Sons Company, a wholly owned subsidiary, has developed a new refractory for the glass industry which possesses outstanding resistance to thermal shock and to corrosion by soda lime and lead glasses. Sales of this new product, which is sold under the trade mark "Zirmul", are most encouraging.

National Lead Company provides the nuclear energy industry with a wide variety of products and services. The Company operates the Atomic Energy Commission's feed materials plant at Fernald, Ohio. The Nuclear Metals Division produces fuel elements and gamma radiation shielding materials and equipment. In 1963 this division extended its activities in the nuclear field to provide complete services for the transportation of spent nuclear fuels. Using specially designed mobile equipment, cores of spent fuels were transported from nuclear reactor facilities at various locations throughout the country, to the Atomic Energy Commission's reprocessing plant in Idaho. The first commercial shipment of spent nuclear fuel elements from Canada to the United States was completed by Nuclear Metals Division in early 1964. Radiation studies are conducted by



Component of automatic pinspotting equipment, used in modern bowling centers, is die cast at the Toledo plant of Doehler-Jarvis Division.

Company scientists at Industrial Reactor Laboratories, Inc., Plainsboro, New Jersey, a nuclear research facility owned by National Lead Company and nine other major industrial corporations.

Shareholders and Employees

At the end of 1963 National Lead Company shareholders numbered 35,980, as compared with 39,185 at the end of the prior year. The number of holders of common shares actually increased but the retirement of the preferred stock resulted in an over-all reduction. The high representation of shareholders at the 1963 Annual Meeting, where 82.9 per cent were recorded either in person or by proxy, is appreciated. A cordial invitation is extended to all shareholders to attend the next Annual Meeting on April 16, 1964.

Relations between the Company and the many labor unions representing its employees were very satisfactory in 1963. A number of new agreements were negotiated and settlements followed the current patterns of industry.

National Lead Company is cooperating with The President's Committee on Equal Employment Opportunity and has adopted a Plan for Progress to implement the Company's policy of offering equal opportunities in employment without regard to race, creed, color or national origin.

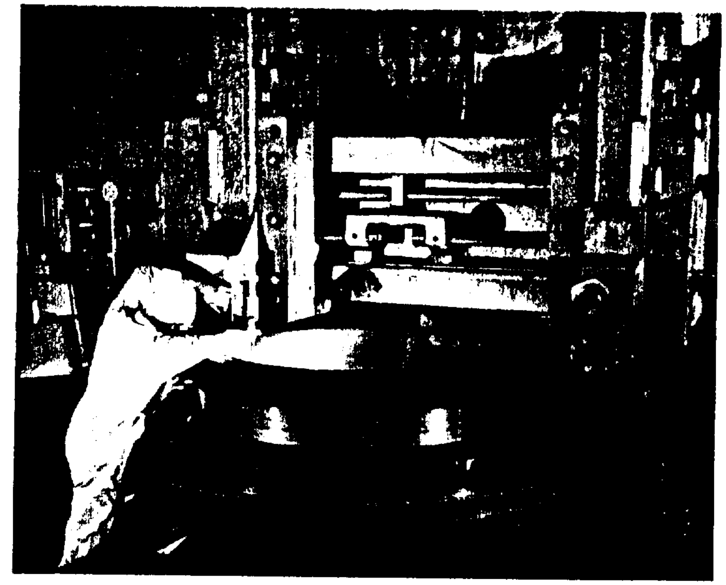
Employees of National Lead Company and wholly owned subsidiaries numbered 22,271 at the end of the year.

Board of Directors

Edward R. Rowley, president of Titanium Metals Corporation of America, was elected to the board of directors in September 1963 succeeding Winthrop Sargent, Jr. Mr. Rowley was first employed by National Lead Company in 1933.

Thomas F. Owens was elected a director and member of the executive committee in October 1963 succeeding Joseph H. Reid, a Company vice president who retired after thirty-five years of service. Mr. Owens, treasurer since 1961, has thirty years service with the Company.

Claude M. Merrell was elected a director of National Lead Company in February 1964, succeeding Frank J. Koegler. Mr. Merrell, a vice president of the Company since 1961, is responsible for foreign operations. He has been in the employ of the Company since 1935. Mr. Koegler retired in May 1962 as a vice president of the Company and general manager of the Doehler-Jarvis Division.



A 7,000 pound depleted uranium casting is machined at the Nuclear Metals Division's Albany, New York, plant. This ring is a component of a special shielding unit to be used in refueling atomic submarines.

Executive Personnel

Alfred H. Drewes was elected executive vice president of the Company, in April 1963. Mr. Drewes, a director and a member of the executive committee, joined the Company in 1935, and has been a vice president since 1951.

Alfred F. Bauer, J. Murray Johnston and Edward M. Van Winkle were elected vice presidents in October 1963. Mr. Bauer is general manager of the Company's Doehler-Jarvis Division which he joined in 1951. Mr. Johnston is manager of the Titanium Alloy Manufacturing Division where he has been employed since 1934. Mr. Van Winkle joined the Company's Magnus Division in 1955, and became its general manager in 1957.

David A. Merson retired as vice president of the Company in October 1963. Mr. Merson entered the employ of the Company in 1923. He continues as a director and a member of the executive committee.

In March 1963, G. Warren Waite was appointed an assistant comptroller of the Company. Later in the year, Archer D. Sargent, assistant comptroller, was also appointed assistant treasurer.

Litigation

The Company was successful in obtaining from the Federal Trade Commission an order dismissing the Commission's complaint against the Company in connection with the acquisition by the Company of certain barytes properties. As described in the Company's Annual Report for 1962, the Federal Trade Commission started a proceeding in this matter against the Company in 1958. In early July 1963 arguments were held before the Commission and later in the same month the order of dismissal by the Commission was issued.

Looking Forward

The increased demand in 1963 for National Lead Company products was especially noteworthy in the fourth quarter and the improvement has continued during the first months of this year. General economic conditions are favorable and business is at a high level of activity. The Company's competitive position in the various industrial markets which it serves remains strong.

The favorable economic conditions, the new developments discussed in earlier pages, and the Company's financial resources, together with the loyalty and initiative of its employees, augur well for the future of National Lead Company.

By Order of the Board of Directors

J. A. Martino

President

March 12, 1964

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NATIONAL LEAD COMPANY FINANCIAL STATEMENTS FOR 1963

National Lead Company and its Consolidated Subsidiaries

Balance Sheets

December 31, 1963 and 1962

Assets	1963	1962
Current assets:		
Cash and certificates of deposit	$ 36,297,137	$ 42,833,646
Government, state and municipal obligations, at cost (approximates market)	11,181,681	9,150,173
Other marketable securities, at cost (at market quotations: 1963, $15,520,000; 1962, $15,290,000)	13,624,789	14,164,039
Accounts and notes receivable, less reserves: 1963, $1,915,793; 1962, $1,836,367	74,593,053	65,525,028
Inventories (Note 2)	117,408,546	117,325,031
Total current assets	253,105,206	248,997,917
Notes receivable under Stock Option Incentive Plan (Note 6)	481,589	401,535
Investments in, at cost or below, and advances to unconsolidated subsidiaries, less reserve: 1963, $3,193,775; 1962, $3,406,163 (Note 3)	12,871,213	14,116,131
Miscellaneous investments and advances, at cost or below, less reserve: 1963, $826,199; 1962, $754,705 (Note 4)	6,249,277	4,418,457
Plant, property and equipment (*including intangibles of $20,692,311 not being amortized*) at cost, less reserves for depreciation, depletion and amortization: 1963, $198,150,041; 1962, $192,898,078	164,493,160	165,855,569
Prepaid expenses and deferred charges	5,279,629	4,804,302
	$442,480,074	$438,593,911

Liabilities	1963	1962
Current liabilities:		
Accounts payable and accrued liabilities	$ 43,773,494	$ 37,890,546
Provisions for taxes	39,932,604	36,174,112
Dividends on Class B preferred stock		131,023
Total current liabilities	$ 83,706,098	$ 74,195,681
4⅜% subordinated debentures, due April 1, 1988 (Notes 5 and 6)	$ 32,416,400	
Deferred U. S. income tax	$ 5,700,000	$ 2,800,000
Inventory reserve (Note 2)	$ 10,795,841	$ 11,328,362
Capital (Note 6):		
Capital stock:		
Preferred Class A		$ 24,367,600
Preferred Class B		10,327,700
Common, par value $5; shares authorized 20,000,000, issued: 1963, 11,709,222; 1962, 11,704,797	$ 58,546,110	58,523,985
	58,546,110	93,219,285
Capital surplus	36,816,950	36,541,021
Earned surplus	214,511,664	226,827,238
	309,874,724	356,587,544
Less, Reacquired capital stock, at cost	12,989	6,317,676
	$309,861,735	$350,269,868
	$442,480,074	$438,593,911

The accompanying notes are an integral part of the financial statements.

National Lead Company and its Consolidated Subsidiaries

Statements of Income and Earned Surplus

For the years ended December 31, 1963 and 1962

	1963	1962
Net sales	$618,580,159	$570,721,363
Cost of sales	$414,950,139	$370,128,839
Depreciation, depletion and amortization	14,899,748	14,537,571
Administrative, selling and general expenses	87,316,338	86,297,619
Taxes, including state income taxes	12,311,639	11,240,199
	$529,477,864	$482,204,228
	$ 89,102,295	$ 88,517,135
Other income, net	6,602,400	5,262,874
	95,704,695	93,780,009
Interest on debentures	1,024,290	
Income before United States and foreign income taxes	94,680,405	93,780,009
Provision for United States and foreign income taxes	45,087,815	44,740,176
Net income	$ 49,592,590	$ 49,039,833
Per share of common stock	$4.20	$4.01

	1963	1962
Earned surplus at beginning of year	$226,827,238	$217,926,931
Net income	49,592,590	49,039,833
	$276,419,828	$266,966,764
Less:		
Dividends:		
Class A preferred stock, 1963, $1.75 per share; 1962, $7 per share	$ 374,488	$ 1,573,026
Class B preferred stock, 1962, $6 per share		532,536
	374,488	2,105,562
Common stock, $3.25 per share	38,048,890	38,033,964
	38,423,378	40,139,526
Excess of cost over par value of preferred stocks retired (Note 6)	23,484,786	
	$ 61,908,164	$ 40,139,526
Earned surplus at end of year	$214,511,664	$226,827,238

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The accompanying notes are an integral part of the financial statements.

Notes to Financial Statements

1. The consolidated financial statements include the accounts of the Company and all wholly owned domestic subsidiaries and of the major wholly owned foreign subsidiaries. Foreign currency has been translated at appropriate rates of exchange.

2. Inventories are priced at the lower of cost (on various "average," "first-in, first-out" or "last-in, first-out" bases) or market.

The inventory reserve has been maintained on the basis of the following quantities and prices of normal stocks:

	Normal Quantities (Short Tons)	Fixed Inventory Price per Pound
Lead	49,687½	$.03
Tin	1,124½	.21
Antimony	1,400	.05

3. Unconsolidated subsidiaries comprise subsidiaries more than 50, but less than 100 per cent owned, and certain minor wholly owned foreign subsidiaries.

Based principally upon audited financial statements, the equity of the Company in the net assets of the major unconsolidated subsidiaries and amounts relating to such equity approximated:

	1963	1962
Equity in net assets	$26,253,000	$25,858,000
Excess of equity over the Company's net investments and advances	14,197,000	12,107,000
Increase (decrease) in excess equity during year	2,090,000	(658,000)

4. The equity of the Company in the net assets of 50 per cent owned companies, as shown principally by audited financial statements, exceeded the cost of the Company's investments and advances, included in miscellaneous investments, by approximately $13,057,000 at December 31, 1963 and $12,466,000 at December 31, 1962.

5. The indenture provides for a purchase fund into which the Company is required to pay $850,000, on April 1 of each year through April 1, 1973, which sum is to be used by the trustee to purchase debentures at or below their principal amount. The Company may apply debentures acquired by it against all or any part of these payments. Amounts unexpended by the trustee at July 31 of each year are to be returned to the Company.

6. On April 19, 1963, pursuant to a plan approved by stockholders, the Class A and Class B preferred stocks were retired. Stockholders elected to receive $18,888,080 in cash and $32,416,400 principal amount of 4⅝% subordinated debentures in exchange for such stock plus cash equivalent to accrued dividends through April 18, 1963. In connection with the plan, earned surplus was charged with $23,484,786 representing the excess of the aggregate of redemption payments, cost of previously reacquired preferred stock and expenses related to the plan, over the par value of the preferred stock retired.

Under the Stock Option Incentive Plan adopted in 1958 options have been granted to certain officers and other key employees to purchase shares of the common stock of the Company at 95 per cent of the fair market value of the stock on the dates of granting such options. The options are exercisable over a period of seven years from date of grant.

Changes during 1963 under the Plan are summarized as follows:

	Range of Option Prices per Share	Shares
Under option,		
January 1, 1963	$67.568	
	to $116.375	223,550
Options granted	71.606	700
		224,250
Less:		
Options		
exercised	67.568	4,425
Options		
terminated	67.568	
	to 89.775	4,625
Under option,		
December 31, 1963		215,200

At the beginning of the year 5,215 shares were reserved for future options. The period during which options could be granted expired April 17, 1963.

At December 31, 1963, the unpaid balances of the purchase prices of 9,725 shares are evidenced by promissory notes bearing interest at 3 per cent and payable within 10 years from the dates thereof. These shares are pledged as collateral with the Company.

Additions to capital surplus consist of the excess of the net proceeds over par value of common stock sold upon exercise of stock options (1963, $275,929; 1962, $110,-812) and, in 1962, the excess ($296,063) of market value over cost of reacquired common stock issued for all of the stock of another company.

Reacquired capital stock, carried at first-in, first-out costs, comprises:

	1963	
	Shares	Costs
Common	1,000	$ 12,989

	1962	
	Shares	Costs
Preferred Class A	29,683	$4,483,502
Preferred Class B	15,928	1,821,185
Common	1,000	12,989
		$6,317,676

General:

Numerous differences exist between taxable income and book income, including certain fluctuations in the inventory reserve, percentage depletion and depreciation charges.

No provision has been made for such taxes as may be paid if and when accumulated earnings of subsidiaries are distributed to the parent company, since such taxes may never accrue.

Lybrand, Ross Bros. & Montgomery
Certified Public Accountants
2 Broadway, New York, N. Y.

To the Stockholders of
National Lead Company
New York, N. Y.

We have examined the consolidated balance sheet of NATIONAL LEAD COMPANY and its Consolidated Subsidiaries as of December 31, 1963 and the related statements of income and earned surplus 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. We were furnished reports of other public accountants upon their examinations of the financial statements of certain consolidated and major unconsolidated subsidiaries. Our opinion expressed herein, insofar as it relates to the amounts included for the afore-mentioned subsidiaries, is based solely upon such reports. We made a similar examination for the year 1962.

In our opinion, the accompanying financial statements present fairly the consolidated financial position of National Lead Company and its consolidated subsidiaries at December 31, 1963 and 1962 and the consolidated results of their operations for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

LYBRAND, ROSS BROS. & MONTGOMERY

New York, February 27, 1964.

National Lead Company and its Consolidated Subsidiaries

Ten Year Review of Operations

	1963	1962	1961	1960 Restated*	1959	1958	1957	1956	1955	1954
Net Sales	$618,580,159	$570,721,363	$555,672,358	$562,021,983	$530,550,817	$457,592,886	$535,343,270	$576,292,383	$533,728,730	$419,333,961
Income before Taxes	94,680,405	93,780,009	98,436,769	100,569,991	101,174,233	84,395,289	101,537,900	107,521,101	89,436,792	67,153,316
Taxes on Income	45,087,815	44,740,176	46,695,016	48,163,860	48,712,722	39,673,891	45,306,394	44,369,014	41,546,851	30,534,665
Net Income	49,592,590	49,039,833	51,741,753	52,406,131	52,461,511	44,721,398	56,231,506	63,152,087	47,889,941	36,618,651
Preferred Dividends	374,488	2,105,562	2,181,161	2,181,161	2,181,161	2,181,161	2,181,161	2,181,161	2,181,161	2,181,161
Common Dividends	38,048,890	38,033,964	38,016,564	38,011,864	37,947,176	37,865,038	37,857,956	37,074,569**	32,417,308	23,735,838
Total Cash Dividends	38,423,378	40,139,526	40,197,725	40,193,025	40,128,337	40,046,199	40,039,117	39,255,730	34,598,469	25,916,999
Retained Earnings	11,169,212	8,900,307	11,544,028	12,213,106	12,333,174	4,675,199	16,192,389	23,896,357	13,291,472	10,701,652
Earnings Per Common Share	4.20	4.01	4.24	4.29	4.30	3.65	4.64	5.34	4.02	3.05
Cash Dividends Per Common Share	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25**	2.85	2.10
Total Current Assets	253,105,206	248,997,917	242,107,203	227,558,122	205,350,494	184,392,427	183,995,439	198,413,275	196,758,738	178,569,448
Total Current Liabilities	83,706,098	74,195,681	75,193,976	69,229,892	66,689,074	64,240,475	70,175,917	80,925,260	83,598,897	73,980,730
Working Capital	169,399,108	174,802,236	166,913,227	158,328,230	138,661,420	120,151,952	113,819,522	117,488,015	113,159,841	104,588,718
Gross Property Account	362,643,201	358,753,647	347,040,211	335,069,506	292,122,311	287,800,726	260,592,510	238,609,305	228,267,837	210,718,867
Reserves for Depreciation, Depletion and Amortization	198,150,041	192,898,078	181,569,212	172,980,588	145,220,190	135,107,065	121,775,325	111,224,536	105,437,451	97,553,116
Net Property Account	164,493,160	165,855,569	165,470,999	162,088,918	146,902,121	152,693,661	138,817,185	127,384,769	122,830,386	113,165,751
Total Assets	442,480,074	438,593,911	431,161,102	413,535,074	380,511,351	361,213,437	358,369,280	353,176,014	336,411,632	310,468,896

*1960 restated to conform to new 1961 basis of consolidation. Prior to 1960, certain wholly owned foreign subsidiaries are not consolidated.

**Plus 2% stock dividend.

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National Lead Company

Branches

Atlanta Branch
Atlantic Branch (New York)
Baltimore Branch
Chicago Branch
Cincinnati Branch
Cleveland Branch
National Lead Company of Massachusetts (Boston)
Pacific Coast Branch (San Francisco)
Philadelphia Branch
St. Louis Branch
Southwestern Branch (Dallas)

Paints, Paint Materials and Chemicals:
Antimony oxide, basic carbonate white lead, basic silicate white lead, basic lead silico chromate, red lead and litharge, battery oxides and separators, paints, varnishes, enamels, gellants, stabilizers for vinyl plastics.

Primary Metals:
Antimony, cadmium, lead, tin and zinc.

Metal Products and Alloys:
Lead pipe, sheet, traps, bends, wool, wire, ingot, shot; radiation shielding; battery grid, babbitt and type metals, solder, lead and zinc alloys; lead-lined valves and fittings; cinch anchors; pewter.

On Pacific Coast, primary metals, metal products and alloys are sold by Morris P. Kirk & Son, Inc.

Divisions

American Bearing Division
Indianapolis
Precision bearings (Sold through American Bearing Corporation)

Baroid Division
Houston, Texas
Oil well drilling materials, well logging services and testing equipment; chemicals for the petroleum industry and gellants for greases

DeLore Division
St. Louis
Barium and calcium pigments

Doehler-Jarvis Division
Toledo
Aluminum, brass, magnesium and zinc die castings

Evans Lead Division
Charleston, West Virginia
Lead oxides

Goldsmith Bros. Division
Chicago
Precious metals

Magnus Metal Division
New York
Brass and bronze bearings and castings (Sold through Magnus Metal Corporation)

Nuclear Metals Division
New York
Uranium ore concentrates and nuclear feed materials, fuel elements, fabricated uranium products, nuclear research, development and transportation services

Steel Package Division
St. Louis
Small steel containers

Texas Mining and Smelting Division
Laredo, Texas
Antimony and antimony oxide

Titanium Alloy Manufacturing Division
New York
Zirconium oxide, silicates and chemicals; electronic titanates, zirconates and stannates; ferrous and non-ferrous alloys

Titanium Division
New York
Titanium pigments and chemicals, ilmenite and magnetite iron ore (Sold through Titanium Pigment Corporation)

Wholly Owned Domestic Subsidiaries

Floating Floors Inc.
New York
Elevated floors and site environmental systems

Master Metals, Inc.
Cleveland
Lead and lead alloys

National Lead Company of Ohio
New York
Contract-operator, Atomic Energy Commission

Southern Screw Company
Statesville, North Carolina
Screws and metal fasteners

The Chas. Taylor's Sons Company
Cincinnati
High temperature refractories

Wholly Owned Foreign Subsidiaries

Barber Die Casting Co. Limited
Hamilton, Canada
Aluminum, brass, magnesium and zinc die castings

Baroid of Canada, Ltd.
Calgary
Oil well drilling materials, well logging services and testing equipment

Canadian Titanium Pigments Limited
Montreal
Titanium pigments

Chas. Taylor Sons S.A.
Brussels
High temperature refractories

Hoyt Metal Company of Great Britain, Ltd.
London
Antifriction metals

Industrias Deriplom S.R.L.
Buenos Aires
Lead oxides

Kronos Titanium Pigments Limited
London
Titanium pigments

Societe Belge du Titane S.A.
Brussels
Titanium pigments

The Canada Metal Company, Limited
Toronto
Lead oxides; fabricated lead products; lead and zinc alloys; brass and bronze products

The Titanium Alloy Manufacturing Co. Pty. Limited
Tweed Heads, Australia
Rutile and zircon ores

Titaan N.V.
Rotterdam
Titanium pigments

Titan Co. A/S
Fredrikstad, Norway
Titanium pigments and paints

Titangesellschaft m.b.H.
Leverkusen, West Germany
Titanium pigments

Titania A/S
Hauge i Dalane, Norway
Ilmenite

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National Lead Company

Partially Owned Domestic Affiliated Companies

Enenco, Incorporated
Memphis, Tennessee
Fatty amines

Morris P. Kirk & Son, Inc.
Los Angeles
Aluminum, lead and zinc alloys; fabricated lead products; lead oxides

Pioneer Aluminum Inc.
Los Angeles
Aluminum aircraft extrusions and aluminum tooling plate

R-N Corporation
New York
Direct reduction and beneficiation of iron ores

The Baker Castor Oil Company
Bayonne, New Jersey
Castor oil, chemicals derived from castor oil and other oils and fats, chemical specialties

Titanium Metals Corporation of America
New York
Titanium metal sponge, ingot and mill products

Partially Owned Foreign Affiliated Companies

Abbey Chemicals Limited
London
Gellants; stabilizers for vinyl plastics

Baroid de Venezuela, S.A.
Caracas
Oil well drilling materials

Baroid International, S.p.A.
Rome
Oil well drilling materials

Barytes & Minerals Limited
Trinidad
Oil well drilling materials

Cia. Minera Castaño Viejo S.A.
Buenos Aires
Lead and zinc concentrates

Derives du Titane S.A.
Langerbrugge, Belgium
Titanium pigments

Doehler Argentina S.A.
Buenos Aires
Aluminum and zinc die castings

Industrias Doehler do Brasil, S.A.
São Paulo, Brazil
Aluminum and zinc die castings

Lakeshore Die Casting Limited
Oakville, Canada
Aluminum and zinc die castings

Metal Castings Doehler Limited
Worcester, England
Aluminum and zinc die castings

Mineral Deposits Pty. Limited
Sydney, Australia
Rutile and zircon ores

National Lead Company (Philippines)
Manila
Paints, varnishes and enamels

National Lead Company S.A.
Buenos Aires
Lead and lead products

Roto-Cast Limited
Montreal
Bronze castings

Societe Industrielle du Titane
Paris
Titanium pigments

The Carter White Lead Company of Canada, Ltd.
Montreal
Lead pigments, lead oxides and stabilizers for vinyl plastics

A colorful new blue and white label has been ado
Boy paints. Displayed with the new package, ar
used for Dutch Boy white lead, the lithographe
in 1909 and the blue and white package which
this line of ready-to-use paints was first introdu

The seventy-second Annual Meeting of the shareholders of National Lead Company will be held at the principal offices of the Company in Sayreville, New Jersey, at the foot of Chevalier Avenue on Thursday, April 16, 1964, at 11:00 a.m. All shareholders are cordially invited to attend.