Annual Report

1952

THE EAGLE-PICHER COMPANY

TO OUR SHAREHOLDERS:

Net profit of The Eagle-Picher Company for the fiscal year ended November 30, 1952 amounted to $4,035,643, equivalent to $4.08 per share, compared with $3,703,807, or $3.74 per share, for the preceding year.

Net sales for the 1952 fiscal year were $81,893,067 in comparison with $82,086,318 for 1951.

As at November 30, 1952, net current assets were $25,176,975, an increase of $6,551,220 over the corresponding figure of $18,625,755 at November 30, 1951. Net worth at November 30, 1952 was $28,898,443, or $29.21 per share, an all-time high, and compared with $26,398,195, or $26.68 per share, at the end of the previous fiscal year.

All per share figures quoted herein, for both the 1952 and 1951 fiscal years, are computed on the basis of 989,177 shares outstanding at November 30, 1952.

New Activities

Before reviewing the results for 1952, it is pertinent to consider certain important steps taken since the close of the preceding fiscal year which have resulted in a substantial rearrangement of the Company's activities.

For a number of years, The Eagle-Picher Company has been strengthening its cash position with the ultimate goal of expanding and diversifying its business and assuring and increasing its earning power. At the same time, a careful study and analysis of existing operations revealed that certain segments of the business were failing to earn an adequate return on invested capital or did not have future prospects indicating such return, and hence were logical sources of funds for new undertakings. Your management investigated many possible fields for expansion and subjected them to rigid tests, including return on investment, growth possibilities and, in the case of companies already established, the quality of management. During the past year, we have entered into two major new activities which appear to fulfill these specifications.

In July 1952, the Company offered to purchase all of the common stock of The Ohio Rubber Company for approximately $8,000,000. At November 30, 1952, 99% of this stock had been acquired and since then all of the remaining stock has been purchased. The Ohio Rubber Company common stock is now owned 100% by your Company.

The Ohio Rubber Company is a leading manufacturer of molded and extruded rubber products which are sold principally to the automotive, farm equipment and toy industries. In addition, the company is making tank tracks for the defense effort. Its management is recognized as outstanding and the company appears to have unusual growth possibilities.

For its fiscal year ended September 30, 1951, The Ohio Rubber Company had net sales of $32,740,000 and net profit of $1,824,000. Operations for the fiscal year ended September 30, 1952 were adversely affected by a four-months strike in its own plants and, subsequently, by the steel strike which curtailed activities of its principal customers. Nevertheless, its sales for the year amounted to $28,692,000 and net profit to $1,404,000. Sales and earnings of the company currently are running at a rate which would indicate considerably better results for 1953.

The accounts and results of operations of The Ohio Rubber Company have been consolidated with those of the parent company since July 1.

For the five months ended November 30, 1952, The Ohio Rubber Company had sales of $12,143,364 and net profit of $650,654.

During the year, it was determined that the recovery of sulphur from the Company's sulphide zinc ores and the production of sulphuric acid would prove profitable provided an assured outlet could be obtained for the acid. Subsequently, a contract was signed covering the sale of 85% of the proposed acid production for a period of five years. The Defense Production Administration then granted The Eagle-Picher Company a certificate of necessity approving accelerated depreciation on a substantial part of the cost of the required plant facilities. Construction of the plants, involving capital expenditures in excess of $4,000,000, is now in progress at Galena, Kansas, with completion scheduled for the early part of 1954.

The purchase of The Ohio Rubber Company and the construction of the acid and complementary plants will not necessitate an increase of our capital stock. It was considered preferable to rearrange the Company's long-term debt, as is explained later, and, as an integral part of the program, to discontinue operations of the Metallic Products Division and the Paint and Varnish Division. This liquidation is being accomplished at a rapid pace and should be concluded at an early date.

The Metallic Products Division operated secondary lead smelters and plants manufacturing lead pipe, roof flanges, solders, alloys and other products sold principally to the plumbing and construction industries. For years, this has been a very competitive industry, earning a low rate of return on invested capital.

The Paint and Varnish Division manufactured mixed paints, varnishes and enamels. It was a minor factor in an industry composed principally of important customers of the Company.

The Metallic Products Division and the Paint and Varnish Division had net sales aggregating $17,082,000 and $11,360,000 for the fiscal years ended November 30, 1951 and November 30, 1952, respectively. The combined operations of these divisions resulted in a net loss in each of those two years.

It is easier for the management of a company to expand its operations than to liquidate parts of its business. We are confident, however, that the reasons for dissolution of the two divisions were compelling and that the more profitable utilization of the money invested in their operations will prove beneficial.

Sales

Net sales of $81,893,067 for the fiscal year ended November 30, 1952 fell just short of those for the preceding year, aggregating $82,086,318, which represented a new high for all time.

Sales during the second half of 1952 were materially higher than those for the first half of the year but neither period furnished a good indication of probable sales volume for the present year. Consolidated sales for 1953 will show a net increase over 1952 arising from inclusion of a full year's operations of The Ohio Rubber Company, less the sales of the discontinued divisions discussed above, but allowance must be made for variations in physical volume and prices in the two years. At present, lead and zinc prices, and consequently those for pigments and oxides, are substantially below a year ago.

Earnings

Net profit after taxes for the fiscal year ended November 30, 1952 was $4,035,643, equivalent to $4.08 per share, compared with $3,703,807, or $3.74 per share for the preceding year.

Net profit before taxes for 1952 declined to $4,323,643 from $9,503,807 for 1951. However, this was more than offset by lower provision for Federal and State taxes on income. Not only was the Federal normal tax and surtax substantially smaller in 1952 but, in addition, the Company received an excess profits tax carry-back credit of $820,000. Moreover, examination and final review of the Company's income tax returns resulted in an over-provision for taxes of $500,000 for the years 1946 to 1949, inclusive. This amount has been restored to income by its deduction from the 1952 tax provision.

Balance Sheet

Current assets at November 30, 1952 amounted to $32,730,475, including $10,737,780 of cash and governments, and current liabilities were $7,553,500, a ratio of 4.33 to 1.

Working capital of $25,176,975 was the largest in the Company's history and represented an increase of $6,551,220 over that of a year ago.

Total inventories at November 30, 1952 were $13,716,435 compared with $7,729,498 a year earlier, an increase of $5,986,937. The Ohio Rubber Company accounted for $4,700,234 of this increase; in addition, the metal content of zinc inventories at November 30, 1952 was higher than at November 30, 1951.

Investments in and advances to foreign subsidiaries were reduced by $978,621, the reduction being largely due to the repayment of advances by Mexican subsidiaries.

Long-term debt at November 30, 1952 amounted to $14,250,000, including $675,000 due within one year and classified as a current liability, as compared with $7,500,000 a year ago. In September, 1952, the Company rearranged its long-term borrowings from the Metropolitan Life Insurance Company and The Mutual Life Insurance Company of New York. It paid its 3% Notes, due September 1, 1967, then outstanding in the principal amount of $7,500,000, and substituted therefor $12,500,000 of 3¾% Notes due serially until September 1, 1972; thereby increasing working capital by $5,000,000. The $1,750,000 of 4½% Mortgage Notes outstanding are obligations of The Ohio Rubber Company.

Capital stocks of subsidiary company, amounting to $2,052,573 at November 30, 1952, consisted of the preferred stock of The Ohio Rubber Company at the call price plus an insignificant amount in respect of the few shares of common stock of that company not yet purchased at the fiscal year end.

Dividends

The regular quarterly dividend of 30 cents per share was maintained during 1952 and an extra of 30 cents per share was paid in December, making total disbursements of $1.50 per share for the calendar year. This was the same cash distribution made in 1951 and 1950; in addition to which a 10% stock dividend was paid in December, 1951.

Outlook

The inauguration of the new administration has given rise to a better feeling on the part of business men. It is hoped and believed that government economy will now receive more than lip service and that tax reduction will be a primary objective after the country's safety has been assured and the budget has been balanced. A tendency has already been shown to relax government regulations and controls, and labor-management relations may be improved as inflationary pressures lessen and both parties meet at the bargaining table on more equal terms. The free enterprise system is recognized as the cornerstone of our economy and its contribution to the general welfare and defense of our country is being more widely acknowledged.

Economists generally look for a continued high level of business activity during 1953, sustained in an important part by huge Government expenditures for national defense and large capital expenditures by corporations for new plant facilities. These two factors will lose their actual and relative force at some point in the future, perhaps not too far removed, but the outcome need not be a severe recession if Government and business prepare beforehand and avoid excesses in the meantime.

During the latter part of 1952 and to date in 1953, lead and zinc markets have been depressed in sympathy with the weakness in the London market which developed in anticipation and after removal of restrictions on private dealings abroad. It is difficult to say how long and to what extent this will prove a depressant on our prices but domestic consumption of both metals is generally satisfactory and stocks are not unduly burdensome. It seems reasonable to expect firming price tendencies in these metals. Furthermore, a more plentiful supply of certain raw materials, such as aluminum, and a high level of demand in various industries for products manufactured by the Company appear as favorable factors in 1953.

A year ago we stated our belief that earnings of your Company would be satisfactory for 1952. We are of the same opinion with respect to 1953. Our productive facilities and activities have been expanded and further diversified, our financial position is strong, and we have a skilled and loyal team of workers.

JOEL M. BOWLBY
Chairman

T. SPENCER SHORE
President

CINCINNATI, OHIO
FEBRUARY 13, 1953

CONSOLIDATED BALANCE SHEETS A-

ASSETS

	1952		1951	
CURRENT ASSETS:				
Cash		$ 8,425,408		$ 7,931,052
U. S. Government obligations — at cost (Market value $2,311,524 at November 30, 1952)		2,312,372		1,242,632
Accounts and notes receivable	$ 8,627,157		$ 7,765,945	
Less: Allowance for doubtful receivables	350,897	8,276,260	340,955	7,424,990
Inventories of raw materials, work in process, finished products and supplies (Note 1):				
Ores, metals and metal bearing products	6,140,779		3,939,603	
Other products, merchandise for resale and manufacturing materials and supplies	7,575,656	13,716,435	3,789,895	7,729,498
TOTAL CURRENT ASSETS		32,730,475		24,328,172
OTHER ASSETS:				
Repair parts and maintenance supplies	1,118,987		1,171,479	
Investment in and advances to associated company and sundry securities — at or below cost	317,327		335,494	
Miscellaneous accounts and advances	273,129	1,709,443	363,623	1,870,596
INVESTMENT IN AND ADVANCES TO FOREIGN SUBSIDIARIES NOT CONSOLIDATED (Note 2):				
Mexican subsidiaries	625,763		1,598,776	
Canadian subsidiaries	692,392	1,318,155	698,000	2,296,776
PROPERTY, PLANT AND EQUIPMENT (Note 3):				
Mining lands and leases; mills, smelters and fabricating plants; railroad and other properties	49,615,357		42,265,362	
Less: Allowance for depletion, depreciation, etc.	33,122,339	16,493,018	31,162,956	11,102,406
PATENTS, GOODWILL, etc.		1		1
PREPAID AND DEFERRED CHARGES:				
Prepaid freight, insurance, etc.	223,744		165,593	
Miscellaneous deferred charges	489,812	713,556	530,080	695,673
		$52,964,648		$40,293,624

The accompanying notes are an inte

As at November 30, 1952 and 1951

LIABILITIES

	1952		1951	
CURRENT LIABILITIES:				
Accounts payable		$ 4,401,931		$ 2,916,600
Dividends payable		619,321		560,657
Purchase money obligation				408,000
Accrued liabilities:				
Wages and salaries	$ 1,120,503		$ 574,640	
Taxes — other than Federal taxes on income	382,121		313,824	
Other	354,624	1,857,248	792,072	1,680,536
Federal taxes on income	2,028,349		7,129,983	
Less: U. S. Government obligations	2,028,349		6,993,359	136,624
Long-term debt — current portion		675,000		
Total Current Liabilities		7,553,500		5,702,417
LONG-TERM DEBT (Note 4):				
3¾% Notes, payable serially September 1, 1953 to September 1, 1972	12,500,000			
4½% Mortgage note of subsidiary company, payable $43,750 quarterly through September 1, 1964	1,750,000			
3% Notes, payable serially September 1, 1953 to September 1, 1967			7,500,000	
	14,250,000		7,500,000	
Less: Payments due within one year	675,000	13,575,000		7,500,000
RESERVES FOR SELF-INSURANCE:				
Workmen's compensation	736,291		551,355	
Fire and tornado	148,841	885,132	141,657	693,012
CAPITAL STOCKS OF SUBSIDIARY COMPANY		2,052,573		
STOCKHOLDERS' EQUITY:				
Capital stock — par value $10.00 per share:				
Authorized ... 1,500,000 shares				
Issued and outstanding ... 989,177 shares	9,891,770		9,000,000	
Surplus:				
Capital surplus (Note 5)	2,763,648		2,050,232	
Earned surplus (Note 4)	16,243,025	28,898,443	15,347,963	26,398,195
		$52,964,648		$40,293,624

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THE EAGLE-PICHER COMPANY AND DOMESTIC SUBSIDIARIES

STATEMENTS OF CONSOLIDATED PROFIT AND LOSS AND EARNED SURPLUS

YEARS ENDED NOVEMBER 30, 1952 AND 1951

	1952		1951	
NET SALES		$81,893,067		$82,086,318
PRODUCTION AND MANUFACTURING COSTS		68,670,295		65,065,898
GROSS OPERATING PROFIT — before depletion and depreciation		13,222,772		17,020,420
EXPENSES:				
Selling	$ 2,656,157		$ 2,252,154	
Traffic, warehousing and shipping	649,363		782,144	
General and administrative	2,983,896	6,289,416	2,617,951	5,652,249
NET OPERATING INCOME — before depletion and depreciation		6,933,356		11,368,171
OTHER INCOME		254,332		248,729
		7,187,688		11,616,900
INTEREST EXPENSE:				
Long-term debt	337,319		225,000	
Other	51,404	388,723	5,201	230,201
		6,798,965		11,386,699
DEPLETION, DEPRECIATION, etc.:				
Provision for depletion and depreciation	1,623,123		1,497,202	
Exploration and prospecting expenses and loss or gain on disposition of capital assets	252,199		385,690	
Net provision for loss on future disposal of certain plant properties	600,000	2,475,322		1,882,892
NET PROFIT — before Federal and State taxes on income		4,323,643		9,503,807
FEDERAL AND STATE TAXES ON INCOME:				
Federal normal tax and surtax and state taxes	1,608,000		4,900,000	
Federal excess profits taxes (the 1952 credit resulted from a carry-back of unused excess profits tax credit)	(820,000)		900,000	
Over-provision of taxes on income, prior years	(500,000)	288,000		5,800,000
NET PROFIT FOR YEAR		4,035,643		3,703,807
EARNED SURPLUS — BEGINNING OF YEAR		15,347,963		14,801,631
		19,383,606		18,505,438
CHARGES TO EARNED SURPLUS:				
Cash dividends paid and accrued	1,535,395		1,370,657	
Stock dividend (note 5)	1,605,186			
Excess of cost of stocks of consolidated subsidiaries over book values thereof at dates of acquisition			1,786,818	
		3,140,581		3,157,475
EARNED SURPLUS — END OF YEAR (Note 4)		$16,243,025		$15,347,963

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

THE EAGLE-PICHER COMPANY AND DOMESTIC SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

NOVEMBER 30, 1952

NOTE 1 — Ores, metals and metal bearing products: Under the base-stock method of inventory valuation, adopted at November 30, 1949, basic quantities of lead and zinc are valued at fixed prices based on 6.5 cents per pound for lead (New York) and 5 cents per pound for zinc (East St. Louis). At November 30, 1952, basic quantities were 12,500 tons of each metal compared with 15,000 tons of lead and 10,000 tons of zinc at November 30, 1951; this shift in basic quantities has had no material effect on operations for the year. The remainder of the inventory of metal content is priced at the lower of average cost or market.

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

NOTE 2 — The equity of The Eagle-Picher Company in foreign subsidiaries not consolidated has increased $1,503,873 since dates of acquisition as a result of profits, losses, dividend distributions and reorganization of the Canadian companies. The increase during the year ended November 30, 1952 aggregated $495,942.

NOTE 3 — On July 14, 1952 (as of July 1, 1952) The Eagle-Picher Company acquired substantially all of the outstanding common stock of The Ohio Rubber Company. Cost of the latter's stock was approximately $3,600,000 in excess of book value of its net assets; this excess has been allocated to property, plant and equipment in the consolidated financial statements which results in stating these assets at values which closely approximate original cost when first used in operations, less depreciation to date. The statement of consolidated profit and loss includes operations of this subsidiary from July 1 to November 30, 1952; for this period the acquired company had net sales of $12,143,364 and net profit of $650,654.

NOTE 4 — Under the provisions of the loan agreements pertaining to the 3¾% notes due September 1, 1972, the company is required to prepay on September 1 of each of the years 1953 to 1957, inclusive, the amount of $500,000 and varying amounts thereafter to maturity.

The 4½% mortgage notes maturing September 1, 1964 are secured by a mortgage covering property of a subsidiary company.

The 3¾% notes contain a covenant which, so long as any of the notes remain outstanding, restricts the amount which may be declared as dividends (other than those payable in stock of the company) or applied in the purchase, redemption or retirement of the company's capital stock. At November 30, 1952 the amount not so restricted was $4,725,044.

NOTE 5 — On December 10, 1951 a stock dividend was paid by the issuance of 89,177 shares of the company's capital stock and the distribution of $20,657 in cash in lieu of the issuance of fractional shares totaling 823 shares. The charge against earned surplus with respect to the 89,177 shares so issued was $1,605,186, representing $18 per share. Capital stock was credited at the par value of $10 per share, or $891,770, and the balance of $713,416 was credited to capital surplus.

NOTE 6 — A portion of the company's sales for the years ended November 30, 1951 and 1952 is subject to renegotiation under the Renegotiation Act of 1951. No provision has been made for possible refunds, since it appears that renegotiation will have no material effect on the financial statements as of November 30, 1952.

COMPARATIVE HIGHLIGHTS

		For the Years Ended November 30		
		1952	1951	1950
SALES EARNINGS TAXES DIVIDENDS	Net Sales	$81,893,067	$82,086,318	$69,123,903
	Net Profit before Income Taxes	4,323,643	9,503,807	6,399,296
	Federal and State Inc. Taxes	288,000	5,800,000	3,470,000
	Net Profit for Year	4,035,643	3,703,807	2,929,296
	Net Profit per Share*	4.08	3.74	2.96
	Dividends per Share	1.50	1.50‡	1.50
FROM THE YEAR-END BALANCE SHEET	Current Assets	$32,730,475	$24,328,172	$21,634,705
	Current Liabilities	7,553,500	5,702,417	6,148,485
	Working Capital	25,176,975	18,625,755	15,486,220
	Fixed Assets, Net	16,493,018	11,102,406	11,325,613
	Other Tangible Assets	3,741,155	4,863,046	5,719,549
	Long Term Debt	13,575,000	7,500,000	7,531,015
	Net Worth	28,898,443	26,398,195	24,441,894†
OTHER SALIENT FACTS	Ratio of Current Assets to Current Liabilities	4.33	4.26	3.52
	Net Worth per Share*	$ 29.21	$ 26.68	$ 24.71
	Dividends Paid and Accrued	$1,535,395	$1,370,657	$1,339,917
	Earnings Retained in Business	$2,500,248	$2,333,150	$1,589,379

*Based on 989,177 shares presently outstanding
†After deduction of $1,409,833 of intangible assets
‡Plus 10% in stock