

Annual Report

THE EAGLE-PICHER LEAD COMPANY
AND SUBSIDIARIES



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Annual Report

THE EAGLE-PICHER LEAD COMPANY AND SUBSIDIARIES

TO THE STOCKHOLDERS OF
THE EAGLE-PICHER LEAD COMPANY:

The annual report of your Company for the fiscal year ended November 30, 1943, together with financial statements as reported upon by Messrs. Barrow, Wade, Guthrie & Company, Accountants and Auditors, is presented herewith in advance of the Annual Meeting of Shareholders, which will be held on Tuesday, March 28.

POST-WAR OUTLOOK

The operating results for the past year and the financial position of your Company at the balance-sheet date are important and will be set forth in some detail and interpreted hereinafter. However—to shareholders, employees, customers and suppliers—the future prospects of an enterprise are more important than its past; and, as the first phase of this report, your management will endeavor fairly to appraise that future.

The post-war history of previous great conflicts, in which our nation has been engaged, has shown the termination of hostilities to be followed by a relatively brief period of hesitancy, succeeded by an extended period of great business activity. Everything points to a repetition of this historical pattern upon the conclusion of World War II. Industry is geared and equipped to a high degree of productivity; there is an enormous accumulated demand for the things of which people have been deprived as a result of war rationing and shortages; and there is an equally enormous accumulation of purchasing power.

It seems probable that, following complete termination of hostilities, industry will be called upon to face broad readjustments, resulting from—and, in turn, producing—a mixed condition of economic expansion and contraction in different areas, in different industries, and having differing effect upon individual business concerns in the same industry. Post-war planning is the formulation of flexible policies for meeting the financial and physical problems that will present themselves in this period. Such planning is essential to the maintenance of a firm foundation for post-war balance, stability and progress.

But post-war planning by industry alone will be unavailing. It must be undertaken as part of a national plan—shared alike by industry, labor, agriculture and government. However carefully and wisely an individual enterprise may plan, it cannot always control or counteract those conditions—arising within an industry or national in scope—which, at times, make it impossible for the individual business to operate profitably or to avoid laying off workers or reducing wages. The individual business cannot expand or even maintain its operations in the face of shrinking demand for its products or when cost of production is in excess of the price which the buyer will or can afford to pay. If industry is to be made capable of maintaining the high level of employment required of it, an equally

high degree of cooperation between industries and between individual businesses within the same industry must be permitted; and a like degree of cooperation between management and labor must be assured. The relationship between government, management and labor should be fostered by cooperative rather than by coercive measures. Your management is of the opinion that some degree of regulation must be maintained in the post-war transition period; but such regulation as it is necessary to impose should be equitable and constructive in principle and fairly and intelligently administered.

The foregoing program presents a task calling for real statesmanship. It can be accomplished—but only if government sincerely seeks counsel from experienced and patriotic leaders of industry, labor and agriculture. Moreover, it can be attained only if the national welfare is the prime objective. The welfare of industry, labor and agriculture can be assured only if each group subordinates its personal interest to the interest of the American people as a whole. Any attempt to secure self-advantage to the detriment of the public interest can only serve to impede the ultimate attainment of national welfare.

In your Company, post-war planning has only given new emphasis and extent to the normal forward planning in which your management—in common with all foresighted management—engages. It is based upon the conviction that such technical, economic and social readjustments as may be required under post-war conditions will be solved by the same method of analysis and by the same calibre of people who have successfully solved the many problems which have been encountered during the long existence of your Company. To this end, we are constantly studying our products, extending their end usages and broadening our lines. We are examining mining and manufacturing methods and practices, acquainting ourselves with technical developments and their adaptation to our requirements and learning to use them to the best advantage. We conduct consumer surveys to enable us to keep informed on changing preferences and prejudices; and to develop new potential outlets for our products. We study trends in relation to factual backgrounds so that we may be prepared to make quickly any indicated change in our charted course. Present conditions have moved us to broaden this normal program to embrace studies of possible competition from new products and processes; to consider relocation of plants to serve better our areas of distribution; to accelerate modernization and mechanization in mines, mills and fabricating plants; and to appraise policies of customer and labor relations in keeping with indicated social and economic changes.

For the long term, your management looks with confidence for the continued growth and advancement of your Company. It is probable that conclusion of war in both hemispheres will necessitate some contraction in mining operations and result in a proportionate reduction in total sales volume. This forecast contemplates a decline in sales of zinc in the form of concentrates and spelter; although this is by no means assured, as the accumulated demand for galvanized products may warrant maintenance of present domestic production. On the other hand, there is every indication that the demand for the manufactured products of your companies will permit continued capacity operation in nearly all divisions. Present peak production of electric storage batteries will be required to keep present cars on the road; and, when automobile production is resumed, the decline in replacement batteries will be offset by original equipment business. Accumulated residence maintenance and a large projected volume of post-war residential construction assures continued demand for zinc and lead paint pigments and other metallic products of your companies used in or adaptable to the building industry. The wartime demand for industrial insulation products will be replaced by an even greater potential market for home insulation. As previously reported, we have made little conversion in plants and equipment and, hence, are not faced with a major reconversion problem. War contracts are predomi-

nantly for products of normal manufacture and do not involve inventories of special materials, subject to sharp price depreciation and difficult of disposition. Furthermore, such contracts are relatively short term and, while they may not be renewed as the demand for war construction and material declines, we anticipate very little cancellation with the consequent problems of termination. Defense Plant Corporation projects are not important and are either entirely separate and apart from our own plants or can be acquired and readily absorbed in our normal operations.

For the near term, the prospect is somewhat beclouded. It is generally agreed that commodity prices will go moderately higher in 1944; and that the upward trend in labor costs will continue. Profit margins narrowed progressively in 1943 and a further decrease is expected this year. Maintenance of sales volume of manufactured products may depend upon the extent to which raw materials are released for essential civilian needs as war contracts expire. However, presently indicated requirements for post-war reserves have been substantially met by appropriations from earnings of 1941, 1942 and 1943. If new needs for additional reserves do not make themselves apparent in 1944, appropriations of this character can be reduced or, perhaps, entirely eliminated. Hence, your management anticipates that net earnings available for dividends will not be substantially below those of 1943; and that, in any event, the results will not endanger maintenance of the present common dividend rate.

EARNINGS AND SALES

Consolidated net profit for the current year, after all charges, including provision for Federal and State taxes on income, and the appropriation of an additional \$300,000 to the reserve for future decline in inventory values and \$500,000 to a newly-established reserve for post-war contingencies, was \$1,160,241.11 or \$1.27 per share on common stock outstanding at the close of the year, after providing for preferred dividend requirements, as compared to \$1,250,173.40 or \$1.37 per share for the year ended November 30, 1942. On the basis of net profit before reserve appropriations, per share earnings for the respective years were \$2.17 and \$1.93.

Net sales for the year amounted to \$44,185,653, in comparison with \$40,272,209 for the 1942 fiscal year. This increase in net revenue resulted wholly from increased premium payments received on over-quota mine production. All facilities of the companies operated at substantial capacity throughout both years. Aggregate sales tonnage showed an insignificant decline from 362,647 in 1942 to 357,029 in 1943. Selling prices of the companies' principal products showed no material change.

Production and manufacturing costs and other expenses maintained substantially the same ratios to sales in both years, despite inclusion in the latter classification of several items of an unusual or non-recurrent nature. The principal expense of this character amounted to \$116,400 and represented settlement of a proceeding instituted in August, 1943, by the National Labor Relations Board on behalf of 114 claimants. This proceeding was quite separate and apart from a similar proceeding instituted by the Board in 1937 against The Eagle-Picher Lead Company and The Eagle-Picher Mining & Smelting Company and involving approximately 200 claimants. The latter proceeding is pending on appeal by the Board to the United States Circuit Court of Appeals for the Eighth Circuit and no estimate can be made at this time of the potential liability of the companies thereunder.

Northeast Oklahoma Railroad Company, a wholly owned subsidiary, had net income, after all charges, including interest of \$10,440 on obligations owned within the consolidated group, of \$233,000, in comparison with \$242,000 in the preceding year.

DEPLETION AND DEPRECIATION

Provision for depletion and depreciation and for the adjustment of certain properties to a basis reflecting estimated residual land or salvage values; and charges in respect of abandoned mining projects, exploration and prospecting expenses and net loss on the retirement or sale of capital assets, aggregated \$3,794,491.88 for the year under review, in comparison with \$3,275,478.20 for the preceding year. Of the net increase of \$519,013.68, \$367,208.22 applied to depletion and depreciation; \$167,426.25, to adjustment of property values; and \$64,343.27, to abandoned projects and exploration and prospecting expenses—while loss on the retirement or sale of capital assets declined \$79,964.06. These charges are somewhat larger than normal, due to unusual mining conditions and the high level of production, but otherwise they were made in the ordinary course of business.

TAXES

Taxes paid and accrued during the current year were approximately \$2,456,000, in comparison with \$2,556,000 in 1942—the reduction of \$100,000 being wholly attributable to the provision for Federal and State taxes on income. At November 30, 1943, consolidated tax reserves, included in current liabilities, aggregated \$2,485,185.97 against which were held U. S. Treasury Tax Savings Notes of a redemption value of \$1,679,104.40. The reserve includes \$645,185.97 in respect of years prior to 1943, which should be adequate to cover any probable additional assessments for 1940, 1941 and 1942.

No provision has been made for liability in respect of renegotiation under the provisions of the War Profits Control Act. Proceedings under this Act have been completed for the year ended November 30, 1942, as a result whereof it was found that no excessive profits were realized for that year. Your management, in referring to this matter in its 1942 report, stated that it felt an obligation, on your behalf, to handle all war business at a margin of profit which will be recognized as fair and moderate; and it is a source of gratification to have received this recognition from the reviewing authority. The same policy has prevailed throughout 1943 and a similar result is anticipated upon review of the business handled during that year.

DIVIDENDS

Dividends have been regularly paid during the year on the Company's 6% cumulative preferred stock, and 60¢ per share was declared and paid on the common stock. This rate has been maintained during the past three years. The excellent financial condition of your Company seemed to warrant the placing of the stock on a regular 15¢ quarterly dividend basis and an initial dividend in that amount has been declared payable March 10, 1944 to stockholders of record February 25, 1944. While your Directors deemed it inadvisable to incur an irrevocable commitment by declaration of dividends for the entire year, it is their present intention to maintain that rate throughout the year 1944.

BALANCE SHEET

Net working capital at November 30, 1943, as reflected by the excess of current assets over the aggregate of current liabilities and deferred indebtedness, amounted to \$6,628,445.82, in comparison with \$5,033,334.39 at November 30, 1942—an increase of \$1,595,111.43. If U. S. Government securities be included, the corresponding figures are \$7,995,864.26 and \$5,190,002.83, respectively. As further evidence of the strong financial position of your Company, cash and accounts receivable at the balance-sheet date were more than sufficient to cover all liabilities, including all deferred indebtedness.

The efforts of your management to maintain inventories at the lowest possible levels have shown gratifying results during the year. At November 30, 1943, inventories of ores, metals and metal-bearing products and other products and merchandise for resale showed a reduction of \$676,017.14 from the corresponding figure at November 30, 1942. Manufacturing supplies and stores increased \$9,355.92; but, on the other hand, repair parts and maintenance supplies—conservatively excluded from current assets—declined \$186,103.97. In terms of metal content, aggregate metal inventories were reduced by 4,321 tons and, at November 30, 1943, aggregated 44,534 tons, or one of the lowest tonnage levels attained since December 31, 1931.

As a protection against the element of unrealized appreciation in inventories, a reserve for future decline in inventory values was initiated in 1941 by the appropriation of \$500,000 from earnings of that fiscal period. Similar appropriations of \$500,000 in 1942 and \$300,000 in 1943 were made so that, at November 30, 1943, the accumulated reserve amounted to \$1,300,000—sufficient to cover a decline in zinc and lead prices to \$5.00 per cwt. from present controlled prices of \$8.25 and \$6.50, respectively. Furthermore, your management expressed its intention—as and when the Company's financial condition permitted—to segregate cash or liquid assets in an amount equivalent to this and similar reserves. In furtherance of this intent, there were purchased during the year \$1,210,000 principal amount of U. S. Treasury $\frac{7}{8}\%$ Certificates of Indebtedness. At November 30, 1943, reserve fund investments aggregated \$1,367,418.44 against total reserves of \$2,136,940.02. Since that date we have purchased—from current funds and without resort to bank borrowing—\$1,400,000 of the same type of securities. The excess investment will be self-liquidating as earlier maturities fall due.

Net income for the year—before provision of \$3,011,782.53 for depletion and depreciation and \$236,082.67 for adjustment of property values; charges of \$43,110.50 in respect of loss on retirement or sale of capital assets; and reserve appropriations of \$800,000, all of which represent non-cash items and have been commented upon hereinbefore—amounted to \$5,251,216.81. Of this last amount, \$1,037,864.03 was expended for capital additions, largely in bringing new mines into production and providing additional mining, milling and smelting facilities; \$1,059,800.45 was applied to the further development of our Mexican projects; and \$566,379.60 was disbursed in dividends to preferred and common shareholders. The foregoing amounts aggregate \$2,664,044.08, leaving a balance of \$2,587,172.73 retained in the business, of which \$1,210,000 was invested in U. S. Government securities and \$1,595,111.43 is represented by the increase in working capital—other accounts having been reduced by \$217,938.70.

FUNDED DEBT

During the year under review, all previously outstanding long-term indebtedness was refunded through the sale to a group of three Eastern Life Insurance Companies of \$5,000,000 principal amount of Fifteen-Year $3\frac{1}{2}\%$ Sinking Fund Debentures, with a final maturity of November 30, 1957. This refunding operation placed your Company in a very strong financial position and insured its ability to avail itself of any attractive opportunities for further expansion or diversification.

Liquidation of the indebtedness by the final maturity date is provided for through fixed annual sinking fund payments of \$333,000; and contingent annual sinking fund payments in an amount by which the sum of $\frac{1}{8}$ of the consolidated net income for the preceding fiscal year, plus $\frac{1}{8}$ of the provision for depletion and depreciation for said preceding fiscal year exceeds the fixed annual sinking fund payment; provided, however, that in no event shall the combined fixed and contingent sinking fund

payments required to be made in any one year exceed 20% of the principal amount of debentures from time to time outstanding. If the aggregate sinking fund payments in respect of any fiscal year exceed \$500,000, then such excess shall be applied to reduce subsequent fixed annual sinking fund payments. The foregoing provisions limit the Company's annual obligation to the moderate fixed payment, unless operating profits warrant larger payments under the contingent sinking fund clause. Both clauses were operative with respect to the fiscal year ended November 30, 1943 and the fixed payment of \$333,000 was made on November 28, 1943 and the contingent payment of \$667,000 will be made on May 29, 1944—at which date the principal amount of indebtedness will be reduced to \$4,000,000. Thereafter, fixed annual sinking fund payments will be reduced to \$297,000. Provision in the amount of \$964,000 for the May 29th and November 28, 1944 payments has been included in current liabilities in the attached balance sheet.

Restrictions on the payment of dividends on common stock are moderate and, in the opinion of your management, would become operative only under conditions when normal conservatism would dictate reduction or cessation of dividend payments. Restrictive provisions define accumulated earnings available for the payment of common dividends; and require maintenance of adequate working capital and liquid assets. At November 30, 1943, accumulated earnings available for the payment of dividends amounted to \$2,578,155.31, equivalent to more than four years' requirements at present dividend rates; and working capital and liquid assets, computed on an ultra-conservative basis, were \$4,698,864.26 and \$5,869,807.93, respectively, in excess of indenture requirements.

MINING AND SMELTING OPERATIONS

Governmental restrictions on the publication of statistical data have been relaxed and we are, therefore, permitted to resume inclusion of the usual information regarding mine and metal production. Company mills handled 4,371,627 tons of ore in 1943, which closely approximated the tonnage of 4,333,500 in 1942. Concentrate production, however, declined to 200,342 tons from 236,244 tons, reflecting a general reduction in the grade of ore.

As a result of additional expenditures in the development of the Company's Mexican projects, the investment in and advances to Mexican subsidiaries increased to \$1,328,174.61 at November 30, 1943. Consolidated net assets representing this amount were as follows:

Net current and working assets.....	\$ 342,473.10
Repair parts, maintenance supplies, etc.....	136,303.20
Mining lands, leases and development work; and mine and mill buildings and equipment—less depletion and depreciation.....	759,896.56
Deferred charges.....	27,923.56
	1,266,596.42
Operating loss for two months ended November 30, 1943 (in- cluding provision for depletion and depreciation—\$26,196.33)	61,887.47
	\$1,328,483.89
Minority interest in Minas de Guerrero, S.A., a 94%-owned subsidiary.....	309.28
	<u>\$1,328,174.61</u>

The operating loss is without significance, since it was incurred during a period of trial and adjustment.

Also during the latter part of the year, we brought into production a new mine in Arizona; and erected a mill to treat its ores.

INDUSTRIAL RELATIONS

It is our objective to maintain a sound industrial relations policy. Insofar as this relates to the post-war period, we are striving to determine the extent of our manpower problem; to devise ways and means of insuring jobs for those who will return to us from military service; and to foster mutual harmony and understanding within all levels of employees. We welcome the constructive cooperation of our personnel in reaching these objectives, since it is only through them that labor policies can be made to work successfully.

The subject of allowances for retireable salaried personnel has been having the attention of your management. Without a retirement plan to supplement social security benefits, there is a temptation to continue on the payroll—to the disadvantage of the companies—many employees who should be replaced by younger, more vigorous, and, perhaps, lower salaried persons. A deterrent to the inauguration of such a plan is often the fact that the cost of making provision for the accrued liability for past service appears heavy—although, if there were no plan, that cost would still require to be absorbed in future years in pay and pension rolls.

GENERAL

Your management has concluded one phase of its announced program—that of placing your Company in a strong financial position to meet the vicissitudes and uncertainties of the post-war period, whatever they may be. Its energies are now being concentrated on improving production methods and facilities; and in seeking to expand and diversify product lines. Its accomplishments would not have been possible without the cooperation of the entire personnel. To them, on your behalf, we give full measure of recognition.

For the Board of Directors,

JOSEPH HUMMEL, JR.
Chairman

JOEL M. BOWLBY,
President

CINCINNATI, OHIO
March 1, 1943

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

THE EAGLE-PICHER LEAD CO

Consolidated Balance Sheets as a

ASSETS	NOVEMBER 30, 1943	NOVEMBER 30, 1942
CURRENT ASSETS:		
Cash in Banks and on Hand	\$ 3,465,312.36	\$ 2,862,585.44
Accounts and Notes Receivable	\$ 5,149,093.27	\$ 4,031,246.46
<i>Less:</i> Reserves for Doubtful Accounts and Notes	<u>371,089.85</u>	<u>302,035.10</u>
Inventories of Raw Materials, Work in Process, Finished Products and Supplies:		
Ores, Metals and Metal-bearing Products—valued at cost or market price of metal content, whichever was lower, plus manufacturing costs on Materials in Process and Finished Products	5,387,822.44	5,942,901.68
Other Products and Merchandise for Resale—at cost	<u>426,432.98</u>	<u>547,370.88</u>
Manufacturing Supplies and Stores—at cost	5,814,255.42	6,490,272.56
	<u>681,800.91</u>	<u>672,444.99</u>
	14,739,372.11	13,754,514.35
RESERVE FUND INVESTMENTS:		
U. S. Government Obligations—at cost (Market value at November 30, 1943—\$1,375,119.75)	1,367,418.44	156,668.44
OTHER ASSETS:		
Repair Parts, Maintenance Supplies, etc.	687,435.12	873,539.09
Miscellaneous Accounts, Advances, etc.	113,883.05	44,960.37
Post-War Excess Profits Tax Credits—estimated	59,000.00	19,000.00
Sundry Securities—at or below cost	<u>15,668.70</u>	<u>15,518.70</u>
	875,986.87	953,018.16
INVESTMENT IN AND ADVANCES TO SUBSIDIARY NOT CONSOLIDATED	1,328,174.61	268,374.16
FIXED ASSETS:		
Mining Lands and Leases; Mills, Smelters and Fabricating Plants and Equipment; Railroad Trackage and Equipment; and Miscellaneous Properties and Equipment (including \$64,777.33 excess cost of acquisition over book value of net assets acquired)	34,375,909.86	33,620,643.08
<i>Less:</i> Reserves for Depletion, Depreciation, etc.	<u>26,776,059.35</u>	<u>23,767,680.90</u>
	7,599,850.51	9,852,962.18
TREASURY STOCK—at cost:		
Preferred—65 shares	2,330.75	2,330.75
Common—10,924 shares	<u>61,797.56</u>	<u>61,797.56</u>
	64,128.31	64,128.31
PREPAID AND DEFERRED CHARGES:		
Prepaid Freight, Insurance, etc.	143,291.33	227,649.20
Miscellaneous Deferred Charges	<u>191,297.27</u>	<u>230,690.17</u>
	334,588.60	458,339.37
PATENTS, GOODWILL, etc.	1.00	1.00
	<u>\$26,309,520.45</u>	<u>\$25,508,005.97</u>

COMPANY AND SUBSIDIARIES

as at November 30, 1943 and 1942

LIABILITIES		NOVEMBER 30, 1943		NOVEMBER 30, 1942	
CURRENT LIABILITIES:					
Accounts Payable.....		\$ 1,665,544.04		\$ 1,303,600.25	
Dividend on Common Stock.....		266,722.80		266,722.80	
Quarterly Dividend on Preferred Stock.....		8,233.50		8,233.50	
Accrued Liabilities:					
Wages and Salaries.....	\$ 379,510.50		\$ 338,338.59		
Taxes—other than taxes on income.....	222,789.10		247,096.13		
Miscellaneous.....	95,044.78	697,344.38	109,680.59	695,115.31	
Provision for Federal and State Taxes on Income.....	2,485,185.97		2,069,469.40		
Less: U. S. Treasury Tax Savings Notes at redemption value on November 30.....	1,679,104.40	806,081.57	139,148.80	1,930,320.60	
Debenture Sinking Fund Payments:					
Due May 29, 1944.....	667,000.00				
Due November 28, 1944.....	297,000.00	964,000.00			
Bank Indebtedness and Purchase Money Obligation.....				1,313,750.00	
		4,407,926.29		5,517,742.46	
DEFERRED INDEBTEDNESS:					
Fifteen-Year 3½% Sinking Fund Debentures Due November 30, 1957.....	4,667,000.00				
Less: Sinking Fund Payments due within one year (included in Current Liabilities).....	64,000.00	3,703,000.00			
Bank Indebtedness and Purchase Money Obligation.....				3,203,437.50	
RESERVES:					
For Self Insurance:					
Workmen's Compensation Liability.....	251,560.59		240,595.49		
Fire and Tornado Coverage.....	85,379.43		78,437.89		
	336,940.02		319,033.38		
For Future Decline in Inventory Values.....	1,300,000.00		1,000,000.00		
For Post-War Contingencies.....	500,000.00	2,136,940.02		1,319,033.38	
CAPITAL STOCK:					
Preferred 6% Cumulative:					
Par Value \$100; redeemable at \$105:					
Authorized and Outstanding..... 5,554 shares.....	555,400.00		555,400.00		
Common—Par Value \$10:					
Authorized..... 1,000,000 shares.....					
Issued and Outstanding..... 900,000 shares.....	9,000,000.00	9,555,400.00	9,000,000.00	9,555,400.00	
SURPLUS:					
Capital Surplus.....	1,900,999.32		1,900,999.32		
Earned Surplus since January 1, 1935—per accompanying statement.....	4,605,254.82	6,506,254.14	4,011,393.31	5,912,392.63	
		<u>\$26,309,520.45</u>		<u>\$25,508,005.97</u>	

THE EAGLE-PICHER LEAD COMPANY AND SUBSIDIARIES
Consolidated Statements of Profit and Loss and Earned Surplus
FOR THE YEARS ENDED NOVEMBER 30, 1943 AND 1942

	NOVEMBER 30, 1943	NOVEMBER 30, 1942
NET SALES (including premiums on over-quota mine production).....	\$44,185,653.00	\$40,272,209.48
PRODUCTION AND MANUFACTURING COSTS...	<u>34,445,491.14</u>	<u>31,478,974.52</u>
GROSS OPERATING PROFIT—before Depletion and Depreciation.....	9,740,161.86	8,793,234.96
EXPENSES:		
Selling.....	\$ 973,629.04	\$ 973,523.56
Traffic, Warehousing and Shipping.....	348,022.70	300,770.85
General and Administrative.....	1,338,178.14	1,137,777.40
Bad Debt Provision—less Recoveries.....	<u>92,156.19</u>	<u>97,789.46</u>
	<u>2,751,986.07</u>	<u>2,509,861.27</u>
NET OPERATING INCOME—before Depletion and Depreciation:		
Mining and Manufacturing.....	6,988,175.79	6,283,373.69
Northeast Oklahoma Railroad Company.....	<u>539,418.01</u>	<u>567,697.95</u>
	7,527,593.80	6,851,071.64
OTHER INCOME:		
Royalties.....	116,197.10	179,975.63
Interest and Dividends.....	31,929.53	4,306.98
Miscellaneous.....	<u>76,285.96</u>	<u>25,984.00</u>
	<u>224,412.59</u>	<u>210,266.61</u>
INTEREST ON INDEBTEDNESS.....	7,752,006.39	7,061,338.25
	<u>197,273.40</u>	<u>135,686.65</u>
	7,554,732.99	6,925,651.60
DEPLETION, DEPRECIATION, ETC.:		
Provision for Depletion and Depreciation—per books.....	3,011,782.53	2,644,574.31
Provision for Write Down of Properties.....	236,082.67	68,656.42
Abandoned Projects, Prospecting Expenses and Loss on Retirement or Sale of Capital Assets.....	<u>546,626.68</u>	<u>562,247.47</u>
	3,794,491.88	3,275,478.20
NET PROFIT—before provision for Federal and State Taxes on Income.....	3,760,241.11	3,650,173.40
PROVISION FOR FEDERAL AND STATE TAXES ON INCOME:		
Federal Normal and Surtax and State Income.....	1,440,000.00	955,000.00
Federal Excess Profits (less Post-War Credits of \$40,000 in 1943 and \$19,000 in 1942).....	<u>360,000.00</u>	<u>945,000.00</u>
	1,800,000.00	1,900,000.00
NET PROFIT FOR YEAR.....	1,960,241.11	1,750,173.40
APPROPRIATIONS TO RESERVES:		
For Future Decline in Inventory Values.....	300,000.00	500,000.00
For Post-War Contingencies.....	<u>500,000.00</u>	<u>500,000.00</u>
	800,000.00	500,000.00
SURPLUS NET PROFIT.....	1,160,241.11	1,250,173.40
EARNED SURPLUS AT BEGINNING OF YEAR...	4,011,393.31	3,327,099.51
	<u>5,171,634.42</u>	<u>4,577,272.91</u>
DIVIDENDS PAID AND ACCRUED:		
Preferred.....	32,934.00	32,934.00
Common.....	<u>533,445.60</u>	<u>532,945.60</u>
	566,379.60	565,879.60
EARNED SURPLUS AT END OF YEAR.....	<u>\$ 4,605,254.82</u>	<u>\$ 4,011,393.31</u>

EXPLANATORY NOTES

- A — The net assets of Cia. de Minas, S.A. de C.V., a wholly-owned Mexican subsidiary not consolidated, representing the investment in and advances to that Company, are summarized elsewhere in the Annual Report to Stockholders.
- B — Federal income tax returns of The Eagle-Picher Lead Company and subsidiaries for 1940 and subsequent years are subject to review by the Treasury Department.
- C — The provisions of the indenture securing the Fifteen-Year 3½% Sinking Fund Debentures of the Company, insofar as they relate to sinking fund payments and restrictions on the payment of common dividends, are summarized elsewhere in the Annual Report to Stockholders.
- D — The profits of the companies include those arising from contracts subject to renegotiation, as to prices, by the U. S. Government, under the provisions of the War Profits Control Act. Such contracts have been reviewed through the year ended November 30, 1942, by the Price Adjustment Board of the Navy Department, acting in behalf of all departments concerned with renegotiation proceedings, and the Company has been informed that no adjustment was required on profits realized on such contracts through that year. No review of the year ended November 30, 1943, has been made and it is impossible to determine the effect, if any, of such review. It is the opinion of the management, however, that, on the basis upon which clearance was given for the 1942 fiscal year, no excessive profits on similar contracts were realized during the 1943 fiscal year.
- E — General and Administrative Expenses include payments of \$116,400 in settlement of a proceeding instituted in August, 1943, by the National Labor Relations Board on behalf of 114 claimants. This proceeding is quite separate and apart from the case covered by the Board order of October 27, 1939 and involving approximately 200 claimants. The latter case is now pending on appeal by the Board to the United States Circuit Court of Appeals for the Eighth Circuit and no estimate can presently be made of the potential liability of the companies thereunder.