cc: Mr. G. M. Halsey
Mr. D. S. Case

1959 FINAL CONSOLIDATED OPERATING STATEMENT

October 23, 1959

CHEMICALS-PIGMENTS-METALS

The dramatic increase in profits of $2,841,708 was a combination of increased TiO_2 and powdered metals tonnage coupled with gross margin increase, plus elimination of 1958 heavy unusual expenses which were estimated at approximately $1,800,000 last year. The reorganization work of 1957 and 1958 payed off in profits in 1959.

The most notable achievement during the year was the increase of 50.2% in regular TiO_2 sales in the face of the competitive and oversupply situation existing in the industry. Total Titanium sales, including Paint Division, were 33,906 tons compared with the previous high of 24,189 tons in 1958. Almost the entire increase in tonnage was in regular sales since sales to the Paint Division increased only 1,346 tons or 17.9%.

Along with the sales increase there was just over a $15 per ton effective drop in cost of sales. This was accomplished in spite of high costs during the last six months of 1959. In the period March through August total packed average cost was $375 per ton against the year average packed cost of $351. This was brought about by several factors; (1) bringing the new acid recovery and crystalization unit on stream starting in March, (2) conversion to ore from slag and the attendant operational problems, (3) using up high cost ores, particularly Indian Ore bought at the time of the Suez closure, (4) increased depreciation charges in the last half of the year, and (5) solving the production difficulties encountered in mixing several different grades of ores. This last has been and continues to be necessary since the division must use up the various grades that have been stored at St. Helena and also must have a systematic cleanup of ores in anticipation of mining operations which will commence in late 1961. Predominately because of the last two factors (depreciation charges will again increase this year) it is estimated costs in 1960 will remain about the same as in 1959, averaging around $350 per ton for the year.

Cadmium sales do not as yet reflect the progress that was made in manufacturing techniques this past year. It is hoped the sales impetus that is being put behind our improved products will result in favorable increases in 1960. Sales the past four years for all cadmium, both reds and yellows, have been:

	1959	1958	1957	1956
Regular	339 tons	341 tons	383 tons	525 tons
Paint Division	4	7	10	29
Total	343 tons	348 tons	393 tons	554 tons

Even at this low tonnage, cadmium produced a very significant $303,849 gross profit in 1959. This compared to $222,256 gross profit in 1958 on virtually the same tonnage, the improvement almost entirely being due to approximately a 5.5¢ decrease in yellow costs and a 15¢ decrease in red costs.

Because of price increases Hammond sales dollars increased more than tonnage. Sales dollars were up 53.5% while the 1,637 tonnage increase was 42.6% in volume. The bulk of the increase was 1,183 tons in copper powder and 425 tons in lead powder.

With copper prices increasing, cost of sales of copper powder increased $37 per ton, but average selling prices increased $67 per ton. Conversely, with a falling lead market cost of sales decreased $40 per ton, but selling prices were held back and decreased only $33 per ton. Basically because of this, Hammond was able to show not only a sharp sales increase but also an increase in gross margin from 17.0% to 19.2%.

Lithopone showed a slight sales tonnage increase over last year, but hovers around the 10,000 ton mark. The past five year record is:

	Regular	Paint Division	Total
1959	9,320 tons	466 tons	9,786 tons
1958	8,650	521	9,171
1957	10,084	1,829	11,913
1956	7,310	2,656	9,966
1955	6,619	2,686	9,305

The fall off in sales to our Paint Division reflects generally what is happening to this product in the paint industry. C-P-M has been increasing sales to the paper and other industries, but the fall off in sales to the paint industry offsets.

Unit costs in 1959 were slightly better than in 1958 which reflected in an improvement in gross margin from 15.5% to 16.7%.

Based strictly on Lithopone operations, with proper adjustment for its true share of selling costs, it was estimated 1958 produced $101,000 in profits, and we estimate 1959 at about $125,000. This is an approximate 15% profit return on the $846,000 average investment we have in Collinsville. Mr. Halsey has been and continues to be fully aware of the lack of growth potential we have in this operation and keeps the entire situation under close scrutiny. As you know the accounting was changed September 1 predominately so you and other Directors could see the results without distortion of TiO_2 commission transfers that had been made in the past.

The C-P-M Division continues to have extremely low operating expenses, averaging only 5.3% to sales. In spite of a $233,382 increase in operating expense, the ratio to sales was down from 5.7% in 1958. The bulk of the dollar increase was in salesmen's salary and expense and cash discount, the latter being non-controllable and increasing with sales. Even with the increased sales force the ratio of salesmen's salary and expense to sales was only 2.3% as against 2.2% in 1958.