Annual Report

THE EAGLE-PICHER COMPANY

AND SUBSIDIARIES

FOR THE FISCAL YEAR ENDED

NOVEMBER 30, 1948

EAGLE

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PICHER

A MODERN, DIVERSIFIED COMPANY SERVING HOME AND INDUSTRY

Annual Report

THE EAGLE-PICHER COMPANY
AND SUBSIDIARIES

To the Shareholders of
THE EAGLE-PICHER COMPANY:

The Annual Report of the management of your Company, for the fiscal year ended November 30, 1948, is presented herewith in advance of the Annual Meeting of Shareholders, to be held on Tuesday, March 22, 1949. Accompanying this report are comparative consolidated financial statements of the Company and its domestic subsidiaries, for the fiscal years ended November 30, 1948 and 1947, as reported upon by Messrs. Barrow, Wade, Guthrie & Company, independent accountants selected by a non-management committee of the Board of Directors and approved by the Shareholders.

SUMMARY

Sales and Earnings

The aggregate dollar volume of business done by your Company during the year under review again established a new peak. Consolidated net sales amounted to $79,478,724, in comparison with $77,668,421 in the preceding year. This year, however, the increase resulted wholly from higher prices, the unit volume showing a decline in nearly all departments and averaging over-all about 5%. This tonnage reduction largely reflected inability to obtain sufficient metallic lead to permit operation of processing facilities at a level commensurate with customer demand; and a work stoppage in the Mining and Smelting Division of a duration sufficient to influence production. However, despite continued increase in the cost of producing, processing and distributing—extending to practically every item of supply and service — gross and net operating profit margins remained fairly constant, declining to 18.5% from 20.4% in gross and to 12.3% from 14.3% in net.

Consolidated net profit for the year amounted to $5,567,741.59, or $6.26 per common share, after all charges but before appropriation to reserves for future decline in value of metal inventories. The corresponding figure for the preceding year was $6,605,842.59, equivalent to $7.43 per share. Here, likewise, the ratio of net profit to net sales continued quite satisfactory, being 7% in the current year in comparison with 8½% in 1947.

Again taking cognizance of the uncertainty inherent in present price levels, $1,500,000 was appropriated to inventory reserves from 1948 earnings. The 1947 appropriation was $3,000,000. Net income balances transferred to surplus, after the foregoing appropriations, amounted to $4,067,741.59, or $4.57 per share, in 1948; and, to $3,605,842.59, or $4.05 per share, in 1947.

Dividends

Dividend payments were maintained throughout the year on the basis established at January 23, 1948, when the Directors placed the stock on a regular quarterly dividend basis of 45¢ per share. No increase in this rate is presently contemplated; nor, on the other hand, does there appear to be any reason to question ability to continue the basis throughout 1949 — from the standpoint of both earnings and financial position.

In considering corporate earnings and the relation of dividend disbursements thereto, it should be kept in mind that recent earnings frequently and in large part represent profits from the sale of low cost inventories; and, in the case of natural resource companies, conversion of capital assets. Furthermore, accumulated surplus earnings of prior years have been purposely retained to meet foreseeable contingencies, such as the replacement of inventories, plant and equipment at higher price levels; and the not improbable requirement, under highly competitive conditions to be anticipated in the future, that properties now being constructed or acquired at inflated cost will have to be written down to a realistic profit-productive basis.

A current attitude of much concern to all corporate management is the wide-spread impression that corporate profits are excessive and that, in consequence, corporations are able to shoulder heavier tax burdens and, at the same time, pay higher wages. It is a cause for dismay that those who recognize the decreased purchasing power of the dollar to labor, to the farmer, to the consumer — in fact, to all other segments of society — fail to recognize that same fact in considering the economic value of the profit dollar to corporations. It is the same dollar. Inflation strikes indiscriminately; it has the same impact on the corporate enterprise as it has on the individual. Furthermore, current corporate profits are largely the result of an unprecedented volume of business — as in your Company — rather than of high profit margins. And, generally, they are larger because of inadequate allowance for inventory and plant replacement.

A prime duty of management is to so order and administer general corporate policy that the long-term security of the enterprise be reasonably assured. The nature of these policies and the measures to be taken thereunder are dictated by management's estimate of the type of difficulties to be encountered under anticipated conditions. It is to the outstanding credit of corporate management in the United States that it has been able to anticipate with reasonable accuracy the effects of these changing conditions and to adopt policies and institute measures to conserve and assure the growth of private enterprise.

An important current measure to effect such conservation is the retention of earnings. Because of a higher volume of business, higher wages and payrolls, higher costs of replacing inventories, and higher costs of replacing and expanding production facilities, the capital needs of corporations are higher today than ever before. The difficulty in raising this needed capital; the unavailability of equity capital — or its availability only at prohibitive cost — brought about in no little part by apprehension of Governmental policies which may tend to prevent either the earning or the retention of profits; the danger of expanding debt financing beyond a sound ratio to equity financing — all have been pointed out in previous reports. These conditions all tend to emphasize retention of earnings as the only available sound source of financing corporate capital requirements.

The President's Economic Report of January 14, 1948 contained the statement that, in 1947, "profits on the whole were above the levels necessary to furnish incentives and funds for the expansion of business and to promote the sustained health of the economy." Does the record of your Company substantiate this statement? For the three post-war fiscal years ended November 30, 1948, reported earnings aggregated $9,775,781. When account is taken of depletion and depreciation charges of $2,972,452 and reserve appropriations of $4,500,000 — involving no cash outlay — your Company realized $17,248,233 in cash for corporate purposes. Of this total, $13,153,401 was expended in the acquisition of new properties and in the construction, expansion and rehabilitation of existing plants and equipment; $126,291 was invested in various minor assets; and $3,823,027 — a modest 40% of reported earnings — was paid in dividends to shareholders. This left *only* $145,514 to be added to the working capital of the company — a very insignificant amount, inadequate to the needs of the current volume of business; and certainly not indicative of the earning or retention of profits beyond the justifiable needs for conserving the corporation and providing for its healthy growth.

It can be stated without hesitation or fear of justifiable contradiction that, were it not for the large earnings of corporations thus plowed back into the businesses, corporations would not have been in a position to obtain debt financing. Without debt financing, industrial construction would have by no means attained the volume which has been reached in post-war years; and, without such industrial construction, the high level of industrial and general business activity which has been enjoyed during those years could not have been reached and sustained. The Congress should take these indisputable facts into consideration when it is being urged to impose new taxes on corporations for the avowed purpose of drawing off earnings. More in the public interest would be liberalization of the tax provisions relating to inventory and plant replacement reserves, thereby permitting an increase in equity capital from internal sources.

Outlook

The outlook for 1949 is obscured by the uncertainties of the international situation; and, in the domestic area, by an apparent widespread apprehension that the recent drop in commodity prices and the slackening of consumer buying will develop into more than a healthy corrective price adjustment. On the other hand, it is noteworthy that, in recent round-table discussions, corporate executives are pessimistic as to the outlook in all fields other than their own. This attitude conforms to that of your own management.

The products of your Company extend into widely diversified fields and serve the basic needs of many industries. Major users are the automobile and construction industries. Automotive production bids fair to continue throughout 1949 at near capacity levels. Varying views are advanced regarding construction expenditures, but, even though they fall below the high record established in 1948, it seems certain they will be very substantial and will far exceed pre-war years. In the case of your Company, it enjoys the advantage that, because of the extended shortage of non-ferrous metals, pipelines are not yet filled and, in many instances, consumer stocks are even below normal operating requirements.

It does appear that an old factor may reappear in 1949 — a buyer's market with price a major consideration. However, your Company is in good condition financially. With new and enlarged plants and extensive equipment installations to increase plant productivity, facilities are available to produce a larger volume in 1949 than was sold in 1948. In products, in facilities, and in organization, your Company is prepared.

Your Company is also well and favorably known for its long-established policy of maintenance of high standards of product quality and of customer service. It is anticipated that consumer demand for these products will remain high. It should keep pace with — and may well exceed — the general level of industrial activity. Hence, there seems to be justification for modest optimism concerning the foreseeable future. The new year started off well and it is anticipated that reported earnings for the first quarter will appreciably exceed those reported for the corresponding quarter of the preceding year.

FINANCIAL POSITION

Net working capital at November 30, 1948, with inventories valued at the lower of cost or market and before the deduction of reserves for future decline in value, amounted to $20,795,109.28. On a similar basis, current assets exceeded *total* liabilities by $12,881,803.54, in comparison with $14,019,756.04 at the end of the preceding year. Current ratios were 3.13 : 1 and 3.27 : 1 at the respective balance sheet dates.

At November 30, 1948, the 889,076 common shares outstanding had a book value of $33.74 per share, of which $14.49 was represented by the excess of current assets over total liabilities; $14.19 was invested in fixed and intangible assets; and $5.06 consisted of investments in Canada and Mexico and other miscellaneous assets. The corresponding figures at November 30, 1947, were $29.24, $15.77, $10.67, and $2.80.

The source and utilization of corporate funds for the three post-war fiscal years ended November 30, 1948, have been commented upon in a previous section of this report. For the current year, cash income, before depreciation and depletion charges of $1,027,694.53 and appropriation of $1,500,000 to inventory reserves, amounted to $6,595,436.12. Of this amount, $5,992,382.27 was expended in the acquisition of new properties, the expansion and improvement of existing plants, and the extension of investments in Canada and Mexico; $140,669.55 was invested in miscellaneous operating assets; and $1,600,336.80 was disbursed in dividends to shareholders at the annual rate of $1.80 per share. As a result of these expenditures, the excess of current assets over total liabilities was depleted by $1,137,952.50, as noted in the second preceding paragraph.

Accounts receivable at November 30, 1948, continued highly current and disproportionate to the volume of business — representing less than 38 days turnover, in comparison with 32 days for 1947.

Consolidated inventories at November 30, 1948, before deduction of reserves, were carried at a value of $16,581,784.75, an increase of $3,141,423.91 over the corresponding value of $13,440,360.84 at November 30, 1947. Your management does not like to see this constantly rising trend in inventory values. Were prices stable, inventories could be replaced at approximately the same cost; but that has not been possible during the past several years. For example, the 1944 year-end metal inventory represented approximately the same tonnage as that at November 30, 1948, yet the value of the current inventory was some $7,000,000 in excess of that at the earlier date. There is little that can be done to ameliorate this condition or to lessen the impact of a price decline. The established reserves for future decline in value will offset the effect upon the financial position — but the shrinkage in value will be there nonetheless. Close inventory control will and has accomplished much and it is gratifying to be able to report that, tonnagewise, the inventories of lead and zinc were at the lowest level, with one minor exception, in the last twenty years of the Company's history.

The strong financial position, the extensive expansion and modernization of productive equipment and the corresponding increase in earning power, have all been made possible by the aforementioned policy of consistently reinvesting in the business a substantial part of each year's earnings. This policy has promoted the stability of earnings, of dividend payments to shareholders, and of the income of employees.

MINING AND SMELTING OPERATIONS

Despite a strike of some two months duration in the Tri-State mining field, which affected all operators in that district, the Mining and Smelting Division made its usual major contribution to consolidated income of the Company. Company mills treated 2,091,790 tons of ore and produced therefrom 88,177 tons of concentrates. Corresponding figures for 1947 were 3,110,483 tons of ore and 111,016 concentrate tons. The decrease in concentrate production substantially reflected tonnage lost by reason of the work stoppage. Slab zinc production at the Henryetta (Oklahoma) smelter amounted to 42,255 tons.

Operations of the St. Xavier mine and the Sahuarita mill, near Tucson (Arizona), produced 18,658 concentrate tons and a net profit of $699,066.59, before Federal and State income taxes. The development of ore bodies tributary to this property gives assurance of continued operation through 1949.

Liquidation of the Taxco (Mexico) property of Minas de Guerrero has not yet been concluded but has been advanced to a net realization of $827,731.11. It is still anticipated that ultimate realization from this project will exceed $1,000,000, subject to United States income taxes as and when transferred to the parent company. In the meantime, surplus funds to the extent of $837,534.35 have been reinvested in the operations of other Mexican subsidiaries of your Company.

Development of the properties of Minas de Durango and Minas de Iguala, in the State of Chihuahua, have proceeded satisfactorily during the year under review, although somewhat more slowly than anticipated and desired. The San Pedro-Corralitos lead property of Minas de Durango was brought into production during the year and is producing currently at about one-third of rated capacity. Output is increasing consistently and no difficulty is anticipated in attaining scheduled production. The Parral-Esmeralda zinc-lead property of Minas de Iguala came into initial production in December, 1948, and is not yet on a normal operating basis. Investments in and advances to these two subsidiaries at November 30, 1948, as shown on the accompanying balance sheet, aggregated $2,091,057.27. The aforementioned advances by Minas de Guerrero brings the total to $2,928,591.62. Liquidation of this investment is scheduled over a four- to five-year period.

GENERAL

Research

Research and development activities have been expanded during the year; and a program of product diversification continues with satisfactory prospects. It is the aim of management to direct the efforts of the research group toward more realistic commercial goals. Closely allied to process and product development is an engineering program directed toward increasing production efficiency.

Employee Relations

Your Company maintained satisfactory relations with its employees and experienced but one serious work stoppage. This was in the Tri-State mining district and was not directed exclusively at your Company but was general throughout the field. By and large, employees have held their heads well in these troublous times and no problems are foreseen which reasonable-minded and well-intentioned men cannot iron out around the conference table.

Executive Personnel

Capable executive personnel is of vital importance to the success and well-being of any corporation. The need for a constant source of competent executive personnel is basic. Your management has done much planning, looking toward insuring continuity of progressive management, the delegation of responsibility, and the promotion of men of proven ability to positions of increasing importance. In pursuance of this policy, Mr. T. Spencer Shore, a director of the company since 1943, was elected to the presidency of the parent company on January 1, 1949; and Mr. Elmer Isern, vice-president of The Eagle-Picher Mining and Smelting Company since 1944, was elected to the presidency of that company. Your former president was elected Chairman of the Board of Directors, but, pending integration of the new officers, will continue to act as chief executive officer and general manager of the major companies in the system. Mr. Clyde B. Lynde was brought in as Vice-President of The Eagle-Picher Sales Company and general manager of the Insulation Division to replace the former executive, resigned. Dr. A. Paul Thompson, for many years a member of the staff of Mellon Institute of Industrial Research, was employed as Director of Research and brings with him an impressive background of technical qualification and accomplishment.

When management is referred to from time to time in these reports, it must not be concluded that the writers are assuming unto themselves all credit for the accomplishments cited. The term is used broadly and includes directors, who devote much time and thought to management problems; the officers of all companies; and many other members of the organization who have contributed greatly to the growth and progress of the Company and whose contributions are hereby acknowledged. Such success as has been achieved has unquestionably been due in no small measure to a fine spirit of co-operation throughout the organization, for which is expressed sincere appreciation.

By order of the Board of Directors.

Joel M. Bowlby
Chairman

Cincinnati, Ohio
February 28, 1949

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

ASSETS

		November 30, 1948		November 30, 1947
CURRENT ASSETS:				
Cash in Banks and on Hand		$ 5,527,541.40		$ 6,252,716.51
U. S. Government Obligations — at cost (market value at November 30, 1948 — $625,273.15)		625,007.30		6,016,732.31
Accounts and Notes Receivable	$ 8,175,227.58		$ 6,760,265.57	
Less: Reserves for Doubtful Accounts and Notes	392,581.87	7,782,645.71	373,167.72	6,387,097.85
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	12,536,263.94		9,853,514.37	
Less: Reserve for Future Decline in Value	6,600,000.00		4,600,000.00	
	5,936,263.94		5,253,514.37	
Other Products, Merchandise for Resale, and Manufacturing Materials and Supplies — at cost	4,045,520.81	9,981,784.75	3,586,846.47	8,840,360.84
		23,916,979.16		27,496,907.51
OTHER ASSETS:				
Repair Parts and Maintenance Supplies	1,046,997.76		903,559.26	
Miscellaneous Accounts and Advances	139,310.17		162,487.63	
Sundry Securities — at or below cost	67,959.43	1,254,267.36	5,392.93	1,071,439.82
INVESTMENTS IN AND ADVANCES TO FOREIGN SUBSIDIARIES NOT CONSOLIDATED—NOTE 1:				
Mexican Subsidiaries	2,091,057.27		792,921.23	
Canadian Subsidiaries	770,904.98	2,861,962.25	216,419.98	1,009,341.21
FIXED AND INTANGIBLE ASSETS:				
Mining Lands and Leases; Mills, Smelters and Fabricating Plants; and Railroad and Miscellaneous Properties	40,160,810.20		36,247,340.48	
Less: Reserves for Depletion, Depreciation, etc.	28,916,783.38		28,132,451.00	
	11,244,026.82		8,114,889.48	
Cost of stock of consolidated subsidiaries in excess of book value, at dates of acquisition, of net assets acquired	1,375,505.50		1,375,505.50	
Patents, Goodwill, etc.	1.00	12,619,533.32	1.00	9,490,395.98
TREASURY STOCK—10,924 shares at cost		61,797.56		61,797.56
PREPAID AND DEFERRED CHARGES:				
Prepaid Freight, Insurance, etc.	180,737.05		201,097.31	
Miscellaneous Deferred Charges	203,221.39	383,958.44	205,257.75	406,355.06
		$41,098,498.09		$39,536,237.14

Note 1. The equity of The Eagle-Picher Company and domestic subsidiaries in foreign subsidiaries not consolidated has increased $647,319.99 since dates of acquisition, as a result of profits, losses and dividend distributions. Of this increase $49,537.10 is applicable to the year ended November 30, 1948. Distribution of the net earnings of foreign subsidiaries in the form of dividends is subject to Federal income and foreign taxes and exchange regulations.

AND DOMESTIC SUBSIDIARIES

rs at November 30, 1948 and 1947

LIABILITIES

	NOVEMBER 30, 1948		NOVEMBER 30, 1947	
CURRENT LIABILITIES:				
Accounts Payable		$ 4,148,369.51		$ 3,397,436.85
Dividend Declared		400,084.20		400,084.20
Accrued Liabilities:				
Wages and Salaries	$ 551,963.47		$ 489,866.95	
Taxes — other than taxes on income	258,692.37		228,402.94	
Other	340,198.57	1,150,854.41	301,460.72	1,019,730.61
Provision for Federal and State Taxes on Income		4,022,561.76		4.997,893.66
		9,721,869.88		9,815,145.32
PURCHASE MONEY OBLIGATION:				
Payable serially to March 1, 1952	937,384.71		1,103,403.49	
Less: Contingent Obligation, payable from earnings of acquired subsidiary, if and to the extent earned, not in excess of	441,361.25		441,361.25	
Fixed Obligation	496,023.46		662,042.24	
Less: Payments due currently (included in Accounts Payable)	273,390.15	222,633.31	159,033.37	503,008.87
THREE PER CENT NOTES—PAYABLE SERIALLY SEPTEMBER 1, 1953 TO SEPTEMBER 1, 1967		7,500,000.00		7,500,000.00
RESERVES:				
For Self Insurance:				
Workmen's Compensation	375,466.41		347,587.40	
Fire and Tornado	121,415.00		112,462.00	
	496,881.41		460,049.40	
For Contingencies		496,881.41	500,000.00	960,049.40
MINORITY INTEREST IN CONSOLIDATED SUBSIDIARY		190,672.43		258,997.28
COMMON STOCK—Par value $10:				
Authorized .... 1,000,000 shares				
Issued and Outstanding .... 900,000 shares		9,000,000.00		9,000,000.00
SURPLUS:				
Capital Surplus	1,900,999.32		1,900,999.32	
Earned Surplus — per accompanying statement — Note 2	12,065,441.74	13,966,441.06	9,598,036.95	11,499,036.27
		$41,098,498.09		$39,536,237.14

NOTE 2. The 3% notes payable by The Eagle-Picher Company 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 stock of the Company) or applied in the purchase, redemption or retirement of the Company's capital stock. At November 30, 1948 the amount of surplus available for such purposes is $4,739,633.38; provided, however, that such payments shall not reduce consolidated net working capital below $11,472,633.31. Appropriations since November 30, 1946, aggregating $4,500,000.00, for future decline in inventory value (or any part thereof) may also become available for these purposes if, as and when restored to earned surplus.

THE EAGLE-PICHER COMPANY AND DOMESTIC SUBSIDIARIES

Consolidated Statements of Profit and Loss and Earned Surplus

FOR THE YEARS ENDED NOVEMBER 30, 1948 AND 1947

	NOVEMBER 30, 1948		NOVEMBER 30, 1947	
NET SALES		$79,478,724.59		$77,668,421.09
PRODUCTION AND MANUFACTURING COSTS		64,746,592.48		61,846,230.51
GROSS OPERATING PROFIT — before Depletion and Depreciation		14,732,132.11		15,822,190.58
EXPENSES:				
Selling	$ 2,062,949.02		$ 1,780,994.40	
Traffic, Warehousing and Shipping	717,523.50		700,464.86	
General and Administrative	2,179,660.52	4,960,133.04	2,221,531.59	4,702,990.85
NET OPERATING INCOME—before Depletion and Depreciation:				
Mining and Manufacturing		9,771,999.07		11,119,199.73
Northeast Oklahoma Railroad Company		385,843.54		341,849.19
		10,157,842.61		11,461,048.92
OTHER INCOME		204,275.52		456,181.71
		10,362,118.13		11,917,230.63
INTEREST PAID:				
On Long Term Debt	225,000.00		135,484.60	
Other	11,936.94	236,936.94	45,191.09	180,675.69
		10,125,181.19		11,736,554.94
DEPLETION, DEPRECIATION, ETC.:				
Provision for Depletion and Depreciation	1,027,694.53		1,042,544.62	
Provision for Write-down of Properties			40,625.96	
Exploration and Prospecting Expenses, and Loss or Gain on Disposition of Capital Assets	238,069.92	1,265,764.45	13,544.49	1,096,715.07
NET PROFIT — before Provision for Federal and State Income Taxes		8,859,416.74		10,639,839.87
PROVISION FOR FEDERAL AND STATE INCOME TAXES		3,360,000.00		4,000,000.00
		5,499,416.74		6,639,839.87
MINORITY INTEREST IN NET LOSS OR (PROFIT) OF CONSOLIDATED SUBSIDIARY		68,324.85		(33,997.28)
NET PROFIT FOR YEAR		5,567,741.59		6,605,842.59
APPROPRIATIONS TO RESERVES FOR FUTURE DECLINE IN INVENTORY VALUES	2,000,000.00		3,300,000.00	
Less: Transfer from Reserve for Contingencies	500,000.00	1,500,000.00	300,000.00	3,000,000.00
BALANCE OF NET PROFIT TO SURPLUS		4,067,741.59		3,605,842.59
EARNED SURPLUS AT BEGINNING OF YEAR		9,598,036.95		7,325,808.36
		13,665,778.54		10,931,650.95
DIVIDENDS PAID AND ACCRUED		1,600,336.80		1,333,614.00
EARNED SURPLUS AT END OF YEAR		$12,065,441.74		$ 9,598,036.95