National Lead Company

56TH

Annual Report

1947

National Lead Company

56TH

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1947

BOARD OF DIRECTORS

FLETCHER W. ROCKWELL, *Chairman*

LEONARD T. BEALE	DAVID A. MERSON
WILLIAM V. BURLEY	JOSEPH J. MORSMAN
WALTER P. CARROLL	GEORGE L. RATCLIFFE
WILLIAM H. CROFT, JR.	CHARLES SIMON
CLAUDE F. GARESCHE	JAMES A. TAYLOR
CHARLES A. GEATTY	HERMAN T. WARSHOW
JOSEPH A. MARTINO	HARRY C. WILDNER

EXECUTIVE COMMITTEE

JOSEPH A. MARTINO, *Chairman*

CLAUDE F. GARESCHE	CHARLES SIMON
CHARLES A. GEATTY	HERMAN T. WARSHOW
DAVID A. MERSON	HARRY C. WILDNER

EXECUTIVE OFFICERS

President
JOSEPH A. MARTINO

Vice Presidents

WILLIAM V. BURLEY	HAROLD ROWE
CLAUDE F. GARESCHE	HERMAN T. WARSHOW

Assistant to the President
ALFRED H. DREWES

Secretary
HENRY O. BATES

Treasurer
CHARLES SIMON

Comptroller
HARRY C. WILDNER

Assistant Secretary
JOHN B. HENRICH

Assistant Treasurer
JOSEPH J. MORSMAN, JR.

Assistant Comptrollers

GEORGE A. DEWEY	JOSEPH J. MORSMAN, JR.

General Counsel, ALEXANDER & GREEN, 120 Broadway, New York, N.Y.
Stock Transfer Agent, THE CHASE NATIONAL BANK, 11 Broad St., New York, N.Y.
Registrar of Stock, BANKERS TRUST CO., 14 Wall St., New York, N.Y.

0000-NLI-000018343

National Lead Company

INCORPORATED DECEMBER 8, 1891

111 BROADWAY, NEW YORK 6, N. Y.

March 5, 1948

To the Stockholders of National Lead Company:

The year 1947, although it marked the second full twelve-month period of operation following the close of World War II, brought to new focus many of the problems which had their beginnings in and as the result of that great conflict. Material shortages, rising prices, pent-up demand for products and many other comparable difficulties again faced American business and were reflected in the results achieved.

Your Company in 1947 recorded the greatest dollar volume of business it has ever enjoyed. Net earnings also reached a new high, although the increase was not in degree comparable to the rise in dollar sales.

The pages which follow outline in more detail the problems which we have faced, the steps which have been taken to meet them and the operating picture which has resulted. There are also included the formal financial statements for 1947, in comparison with the preceding year.

This report will be presented to the Stockholders at their Annual Meeting which will be held on April 15, 1948 at the principal office of the Company in Sayreville, New Jersey.

Respectfully submitted,

J. A. Martino

PRESIDENT

Financial Highlights

	1947	1946
SALES	$268,026,394	$167,417,243
EARNINGS	12,180,132	9,677,084
TAXES	14,046,827	8,691,845
DIVIDENDS	8,240,651	6,695,319
EARNINGS RETAINED FOR USE IN THE BUSINESS	3,939,481	2,981,765

EARNINGS

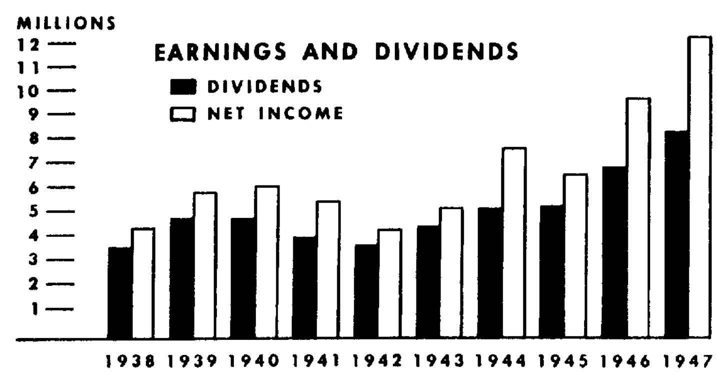
Net income for the year 1947 was $12,180,132, equivalent, after the payment of regular dividends on the outstanding shares of both classes of the Company's Preferred stock, to $3.27 per share on the Common stock outstanding at the year-end. The net income compares with $9,677,084 or $2.46 per share earned during the year 1946, the increase being in large degree attributable to the greater volume of business done during the past year.

The Company's equity in the net undistributed 1947 earnings of domestic companies not wholly-owned and of foreign subsidiaries, excluding those in Continental Europe, is estimated to amount to 29 cents per share on the Common stock.

DIVIDENDS

Of the total net income for the year, $12,180,132, there were paid during 1947 to the holders of the Company's Class A and Class B Preferred shares regular dividends amounting to $2,059,323.

With respect to the Common shares outstanding during the year, there were paid quarterly dividends of 12½¢ per share in March, June and September and 25¢ per share in December. In addition, extra pay-



ments of 25¢, 12½¢ and $1.00 per share were made in June, September and December, respectively. The total of the Common dividends disbursed during 1947 was $6,181,328, equivalent to $2.00 per share.

It is the opinion of the Board of Directors that the payment of quarterly dividends of 25¢ per share on the Common stock, as against the 12½¢ paid prior to December of 1947, establishes a more realistic relationship between earnings and distributions to the stockholders.

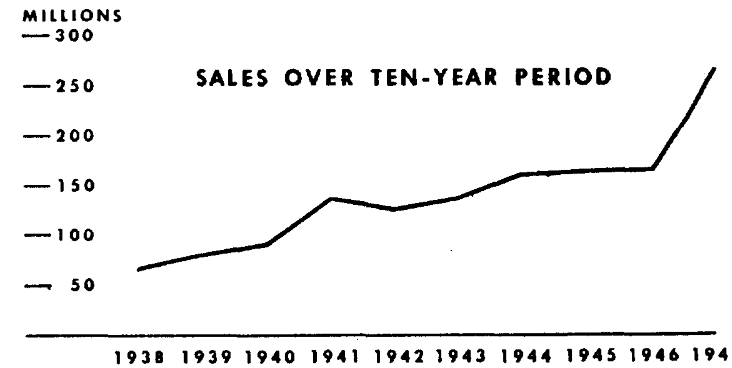
The balance of net income remaining after these payments, amounting to $3,939,481, was transferred to Earned Surplus to be retained for use in the business.

SALES

Dollar sales for 1947 reached a total of $268,026,394, as compared with $167,447,243 in the preceding year.

Reflecting to some extent a 15% increase in the number of units sold, the 60% rise in dollar volume was primarily caused by the higher price of lead, the primary constituent of an important segment of the Company's output. During 1947, the price of common pig lead (New York) further increased from 12.55¢ per pound at December 31, 1946 to 15¢ at the close of the year. The 1946 price basis was considerably

Paint is mixed in newly-equipped factory at Perth Amboy, N. J.



1938	$ 65,229,970	1943	$148,622,919
1939	80,906,329	1944	166,168,715
1940	90,696,461	1945	167,562,928
1941	139,192,540	1946	167,447,243
1942	127,679,608	1947	268,026,394

lower, ranging from 6.50¢ at the beginning of that year to 12.55¢ at the close of that year, as cited above.

Since much of the Company's business is done at fixed differentials over the prices of raw metals, the major portion of the rise in sales dollars represents raw material cost increases automatically included in prices to the customer. One effect of this fact was a reduction in the amount of net income earned per dollar of sales.

TAXES

In 1947 the Company's total tax bill reached an all-time high. The charge against earnings amounted to $14,046,827 as compared with $8,691,845 in 1946. Tax expense for 1947 was equivalent to $4.54 per share of Common stock outstanding.

The increase in this item over the 1946 charge reflects both the greater provisions for income taxes required by the larger earnings before taxes reported for 1947 and the deductions made from earnings to provide reserves for inventory price fluctuations under the normal stock method of valuation discussed under the heading "Inventories," which deductions are not allowable for tax purposes.

FOREIGN INVESTMENTS

Dividends received from foreign corporations during the year 1947 totaled $1,844,148, the increase over the $1,203,619 reported for 1946 consisting principally of a dividend received from one of the Company's Canadian subsidiaries.

The plants and sales offices of corporations in England, Norway, Belgium and France, in which the Company has a financial interest, are continuing to operate without interruption. With respect to the future of properties located within Germany, it is difficult to make predictions at the present time, but the Company is maintaining capable representation in close contact with the problems at hand to insure protection of its interests.

The problems of operating in foreign countries have been much intensified by exchange restrictions resulting from the dollar shortage which characterizes world markets today.

Early in 1948, the Company disposed of its stock interest in British Titan Products Co., Ltd., in accordance with the provisions of the decree of the court in the suit by the Government against the Company, which is further discussed below. It appears unlikely that the transfer to the United States of the funds received as the result of this sale will be permitted under existing regulations.

PLANT INVESTMENT

At the close of 1947, the Company's gross investment in fixed assets amounted to $122,739,173, an increase of $15,915,513 over the corresponding figure at the beginning of the year. In the interest of improved and more efficient operating procedures, buildings, machinery

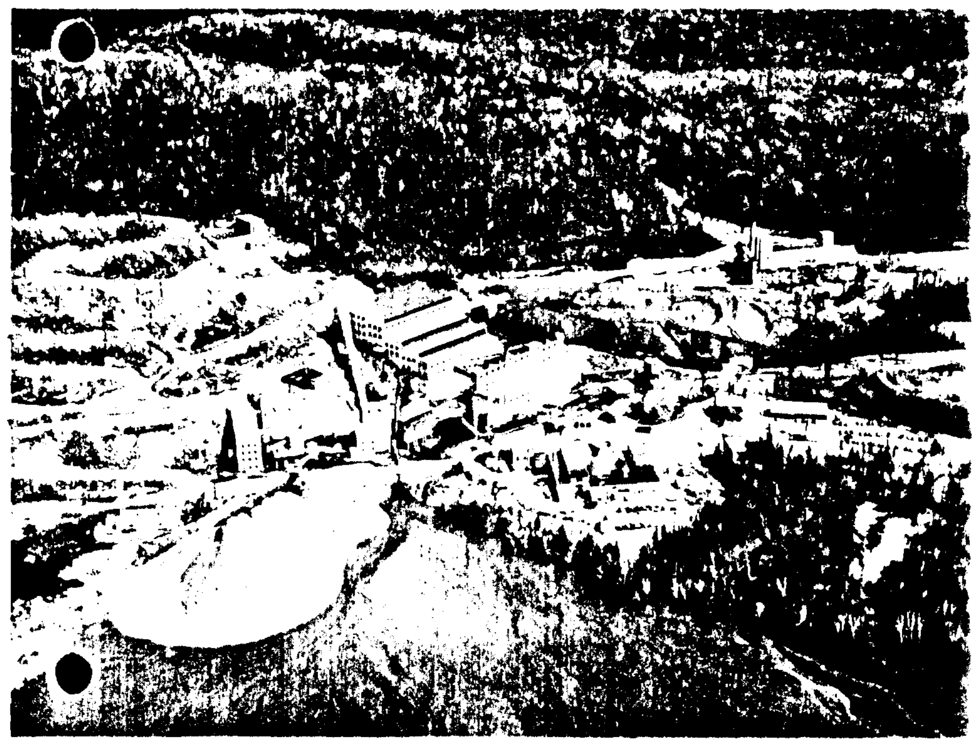
and equipment with an aggregate book value of $1,803,216 were disposed of during the year.

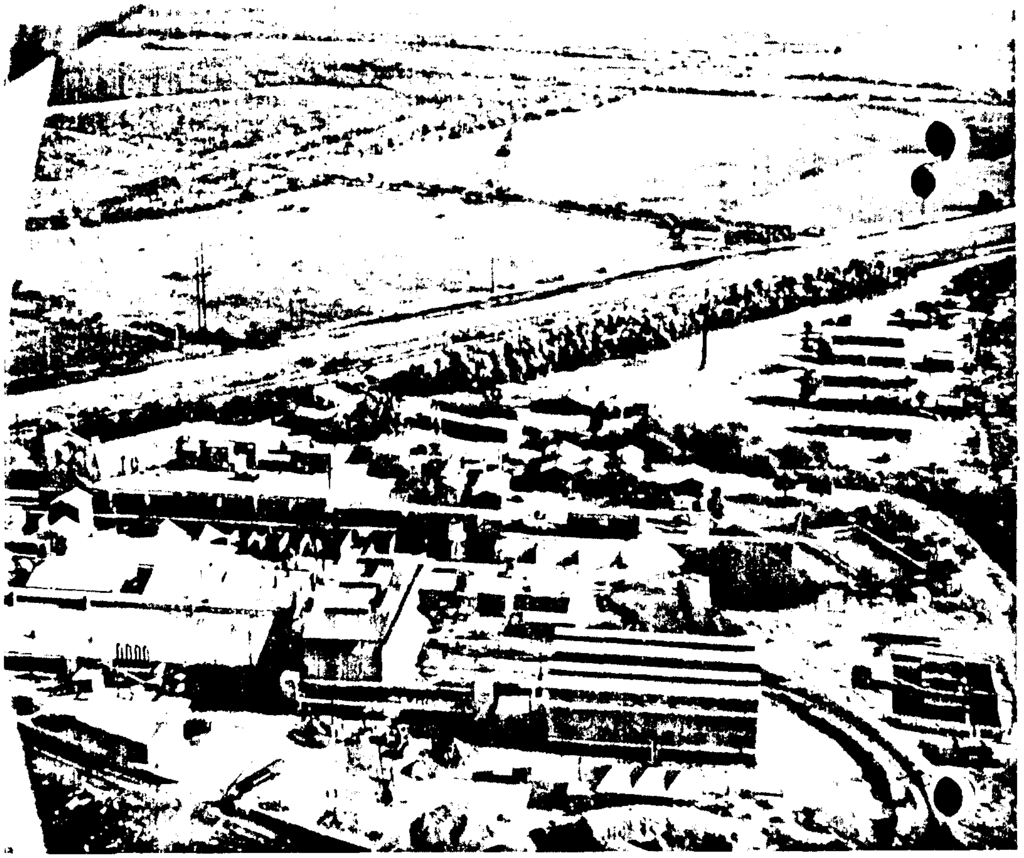
The gross expenditure for new plant during 1947 amounted to $17,748,729 and there was utilized, in this connection, the Fund for Deferred Expenditures amounting to $10,000,000 which was carried on the balance sheet at the close of 1946. Your management is mindful of the fact that construction costs today are exceedingly high. For this reason, before any project for expansion is approved there are weighed against this fact the urgency of the particular situation and the advantages of proceeding at once as opposed to deferring the expenditure.

Depreciation and depletion charged against earnings in 1947, $3,115,447, was roughly equivalent to the charge of $2,912,144 for 1946.

The Company's property account, net of depreciation, at the end of

The mine at Tahawus, N. Y., produced more titanium-bearing ore in 1947 than ever before.





Plant at Laredo, Texas, newly acquired, processes antimony ores largely mined in Mexico.

1947, was $65,331,325, as compared with $50,774,755 at the close of 1946.

INVENTORIES

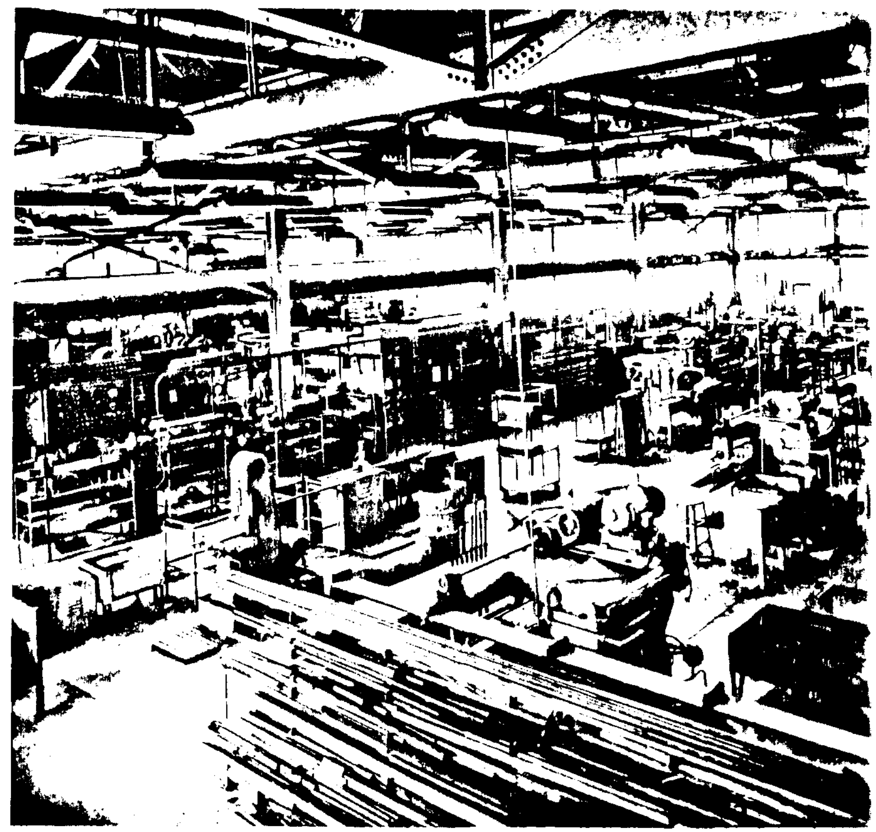
The gross inventories of the Company increased $11,933,062 during 1947 in spite of substantial decreases in the actual quantities on hand in some branches of the business. Increases in metal prices referred to above were a major factor.

It should be noted, however, that during the year the reserve for Inventory increased by $6,992,862 as the result of the normal stock method of inventory valuation which the Company continues to employ

in its accounting. Stocks of flaxseed and linseed oil which were otherwise recorded at the close of 1946 were valued in accordance with the normal stock system at December 31, 1947.

The effects upon the Company's earnings of market price declines which may take place in the future will be minimized by the application of the reserves provided by the use of the normal stock system.

Stainless steel plates used by the paper industry are produced in this new section of the Magnus Metal Division plant at Fitchburg, Mass.



New installation in Toronto produces lead oxides for sale to Canada, Latin America and Europe.

ORGANIZATION

At the annual meeting of the Board of Directors in April 1947, Fletcher W. Rockwell was elected Chairman of the Board.

Joseph A. Martino succeeded Mr. Rockwell as President of the Company. Mr. Martino's association with National Lead Company dates from the year 1916; he has served successively as comptroller, vice president and executive vice president.

In January 1948, William H. Croft, Kendall Marsh and Harold Rowe, after many years of unfailing and faithful service, retired as members of the Board of Directors and were succeeded by Harry C. Wildner, George L. Ratcliffe and William H. Croft, Jr.

Mr. Wildner was appointed comptroller of National Lead Company in 1946 after having served as assistant comptroller since 1938. He

entered the service of the Company in 1921.

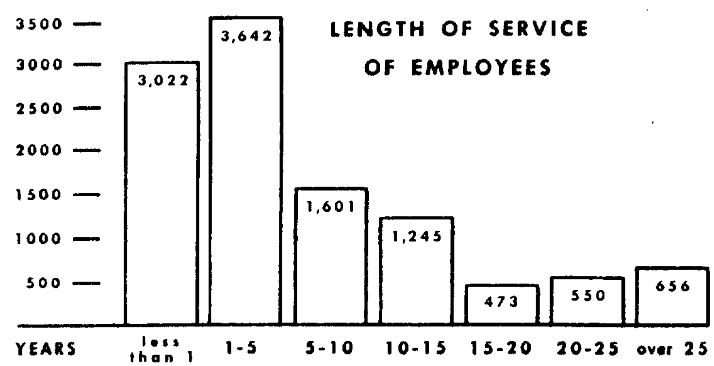
Mr. Ratcliffe is general manager of the Baroid Sales Division, having begun his career with the Company in 1929.

Mr. Croft, Jr. is president of the Company's wholly-owned subsidiary, Magnus Metal Corporation, and assistant general manager of its Magnus Metal Division. He has been with the Company since 1927.

PERSONNEL

During 1947, the Company's employee group was augmented and strengthened by the further reintegration of men and women who had been in the armed services. The most significant measurement of sound relations in the personnel field — employee turnover — was at a gratifyingly low rate. On the other hand, many plant units reached record high production levels, evidence of full application of individual energies and skills.

Employees with more than five years of continuous service with the Company increased from 4,035 to 4,525 during 1947. Those entitled to the gold watches which are awarded to mark twenty-five years of service have increased from 891 at the time of publication of the 1946 report, to 1,004 at the present time.



As in the preceding year, there was again authorized the payment of extra compensation during December of 1947 to all employees of the Company except its officers and directors in an amount equivalent to five and one-half percent of the initial $6,000 of compensation earned during the first eleven months of the year.

During 1947, the Pension reserve carried on the balance sheet was reduced $1,063,306 as the result of the utilization of a portion of the account for the purchase of past service annuities.

The provisions of the Company's group life insurance and retirement annuity plans continued to operate for the future well-being of employees and their dependents and, in accordance with the plan approved by the stockholders in April of 1945, there was again made for the year 1947 a payment into the Company's Profit-Sharing Trust for eligible employees.

It is believed that the modifications of these plans, which are outlined in detail in the proxy being mailed with this report, are of material benefit to the employees and offer definite advantages to the Company so far as employee relations are concerned.

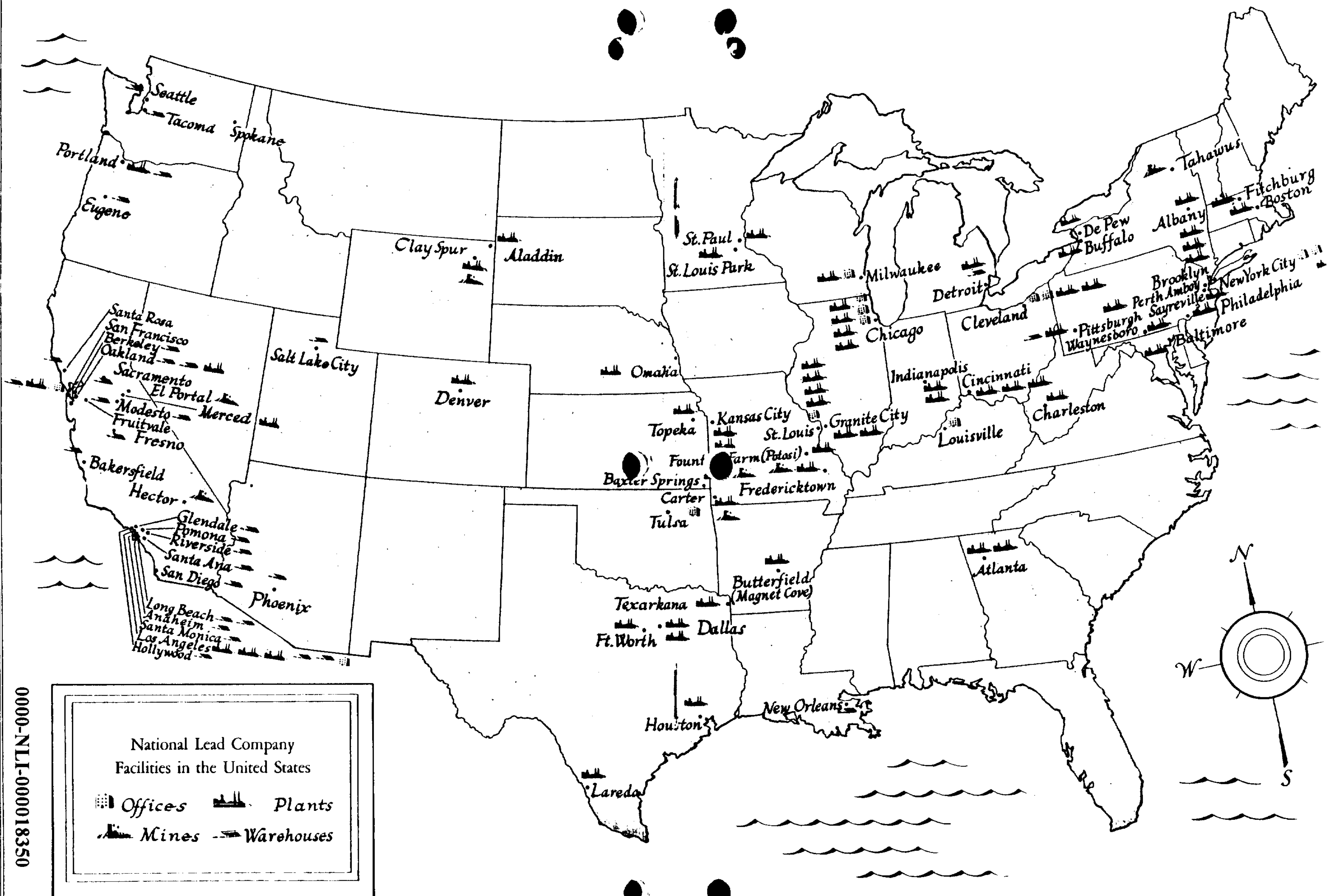
GENERAL ACTIVITIES

In the spring of 1947 there was introduced to the market the new "DUTCH BOY" Blended Paint referred to in the Annual Report for 1946. Early in 1948, the Company also offered for sale a new one-coat interior finish under the trade name "WONSOVER." The reception accorded the new products has been most satisfactory.

As a matter of interest and information, there has been inserted at the back cover of this report an example of one type of advertising being employed in connection with the new paint line. The enclosure is a copy of an advertisement which will appear in a number of nationally-known magazines early in 1948.

There has been little change in the situation so far as the world-wide shortage of lead is concerned. The output of the Company's lead-fabricating plants has been limited by the quantities of raw materials obtainable, and there appears to be little prospect that more lead in

The Baroid Sales Division is pioneering in the development of mobile laboratories which carry research and service into the heart of the oil fields. Drilling muds supplied to the wells are thus scientifically controlled.


National Lead Company
Facilities in the United States
Offices
Plants
Mines
Warehouses
N
S
W
Seattle
Tacoma
Spokane
Portland
Eugene
Santa Rosa
San Francisco
Berkeley
Oakland
Sacramento
El Portal
Merced
Modesto
Fruitvale
Fresno
Bakersfield
Hector
Glendale
Pomona
Riverside
Santa Ana
San Diego
Phoenix
Long Beach
Anaheim
Santa Monica
Los Angeles
Hollywood
Salt Lake City
Clay Spur
Aladdin
Denver
Omaha
Topeka
Kansas City
St. Louis
Fount Farm (Potosi)
Baxter Springs
Fredericktown
Carter
Tulsa
St. Paul
St. Louis Park
Milwaukee
Detroit
Chicago
Indianapolis
Granite City
Louisville
Cincinnati
Cleveland
Charleston
Pittsburgh
Waynesboro
De Pew
Buffalo
Albany
Tahawus
Fitchburg
Boston
Brooklyn
Perth Amboy
Sayreville
New York City
Philadelphia
Baltimore
Atlanta
Butterfield
(Magnet Cove)
Texarkana
Dallas
Ft. Worth
Houston
New Orleans
Laredo

substantial quantities will be available in the immediate future.

The Company continues a program of aggressive and coordinated research. Among the developments of the year emanating from its laboratories were new pigments for use in the manufacture of paints, to be marketed under the trade names "45X" and "Pigment E." It is gratifying to note that of eight new pigments under discussion at a recent meeting of the production group of the National Paint, Varnish and Lacquer Association, five had been developed by the Company's laboratories.

On June 23, 1947, there was affirmed by the Supreme Court of the United States the decree of the lower court in the civil suit by the Government against the Company and others involving charges of violation of the anti-trust laws. In brief, the decree directs the cancellation of certain agreements which provided, among other things, for territorial arrangements and for the exchange of titanium-pigment patent rights, domestic and foreign; it also directs the sale of the Company's stock interests in certain partly-owned foreign companies engaged in the titanium pigment business or, in the alternative, the purchase by the

Wonsover, new washable one-coat interior paint, goes on the market in 1948.

Dutch Boy blended paints for exterior surfaces were introduced nationally in 1947.

Company of the interests of the other stockholders in these companies; it further directs the granting of non-exclusive licenses under United States patents in the titanium pigment field on a uniform, reasonable royalty basis. The Company is at the present time proceeding to carry out the provisions of the decree. The disposal of its stock interest in British Titan Products Company, Limited, discussed herein under "Foreign Investments" and the acquisition of the outstanding minority interest in Canadian Titanium Pigments Limited, referred to under the same heading in the 1946 report, are steps taken in this connection.

The total number of stockholders remained virtually unchanged during the year at 18,977, as compared with 18,943 at the end of 1946.

The portion of this report following the financial statements has been devoted to a more complete discussion of Plant Expansion which, it is hoped, will be of interest to stockholders.

We would here pay tribute to the cooperation and loyalty of the Company's employees, which we regard as one of its greatest assets. Without them, the achievements of the year past would have been impossible, and with a keen awareness of their importance, we look forward to 1948 with the certainty that the problems which may be encountered will be met as effectively and capably as they have been during the many years of National Lead Company's existence.

By Order of the Board of Directors

FLETCHER W. ROCKWELL
CHAIRMAN OF THE BOARD

JOSEPH A. MARTINO
PRESIDENT

National Lead Company
AND ITS WHOLLY-OWNED DOMESTIC SUBSIDIARIES

Comparative Consolidated Balance Sheets

DECEMBER 31, 1947 AND 1946

ASSETS:

	1947	1946
Current assets:		
Cash	$ 12,953,907	$ 11,681,055
United States Government securities, at cost (approximately equivalent to amounts at market quotations)	10,970,769	17,864,127
Other marketable securities, at cost less reserves of: 1947, $522,892; 1946, $522,892 (at market quotations: 1947, $3,364,372; 1946, $3,257,472)	529,428	529,421
Accounts and notes receivable, less reserves of: 1947, $1,481,349; 1946, $1,429,848	21,380,118	15,519,836
Notes receivable from employees	81,309	53,257
Inventories (Note 1)	44,550,399	32,617,337
Total current assets	90,465,930	78,265,033
Fund for deferred expenditures on expansion and development:		
United States Government securities, at cost (approximately equivalent to amounts at market quotations)		10,000,000
Investments (at cost or below) in and advances to unconsolidated subsidiaries, less reserves of: 1947, $4,014,414; 1946, $4,014,414 (Note 2)	4,313,753	4,158,561
Miscellaneous investments, at cost or below, less reserves of: 1947, $846,778; 1946, $846,778	1,014,584	990,270
Plant, property and equipment, at 1915 appraised values, subsequent additions at cost (including intangibles of $20,692,311 not being amortized), less reserves for depreciation, depletion and amortization of: 1947, $57,407,848; 1946, $56,018,905	65,331,325	50,774,755
Patents and licenses, less amortization	177,125	289,015
Prepaid expenses, deferred charges, etc.	1,551,721	665,423
	$162,854,438	$145,143,057

LIABILITIES:

		1947	1946
Current liabilities:			
Accounts payable and accrued liabilities		$ 12,328,171	$ 9,508,394
Payable to unconsolidated subsidiaries		441,952	403,524
Provisions for taxes, including federal taxes on income		17,366,096	12,381,957
Dividends payable February 2, 1948 and February 1, 1947 on Class B preferred stock		116,193	116,193
Total current liabilities		$ 30,252,412	$ 22,410,068
Reserves:			
Fire insurance		$ 4,797,284	$ 4,797,284
Employer's liability		426,664	426,664
Pension		3,356,207	4,419,513
Contingencies		4,080,358	4,080,358
Inventory (Note 1)		16,727,524	9,734,662
		$ 29,388,037	$ 23,458,481

CAPITAL:

		1947	1946
Capital stock:			
Preferred Class A, 7 per cent cumulative, non-callable (par value $100); shares authorized 250,000, issued 243,676		$ 24,367,600	$ 24,367,600
Preferred Class B, 6 per cent cumulative, non-callable (par value $100); shares authorized 250,000, issued 103,277		10,327,700	10,327,700
Common (par value $10); shares authorized 5,000,000, issued 3,098,310		30,983,100	30,983,100
		65,678,400	65,678,400
Capital surplus		485,295	485,295
Earned surplus		42,098,542	38,159,061
		108,262,237	104,322,756
Less, Reacquired capital stock, at cost:			
Preferred Class A, 15,883 shares	$2,006,316		
Preferred Class B, 25,815 shares	2,925,066		
Common, 7,646 shares	116,866	5,048,248	5,048,248
		$103,213,989	$ 99,274,508
		$162,854,438	$145,143,057

The accompanying notes to financial statements are integral parts of these statements.

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Comparative Consolidated Statements of Income and Earned Surplus

FOR THE YEARS ENDED DECEMBER 31, 1947 AND 1946

	1947	1946
Sales, less returns and allowances (Note 3)	$268,026,394	$167,447,243
Cost of sales (Notes 1 and 3)	$217,590,137	$131,174,970
Depreciation, depletion and amortization	3,115,447	2,912,144
Administrative, selling and general expenses	23,921,822	17,115,013
Taxes, other than federal taxes on income	2,322,542	1,655,450
	$246,949,948	$152,857,577
	$ 21,076,446	$ 14,589,666
Other income (Note 4)	2,827,971	2,504,356
	23,904,417	17,094,022
Other charges and additions to reserves (Note 5)		380,543
Net income before provisions for federal taxes on income	23,904,417	16,713,479
Provisions for federal taxes on income (Note 6)	11,724,285	7,036,395
Net income for the year (Note 1)	$ 12,180,132	$ 9,677,084
Earned surplus balance, January 1	$ 38,159,061	$ 35,126,405
Net income for the year (Note 1)	12,180,132	9,677,084
Equity in earned surplus of domestic subsidiary, previously unconsolidated, which became wholly owned in 1946, less amounts paid to minority stockholders in excess of their equity, etc.		50,891
	$ 50,339,193	$ 44,854,380
Dividends:		
On Class A preferred stock, $7 per share	$ 1,594,551	$ 1,594,551
On Class B preferred stock, $6 per share	464,772	464,772
	2,059,323	2,059,323
On common stock, $2.00 per share in 1947, $1.50 per share in 1946	6,181,328	4,635,996
	$ 8,240,651	$ 6,695,319
Earned surplus balance, December 31	$ 42,098,542	$ 38,159,061

The accompanying notes to financial statements are integral parts of these statements.

Notes to Consolidated Financial Statements

1. Inventories are priced at the lower of cost (on various "average" or "first-in, first-out" bases) or market. The "normal stock" principle is applied with respect to quantities shown below:

	Normal Quantities (Short Tons)	Fixed Inventory Price per Pound
Lead	49,687½	$.03
Tin	1,124½	.21
Antimony	259	.05
Linseed oil	3,125	.06
Flaxseed	5,600	.0348

The "normal stock" principle contemplates that if physical quantities are less than the established normal quantities, the reserve shall include a provision for replacement representing the difference between current market prices and fixed inventory prices with respect to the deficiency in physical quantities. For 1947, the "normal stock" computations were made in accordance with this principle, but for 1946, the company deviated therefrom in that it computed the "normal stock" reserve covering deficiencies in inventories of flaxseed and linseed oil on the basis of prices lower than current market and, in addition, included in the "normal stock" calculations certain secondary metal stocks, the prices of which were lower than those of primary metals.

As a result of the above deviation in practice for 1946, net income for 1946 as shown in the accompanying statements is approximately $1,938,000 higher, and net income for 1947 is approximately $1,938,000 lower than would have been the case if the "normal stock" principle had been consistently applied, representing a $2,000,000 difference in the computed "normal stock" reserve amount at December 31, 1946, less $62,000 of net effect upon profit-sharing provisions and related taxes.

The inventory reserves shown in the balance sheets include, in addition to the "normal stock" reserves, general inventory reserves of $800,000 at both December 31, 1947 and 1946.

Intercompany profits in inventories are not considered to be material in amount.

2. Unconsolidated subsidiaries comprise principally foreign subsidiaries, which are subject to various exchange and other controls of the respective foreign governments, plus domestic subsidiaries more than 50, but less than 100 per cent owned. Major changes in this group during the two years covered by the financial statements were:

> American Lead Corporation, previously an unconsolidated subsidiary, became wholly owned during 1946 and its financial statements for both years have been included in the consolidated statements;
>
> Canadian Titanium Pigments Limited, previously carried in miscellaneous investments, became wholly owned as of December 31, 1946 and National Lead Company's investment therein is included among the investments in unconsolidated subsidiaries at both December 31, 1947 and 1946;
>
> Three Mexican companies were acquired during 1947 as of the beginning of the year and National Lead Company's investments therein are included among the investments in unconsolidated subsidiaries at December 31, 1947.

Based upon financial statements and appropriate exchange rates as of the close of their respective fiscal years, National Lead Company's equity in the net assets of unconsolidated subsidiaries (other than those in Continental Europe) exceeded its investments in and advances to such subsidiaries, after deducting applicable reserves on the books of National Lead Company, by approximately $7,030,000 at December 31, 1946, and $7,790,000 at December 31, 1947, representing increases in such excesses of approximately $910,000 in 1946 and $760,000 in 1947. These increases are after dividends paid by unconsolidated subsidiaries and included in net income of the consolidated group of $1,264,779 in 1946 and $1,996,815 in 1947.

Unaudited financial statements as of September 30, 1947, received from the Continental European subsidiaries (other than the German subsidiary) indicate that National Lead

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Notes to Consolidated Financial Statements — Continued

Company's equity in the nine months' earnings and in the net assets thereof at September 30, 1947 approximated the following foreign currency amounts:

	Equity in Earnings for Nine Months	Equity in Net Assets at September 30, 1947
Norwegian kroner	410,000	9,670,000
Belgian francs	3,520,000	16,140,000
French francs	1,970,000	4,280,000

National Lead Company's investments in Continental European countries are covered by reserves.

3. Intercompany transactions between consolidated companies have been eliminated from sales and cost of sales.

4. Other income comprises:

	1947	1946
Dividends received (including $1,996,815 from unconsolidated subsidiaries in 1947 and $1,264,779 in 1946)	$2,526,793	$1,695,505
Interest (net) and miscellaneous	194,787	427,924
Group life insurance dividends	106,391	194,578
Investment reserves no longer required		186,349
	$2,827,971	$2,504,356

5. Other charges and additions to reserves for 1946 comprise:

Net losses on sales of fixed assets, and miscellaneous	$ 94,534
Additions to investment and general inventory reserves	286,009
	$380,543

6. Numerous differences exist between taxable income and book income, including fluctuations in the "normal stock" reserves, percentage depletion and the following payments for purchases of past service annuities in the respective years, each deductible for tax purposes but charged on the books to reserve for pensions: 1947, $1,063,306; 1946, $1,056,082.

GENERAL:

While most of the portal to portal suits mentioned in the 1946 annual report are still pending, it is hoped that the Portal to Portal Act enacted by Congress in 1947 will assist in effecting eventual dismissal of the suits.

The company and a subsidiary have been named in an indictment alleging violation of the Anti-trust Laws in connection with its titanium pigment business. The maximum amount of the fines which might be imposed is $10,000 as to each company. The decision of the lower court in a civil suit against National Lead Company, et al., in which the Government made similar allegations and requested injunctions, etc., referred to in the 1946 annual report, was upheld by the United States Supreme Court, on appeal, in 1947. Comments on the scope of the decision are contained in the president's report.

The company and others have been named in a complaint by the Federal Trade Commission alleging violation of the Clayton Act with respect to white lead and lead oxide sales. No decision has as yet been handed down in this case.

Suit for approximately $1,000,000 has been instituted against the company, one alleged subsidiary, two alleged employees, a patent attorney, three individuals unknown and one unnamed corporation, for alleged violation of the Sherman Anti-trust Act. This case is presently awaiting trial.

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

90 Broad Street, New York City

To the Stockholders of

NATIONAL LEAD COMPANY, NEW YORK, N. Y.

We have examined the consolidated balance sheets of NATIONAL LEAD COMPANY and its Wholly Owned Domestic Subsidiaries and the individual balance sheets of the company and all domestic subsidiaries as of December 31, 1947 and 1946, and the related consolidated and individual statements of income and earned surplus for the fiscal years then ended, have examined the balance sheet of the English subsidiary as of December 31, 1947, and the related statements of income and surplus for the fiscal year then ended and have received reports of other independent public accountants upon their examinations of the balance sheets of the Argentine subsidiary as of October 31, 1947 and 1946, the Canadian subsidiaries as of December 31, 1947 and 1946, the English subsidiary as of December 31, 1946 and the Mexican subsidiaries as of December 31, 1947 (such subsidiaries being all of the foreign subsidiaries except Continental European), and the related statements of income and surplus for the fiscal years ended those dates. We have reviewed the systems of internal control and the accounting procedures of the companies examined by us and, without making detailed audits of the transactions, have examined or tested accounting records of the companies and other supporting evidence, by methods and to the extent we deemed appropriate. Our examinations were made in accordance with generally accepted auditing standards and included all procedures which we considered necessary in the circumstances.

As explained in Note 1 to the consolidated financial statements, inventory reserves at December 31, 1946 are approximately $2,000,000 less, net income for 1946 is approximately $1,938,000 more and net income for 1947 is approximately $1,938,000 less than would have been the case if the company had not deviated in the application of the "normal stock" principle for the year 1946.

Except as mentioned in the preceding paragraph, in our opinion, based upon the above outlined examinations and the above-mentioned reports of other independent public accountants, the accompanying comparative consolidated balance sheets and related comparative consolidated statements of income and earned surplus present fairly the consolidated position of National Lead Company and its wholly owned domestic subsidiaries at December 31, 1947 and 1946 and the consolidated results of their operations for the respective fiscal years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

LYBRAND, ROSS BROS. & MONTGOMERY

New York, February 24, 1948.

0000-NLI-000018354

PLANT EXPANSION

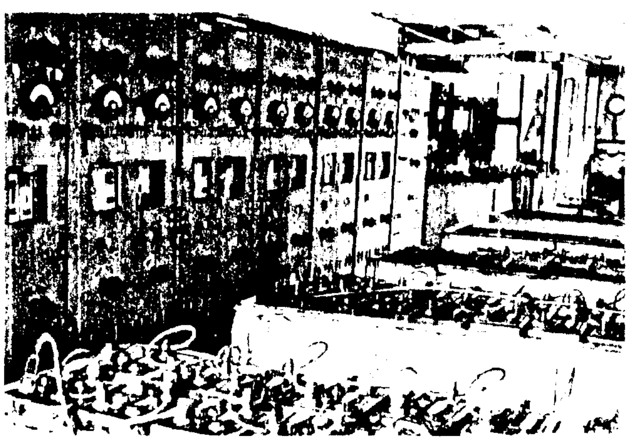
More than seventeen millions of dollars were expended for plant in 1947. This expenditure was made necessary by increased demand for Company products, both new and old, and by replacement needs which had been left unsatisfied during the period of wartime scarcities and restrictions.

A substantial portion of the total expended was for the purpose of increasing the output of the Company's Titanium Division. Important increases have been effected in the capacity of the plants producing titanium pigments in an effort to counter the shortage of these materials which has prevailed for several years.

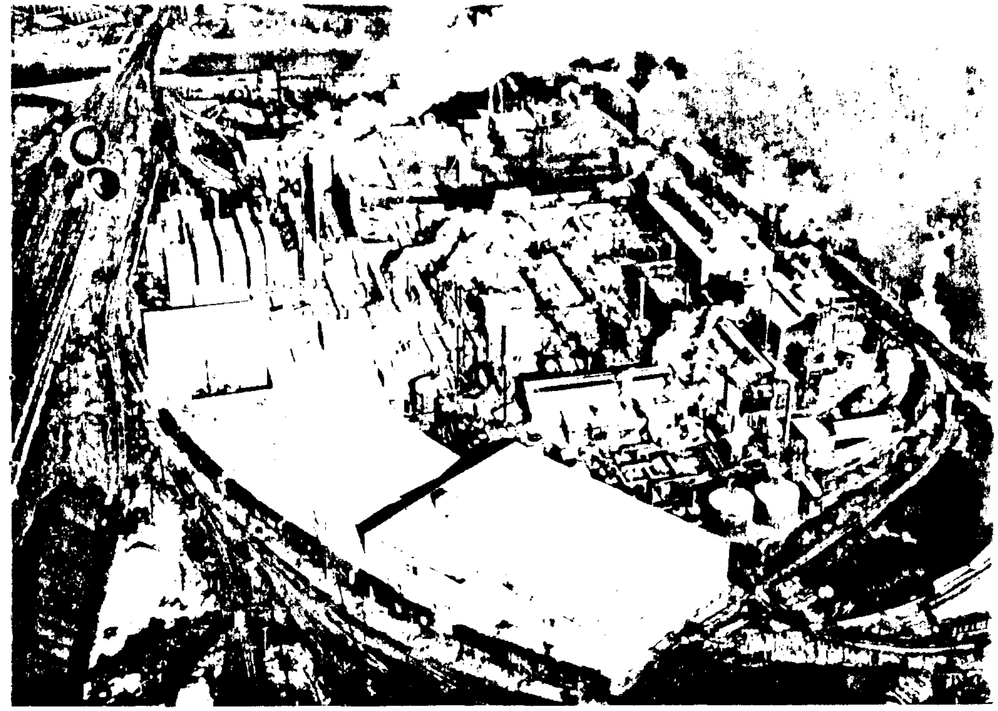
Early in 1947, production of mixed paints was begun at new plant units in Perth Amboy, New Jersey, and Chicago, Illinois. The gallonage made at these locations will be further supplemented in 1948 by the output of a paint factory in Los Angeles, California, which is presently nearing completion.

Other major plant projects during 1947 included the installation of one of the longest conveyor belt systems in the world at the Company's barite properties near Malvern, Arkansas. There was also constructed at Aladdin, Wyoming, a plant for producing ground bentonite to replace a unit at Belle Fourche, South Dakota, destroyed by fire early in 1947.

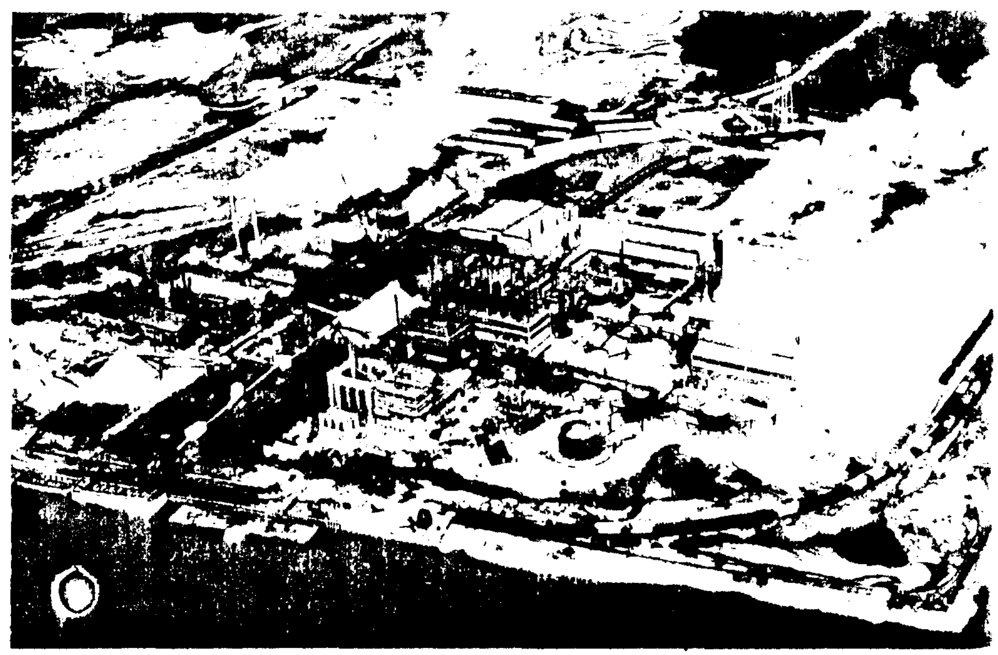
At other locations, additions to and betterments of existing facilities were made with the aim that the Company may continue to grow and be equipped to meet efficiently the requirements of its customers.

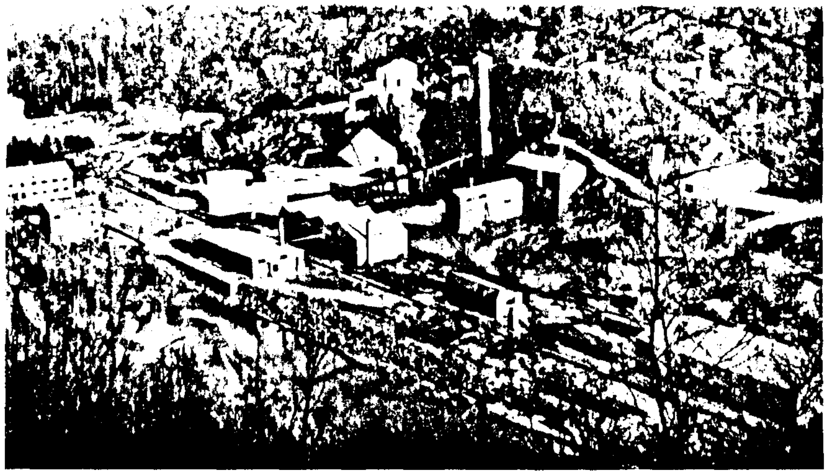


Laboratory work on storage batteries receives constant emphasis as auto-makers get into full production.

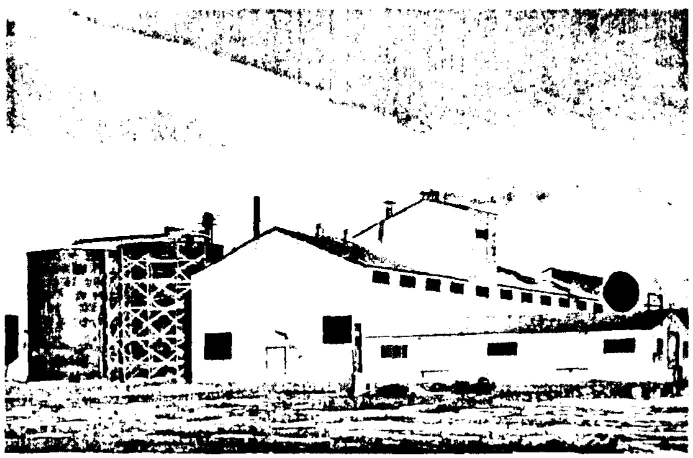


Production capacity of the titanium plants at St. Louis, Mo. (above) and Sayreville, N. J. (below), has been expanded to a new record high.



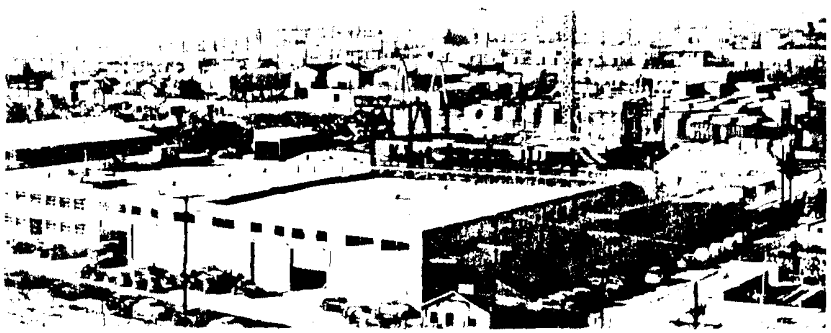


Ilmenite mine in Norway, producing ore from which titanium pigments are made, has expanded capacity to new high levels since the war.



Bentonite, used in oil well drilling and various industries, is produced at a modern plant in Aladdin, Wyoming, which began operations in January, 1948.

New paint plant at Los Angeles is only partially completed, will be in full operation by mid-year.



BRANCHES AND DIVISIONS

ATLANTIC BRANCH, J. G. C. McNair, C. W. Gesregan, *Managers*	111 Broadway, New York
BAROID SALES DIVISION, Geo. L. Ratcliffe, *General Manager*	830 Ducommun St., Los Angeles *Oil Well Drilling Mud Service*
BALTIMORE BRANCH, H. F. Freiherr, *Manager*	214 West Henrietta St., Baltimore
BUFFALO BRANCH, W. R. Melville, *Manager*	116 Oak Street, Buffalo
CHICAGO BRANCH, W. P. Carroll, *Manager* MILWAUKEE, WIS., 744 No. Fourth Street DETROIT, MICH., 1627 W. Fort Street	900 West Eighteenth Street, Chicago
CINCINNATI BRANCH, H. W. Hundley, *Manager* LOUISVILLE, KY., 1320 Heyburn Building ATLANTA, GA., Bishop Street	659 Freeman Avenue, Cincinnati
CLEVELAND BRANCH, E. E. Busse, *Manager* PITTSBURGH, PA., 1376 River Avenue, N.S.	1213 W. Third Street, Cleveland
DE LORE DIVISION, A. J. Wetzel, *Manager*	Carondelet, St. Louis *Barium Sulphate and Calcium Sulphate Pigments*
E. W. BLATCHFORD CO., BRANCH, R. F. Kielich, *Manager*	63 Park Row, New York *Type Metals and Blatchford Base*
EVANS LEAD DIVISION, R. M. Evans, *Manager*	Charleston, W. Va. *Manufacturers of Lead Oxides*
JOHN T. LEWIS & BROS. CO., J. W. Gardiner, Jr., *President*	Widener Bldg., So. Penn Sq., Philadelphia
MAGNUS METAL DIVISION, W. H. Croft, *General Manager*	Railway Exchange Bldg., Chicago *Brass Founders*
NATIONAL LEAD CO. OF MASS., G. A. Savage, *Vice President*	800 Albany Street, Boston
PACIFIC COAST BRANCH, J. L. Caruth, *Manager* LOS ANGELES, CAL., 3113 East 26th Street SEATTLE, WASH., 973 John Street	2240 Twenty-fourth Street, San Francisco
ST. LOUIS BRANCH, W. V. Burley, *Manager* DALLAS, TEX., 959 Terminal Street KANSAS CITY, MO., 1406-1408 W. Thirteenth Street NEW ORLEANS, LA., 516 Tchoupitoulas Street OMAHA, NEB., 2810 A Street ST. PAUL, MINN., 102 W. Fairfield Avenue	722 Chestnut Street, St. Louis
ST. LOUIS SMELTING & REFINING WORKS, Jean McCallum, *Manager*	722 Chestnut Street, St. Louis
TEXAS MINING & SMELTING DIVISION, V. L. Kegler, *Manager*	Laredo, Texas *Metallic Antimony and Antimony Oxides*
TITANIUM DIVISION, C. F. Garesche, *Manager*	111 Broadway, New York *Manufacturers of Titanium Oxide Pigments* *Miners of Ilmenite and Magnetite Iron Ore*

CORPORATIONS IN WHICH NATIONAL LEAD COMPANY IS INTERESTED THROUGH OWNERSHIP OF ALL OR PART OF THE CAPITAL STOCK

AMERICAN BEARING CORPORATION,* — Indianapolis
PETER LAMBERTUS, *President* — *Manufacturers of Precision Bearings*

AMERICAN LEAD CORPORATION,* — Indianapolis
C. HAAN, *Manager* — *Smelters of Secondary Metals*

BAKER CASTOR OIL COMPANY, — New York
KENDALL MARSH, *President* — *Manufacturers of Castor Oil*

CANADIAN TITANIUM PIGMENTS LIMITED,* — Montreal
G. N. BATES, *Sales Manager* — *Distributors of Titanium Oxide Pigments*

EVANS LEAD CORPORATION,* — Charleston, W. Va.
R. M. EVANS, *President* — *Distributors of Lead Oxides*

HOYT METAL COMPANY OF GREAT BRITAIN, LTD.,* — London
J. C. HART, *Managing Director* — *Manufacturers of Anti-Friction Metals*

MORRIS P. KIRK & SON, INC., — Los Angeles
MORRIS P. KIRK, *President* — *Manufacturers of Lead Alloys and Oxides*

MAGNUS BRASS MFG. CO.,* — Cincinnati
W. H. CROFT, JR., *President* — *Manufacturers of Locomotive Specialties*

MAGNUS METAL CORPORATION,* — Chicago
W. H. CROFT, JR., *President* — *Brass Founders*

MASTER METALS, INC., — Cleveland
T. C. HOELZER, *Manager* — *Smelters of Secondary Metals*

NATIONAL LEAD CO. S. A. (ARGENTINA),*
M. L. SHOEMAKER, *President* — Avenida Presidente Roque Saenz Pena 567, Buenos Aires

ST. LOUIS SMELTING & REFINING COMPANY,* — St. Louis
JEAN McCALLUM, *Vice President* — *Miners, Smelters and Refiners of Lead*

THE CANADA METAL COMPANY, LTD.,* — Toronto
JAMES A. TAYLOR, *President* — *Toronto, Montreal, Winnipeg, Vancouver*
Manufacturers of Lead Products, Brass and Bronze, Dross Smelters

TITAN CO. A/S., — Fredriksstad, Norway
DR. G. JEBSEN, *Managing Director* — *Manufacturers of Titanium Oxide Pigments*

TITAN COMPANY, INC.,* — Wilmington, Del.
DR. G. JEBSEN, *Vice President*
TITANGESELLSCHAFT, *m. b. H., Leverkusen, Germany*
SOCIETE INDUSTRIELLE DU TITANE, *Paris, France*
Manufacturers and Distributors of Titanium Oxide Pigments

TITANIUM PIGMENT CORPORATION,* — New York
C. F. GARESCHE, *President* — *Distributors of Titanium Oxide Pigments*

**Wholly-owned*

PRODUCTS

PAINTS AND PAINT MATERIALS
Sold under the DUTCH BOY brand name

Exterior House Paints	White Lead
Interior Wall Paints	Red Lead
Metal Protective Paints	Colors
Linseed Oil	Flatting Oil
Lead Mixing Oil	Liquid Drier

PIGMENTS AND CHEMICALS

Lead Carbonate	Copperas-Iron Sulphate
Lead Sulphate	Zinc Sulphate
Lead Acetate	Zinc Chloride
Lead Silicate	Copper Sulphate
Lead Oxides	Sodium Sulphide
Calcium Carbonate	Antimony Oxides
Barium Sulphate	Lead Chemicals for the Plastics Industry

TITANIUM PIGMENTS
Sold under the TITANOX brand name

Titanium Dioxide (*Rutile*)	Titanium Calcium Pigments
Titanium Dioxide (*Anatase*)	Titanium Barium Pigments
Titanium Dioxide (*technical grade*)	

OILS

Linseed Oil	Castor Oil
Special Paint Oils	

LEAD PRODUCTS

Lead Pipe	Bar Lead
Sheet Lead	Lead Shot
Lead Traps and Bends	Lead Wire
Lead Cames	Lead Washers
Lead Sash Weights	Lead Wool
Ingot Lead	

LEAD ALLOY PRODUCTS

Solder	Stereotype Metal
Bearing Metals	Antimonial Lead
Type Metals	Tellurium Lead
Electrotype Metal	Storage Battery Plate Metal

OTHER METAL PRODUCTS

Railway Journal Bearings	Pressure Die Castings
Diesel Engine Bearings	Pewter and Britannia Metal
Kirksite "A" Die Metal	Antimony

ACID HANDLING EQUIPMENT

Chemical Lead Pipe	Lead Lined Fittings
Chemical Sheet Lead	Tin Lined Pipe
Acid Pumps	Tin Lined Valves
Acid Concentrators	Tin Lined Fittings
Lead Lined Pipe	Hard Lead Valves
Lead Lined Valves	

GENERAL PRODUCTS

Oil Well Drilling Mud Compounds	Linseed Oil Cake and Meal
Magnetite-Iron Concentrates	Expansion Bolts
Magnetite Sinter	Pyrites Iron Cinder
Ilmenite Concentrates	Small Steel Containers