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National Lead Company

Sixty Fifth Annual Report

1956

N 2676

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The DUTCH BOY is fifty years old.

In the fifty years of his existence, the little boy has served as an excellent salesman for DUTCH BOY paints and other products. The original portrait was painted in 1907 by Lawrence Carmichael Earle, a distinguished artist. Since his first appearance in National Lead Company advertising in that year, the DUTCH BOY has become a nationally-known trademark and a symbol for high-quality products.

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NATIONAL LEAD COMPANY

Incorporated
December 8, 1891

65th ANNUAL REPORT

For the Year Ended
December 31, 1956

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BOARD OF DIRECTORS

LEONARD T. BEALE
ALFRED H. DREWES
FRANK J. KOEGLER
JOSEPH A. MARTINO
DAVID A. MERSON
GEORGE L. RATCLIFFE
JOSEPH H. REID
WINTHROP SARGENT, JR.
JAMES A. TAYLOR
HERMAN T. WARSHOW
WILLIAM J. WELCH
HARRY C. WILDNER

EXECUTIVE COMMITTEE

Chairman

JOSEPH A. MARTINO

ALFRED H. DREWES
DAVID A. MERSON
JOSEPH H. REID
HERMAN T. WARSHOW
WILLIAM J. WELCH
HARRY C. WILDNER

EXECUTIVE OFFICERS

President

JOSEPH A. MARTINO

Vice-Presidents

ALFRED H. DREWES
FRANK J. KOEGLER
DAVID A. MERSON
JOSEPH H. REID
HERMAN T. WARSHOW
WILLIAM J. WELCH
HARRY C. WILDNER

Secretary
JOHN B. HENRICH

Assistant Secretary
JOHN J. LAWLOR

Treasurer
JOSEPH J. MORSMAN, JR.

Assistant Treasurer
MICHAEL USS

Comptroller
GEORGE A. DEWEY

Assistant Comptrollers
ALBERT H. HOFFMAN
THOMAS F. OWENS
ARCHER D. SARGENT

Executive Offices:
111 BROADWAY, NEW YORK 6, N. Y.

General Counsel:
ALEXANDER & GREEN, 120 BROADWAY, NEW YORK 5, N. Y.

Stock Transfer Agents:
THE CHASE MANHATTAN BANK, 40 WALL ST., NEW YORK 15, N. Y.
OLD COLONY TRUST COMPANY, 45 MILK ST. BOSTON, MASS.
NATIONAL TRUST COMPANY, LIMITED, 14 KING ST. EAST, TORONTO, CANADA

Registrars of Stock:
BANKERS TRUST COMPANY, 16 WALL ST., NEW YORK 15, N. Y.
THE FIRST NATIONAL BANK OF BOSTON, 45 MILK ST., BOSTON, MASS.
THE ROYAL TRUST COMPANY, 66 KING ST. WEST, TORONTO, CANADA

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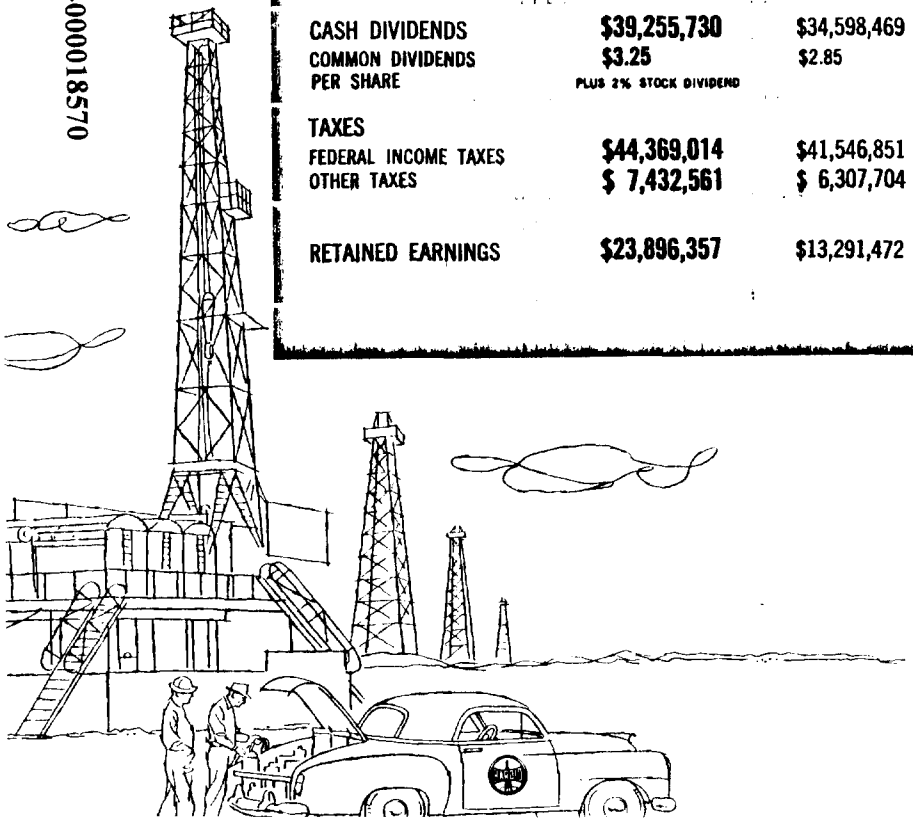
FINANCIAL HIGHLIGHTS

	1956	1955
NET SALES	$576,292,383	$533,728,730
NET EARNINGS	$63,152,087	$47,889,941
PER COMMON SHARE	$5.34	$4.02
CASH DIVIDENDS	$39,255,730	$34,598,469
COMMON DIVIDENDS PER SHARE	$3.25 PLUS 2% STOCK DIVIDEND	$2.85
TAXES		
FEDERAL INCOME TAXES	$44,369,014	$41,546,851
OTHER TAXES	$ 7,432,561	$ 6,307,704
RETAINED EARNINGS	$23,896,357	$13,291,472



THE PRESIDENT'S MESSAGE

To the Shareholders of National Lead Company:

The year 1956 was a memorable one for your Company. It marked the 65th anniversary of the founding of the Company, the 50th year of the well-known DUTCH BOY trademark, the 10th year of your president's stewardship, and the most successful year in the history of National Lead Company.

The record of accomplishments in 1956 is set forth for your review in this—the 65th—Annual Report.

SALES

Demand for Company products on an over-all basis continued strong throughout 1956, although tempered in some quarters by stiffening competition. Dollar sales for the year established a new high of $576,292,383, an increase of $42,563,653 over 1955. A quarterly sales record of $148,611,932 was also set in the three months ended December 31, 1956.

The major portion of the increase in sales occurred in the newer product lines, largely developed or improved in the Company's research laboratories. Sales of titanium pigments, oil well drilling materials, mixed paints, lead chemicals, KIRKSITE and plastic dies, zirconium and other high-temperature refractories attained record highs. Fabricated metal products, screws and metal fasteners and steel containers also moved upward. Journal, diesel and precision bearings showed substantial gains over the previous year. Despite a rather sharp drop in automobile

production, sales of die castings held up very well, due not only to expanded applications in the home appliance and other fields, but in the main to development of larger and more complex die castings. Consumer acceptance of NALPLEX, an acrylic latex interior paint recently added to the DUTCH BOY line, was most satisfactory.

EARNINGS

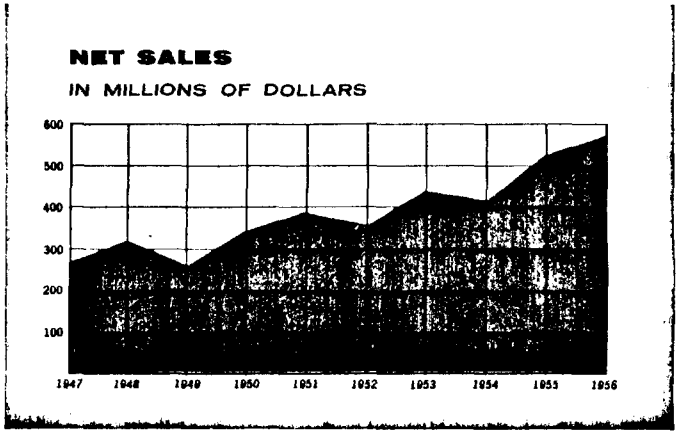
Net income for 1956 was $63,152,087 and exceeded by $15,262,146 the previous high of $47,889,941 for 1955. This gratifying profit picture reflects the sustained high level of business operations which marked the Company's activities throughout 1956. Net income includes an adjustment of $6,688,151, restoring to earnings prior years' tax provisions no longer required. Net operating income before this adjustment represents an increase of 18 per cent over 1955 and an improvement in the net return on sales to 9.8 per cent.

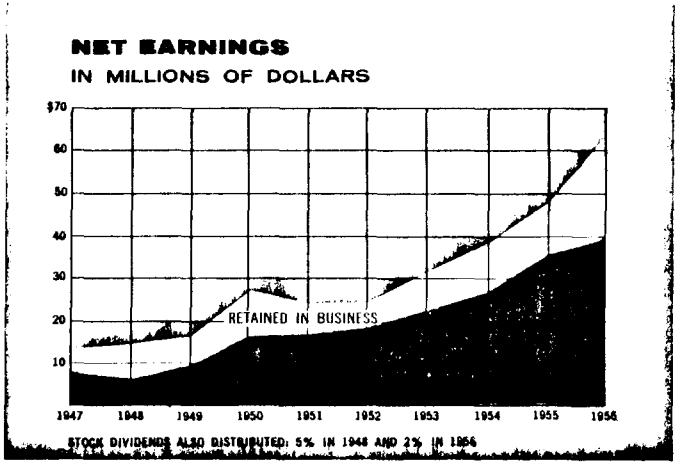
After deducting Preferred dividends, earnings in 1956 were equal to $5.34 a share on 11,420,198 Common shares outstanding at year end, before the stock dividend. In the preceding year net income after Preferred dividends equalled $4.02 on 11,375,630 shares of Common stock outstanding.

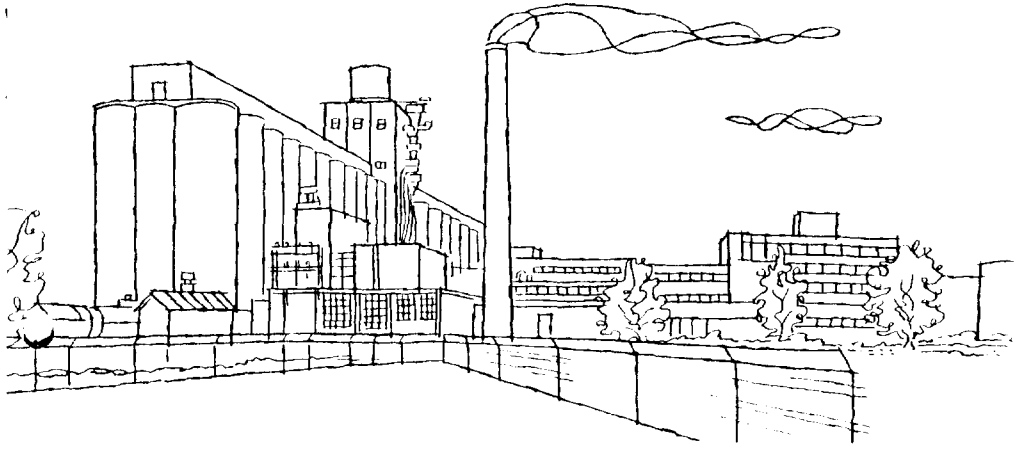
The Company's foreign subsidiaries and partially owned domestic companies reported continued progress in their respective fields, with earnings maintained on a satisfactory level. Dividends totaling $2,770,896 were received from these affiliates during the year.

DIVIDENDS

Dividends reached a new high in 1956. Cash distributions totaled $39,255,730, of which $2,181,161 represented regular quarterly payments to Preferred stockholders. The remainder, $37,074,569, was paid to Common shareholders in the form of quarterly dividends of 75¢ a share in March, June and September and $1 in December—a total of $3.25 a share. In addition the Common stockholders







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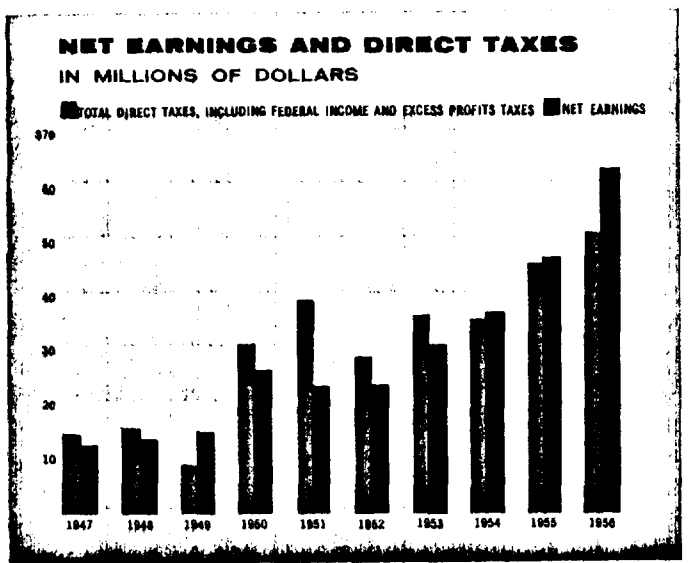
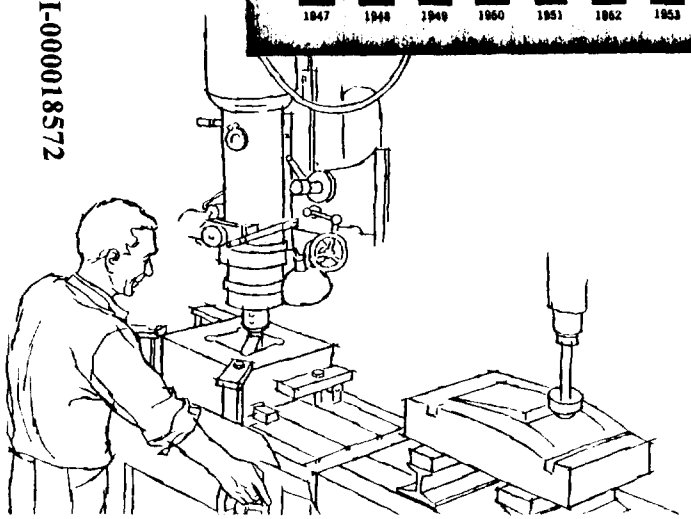
received a 2 per cent stock dividend in December 1956. Cash dividend payments to Common shareholders in 1955 amounted to $2.85 a share.

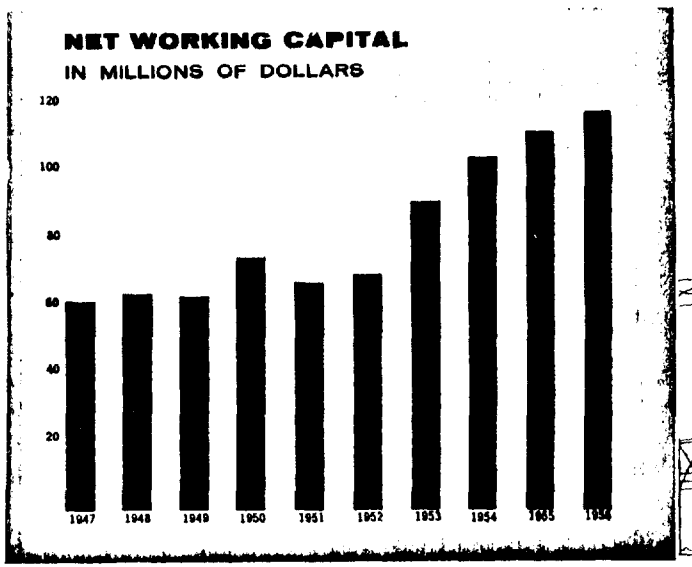
To record the stock dividend on the corporate books a charge of $24,906,609 was made against earned surplus, reflecting a market value of $109 a share for the 228,501 shares of Common stock issued. The par value of the shares involved, $1,142,505, was credited to capital stock account and the remaining portion, $23,764,104, was transferred to capital surplus.

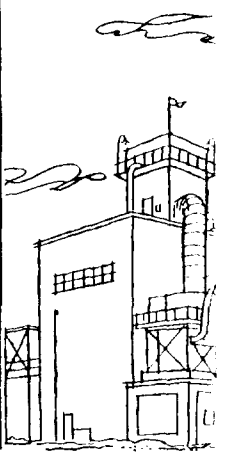




TAXES

To meet the burden of Federal income and various other direct taxes, the Company provided $58,489,726 out of 1956 earnings—an increase of $10,635,171 or 22 per cent over the previous year. These taxes were equivalent to 10.1¢ for each dollar of sales and to $5.12 for each share of Common stock. Federal income tax requirements increased $9,510,314 or 23 per cent over the preceding year, a direct result of the Company's higher taxable income. State income, franchise, and various other direct taxes increased $1,124,857 or 18 per cent over 1955.





During the year the Company transferred $6,688,151 from Federal income tax reserve to income as a result of decisions by the Federal courts with respect to certain tax assessments dating back to 1941. The amount remaining in the Federal income tax reserve is deemed adequate for those years awaiting final determination.

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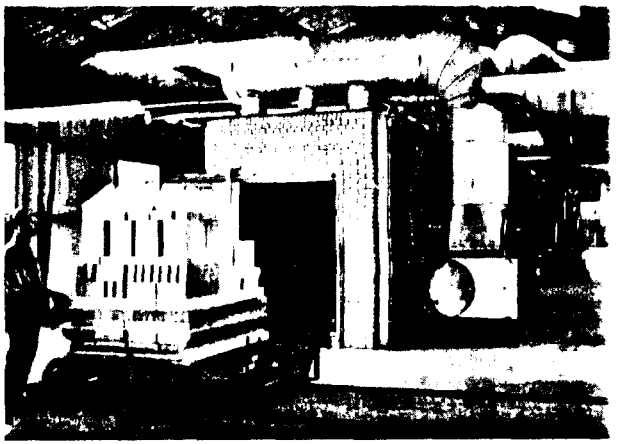
PLANT INVESTMENT

The Company's gross investment in plant, property and equipment reached $238,609,305 on December 31, 1956, representing a net increase of $10,341,468 after the sale or other disposition of corporate property no longer required in the business. Gross additions to the property account totaled $22,948,224.

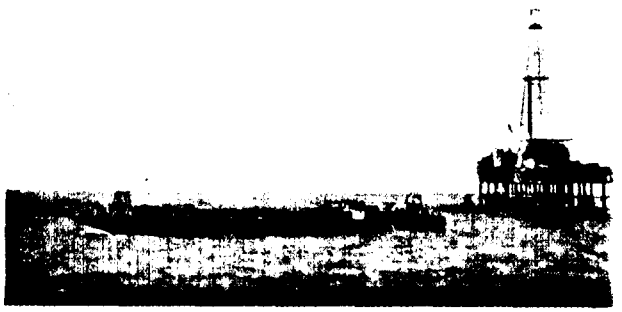
The major portion of capital expenditures made during the year went to provide expanded plant capacity for those products whose demand curves continue to outpace production. The expenditure of funds to achieve greater efficiency and productivity and the acquisition of substantial ore reserves were also reflected in this account. Additional reserves of barytes ore, used in the manufacture of weighting materials for oil well drilling, were acquired by the Company in Tennessee, Montana and Missouri. Increased output of titanium and iron concentrates was realized during the year from the mine located in Tahawus, New York. The development of sizable reserves of titanium-bearing minerals in other areas of the United States was continued.

Included in the additions to the property account are the fixed assets of Mud Products, Inc. and Master Metals, Inc. Mud Products Inc., acquired in 1956, distributes a complete line of drilling mud materials in the rapidly expanding Gulf Coast and other major oil and gas producing areas. Master Metals, now a wholly owned subsidiary, operates a secondary lead smelter in Cleveland, Ohio.

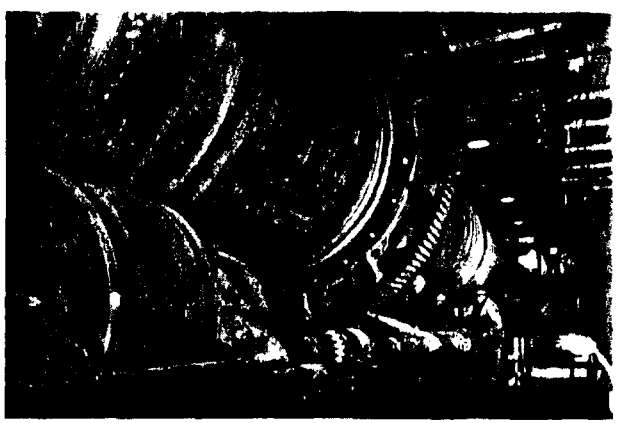
A major reduction in the plant investment account resulted from the transfer of the Fredericktown, Missouri, metal refinery to the United States Government in accordance with the provisions of the contract under which the Company agreed to construct this unit and operate it to produce nickel, cobalt and copper. A new agreement, which gives recognition to the technical and economic problems encountered, provides among other things for the cancellation of the indebtedness to the Government



New tunnel kiln processes high-temperature refractory products at The Chas. Taylor's Sons Company plant in Taylor, Kentucky.



"Mr. George", vessel designed and built to deliver oil well drilling materials to offshore rigs in the Gulf of Mexico.



Rotary kiln being installed in first Canadian titanium pigment plant, under construction by a Company subsidiary.

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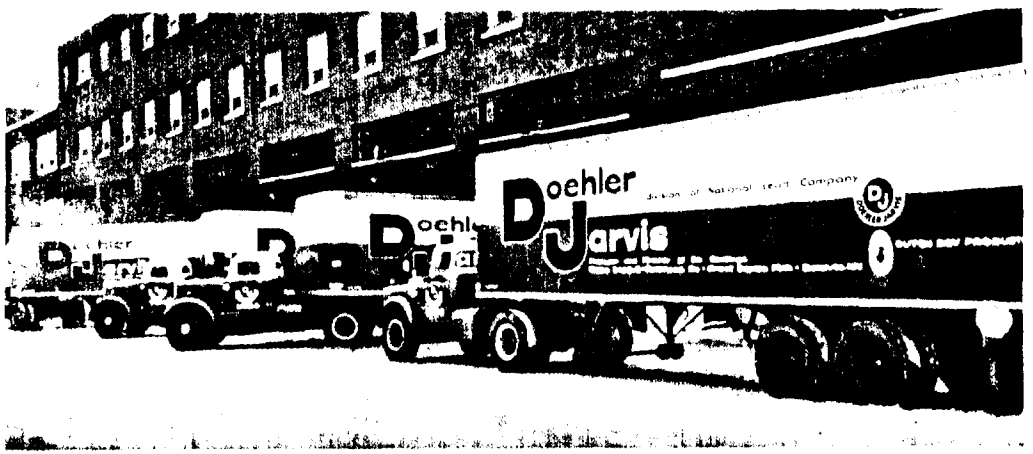
and for a lease of the facilities to the Company on a more realistic basis for a maximum term of six years.

The charge against earnings in 1956 for depreciation, depletion and amortization was $10,623,168, compared with $9,812,920 in 1955.

The Company plans the expenditure in 1957 and 1958 of approximately $15,000,000 to further increase titanium dioxide output at the St. Louis plant. The new capacity



Left: Doehler-Jarvis Division operates a fleet of trucks to deliver die castings to customers in many industries.

Right: Warehouse of Pioneer Aluminum, Inc., where 3,000 different aircraft extrusions are stocked for airframe manufacturers.



will be available by July 1958 to meet the continually growing demand for titanium pigments.

EMPLOYEE RELATIONS

Harmonious relations with employees and the various unions representing them continued through 1956. At the year end, the Company had 25,519 employees on the payroll, of which 8,590 or 34 per cent had ten years or more of service.

On August 1, 1956, an employee educational aid program was put into effect to provide reimbursement of tuition to eligible employees pursuing formal courses of study directed toward acquiring skills or knowledge applicable to present or future positions in the Company. The response to this program has been most encouraging.

The Company carries on an intensive safety program for the protection of employees in its many highly diversified activities. As a result, the incidence of accidents for the Company is well below the national average.

At the year end there were 1,435 former employees receiving annuities, 225 having retired during 1956. Group life insurance in the amount of $875,000 was paid on 160 death claims. A contribution out of earnings was again made to the Company's shareholder-approved employees profit sharing trust.

SHAREHOLDERS

Growing shareholder interest in the Company's affairs was evidenced by gratifying attendance at the 1956 Annual Meeting and by the fact that 79 per cent of the total outstanding stock was voted, a new record.

The number of Company shareholders continues to grow and at year end totaled 35,460, with representation from all 48 states and many foreign countries. Numerically

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about 84 per cent of the shareholders are individuals, including joint owners, and the remainder consists of investment funds, trusts and estates, insurance companies, and charitable, educational and religious institutions.

To keep the shareholders better informed, the Company continued the practice of enclosing with each dividend check a folder describing some segment of its products, activities or organizations. Once again the Company received an "Oscar of Industry" for the best Annual Report in the paint and coatings industry classification for the year 1955.

The Management looks forward to greeting those shareholders who will attend the Annual Meeting to be held next month.

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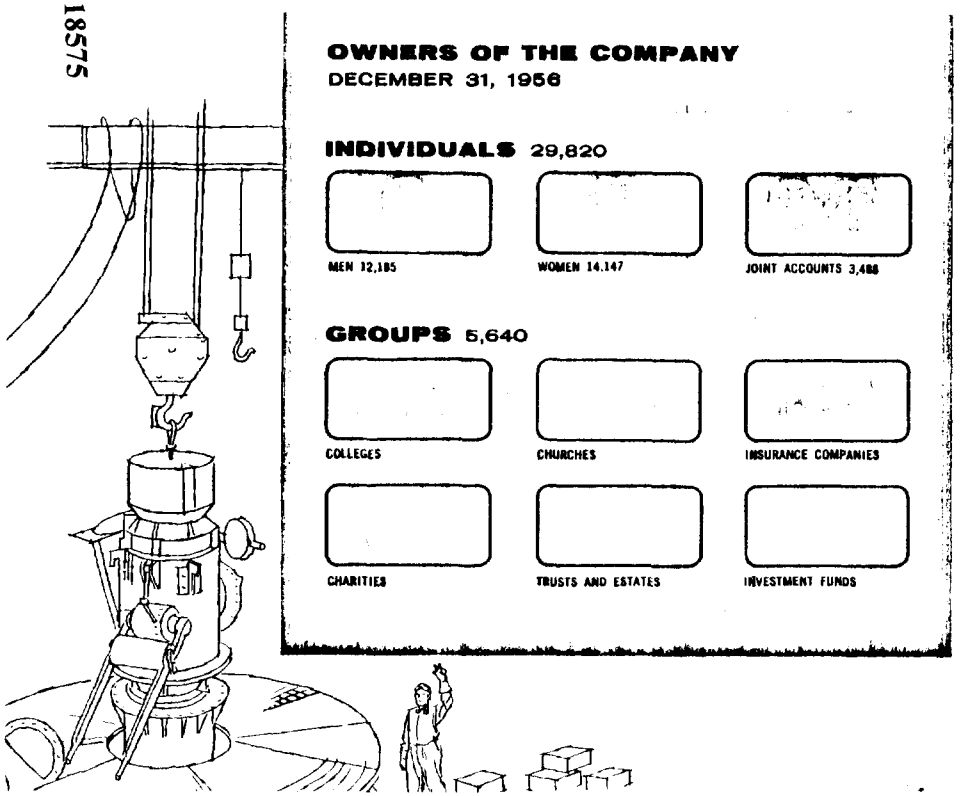

THE NATIONAL LEAD FOUNDATION, INC.

The National Lead Foundation, Inc. continued its basic work of granting funds to the various worthy causes supported by the Company in the fields of education, medicine, science and welfare. In an effort to relieve a critical shortage of trained engineering manpower, the Foundation established scholarship programs in 1956 at several leading technical universities. The investment income of the Foundation was sufficient to carry on this work and it was therefore unnecessary for the Company to make a contribution during the year.

NEW FIELDS OF ACTIVITY

The joint project with Republic Steel Corporation concerned with the winning of metallic iron from its ores made important progress in 1956. The project has matured to the point where a jointly-owned corporation has been formed to carry on further development work and to undertake the commercialization of the process. The R-N Process, which at the present time has its greatest potential in the field of new iron producing capacity, makes possible the treatment of a wider range of ores and fuels and the production at a lower cost of a superior raw material for the steel industry. Major steel producing companies have displayed considerable interest in the process and its resultant product, and are submitting sample ores for evaluation and test in the pilot plant.

The conversion to nickel metal of nickel oxide sinter from the Nicaro, Cuba, plant was begun during 1956 at a refinery acquired by Nickel Processing Corporation, a Company subsidiary, at Crum Lynne, Pennsylvania. Production is for the account of the United States Government and has added substantially to the quantity of nickel available in metallic form.

Through its West Coast subsidiary, Morris P. Kirk & Son, Inc., a majority interest was acquired in Pioneer Aluminum, Inc., of Los Angeles, California. This company, a manufacturer of zinc alloy and aluminum tooling plate

for the aircraft and other industries, is also a distributor of aluminum bar, rod and aircraft extrusions.

A new Magnus Metal Division development, the "journal stop", is finding wide acceptance in the railroad industry and has been officially endorsed by the Association of American Railroads Committee on Lubrication. This device protects the wheel bearing assembly of freight cars against road surface and switching impacts, and also lubricates and stabilizes the bearing unit.

Several oil well drilling chemicals were developed in 1956 by Baroid Division laboratories. A new product called PETRO-BOND was offered to the foundry industry by Baroid which, when added to foundry sand, produces sounder and smoother precision castings.

One of the Company's oldest products is finding increased use in the steel industry. Lead shot of very small diameter is now being widely used in steel making to improve the quality of the steel and to increase its machinability.

Extending its other fields of activity, the Company is supplying larger and more complex die castings from its Doehler-Jarvis Division. The Titanium Alloy Manufacturing Division is marketing increased quantities of titanates, zirconates and stannates in the growing electronic field.

ATOMIC ENERGY ACTIVITIES

The Company has joined with nine other companies to form Industrial Reactor Laboratories, Inc., which is now building the first nuclear reactor and research center owned entirely by private industry. The nuclear facility will be located at Plainsboro, New Jersey, and is scheduled for completion early next year. Probable uses by the Company include the study of the structure of metals and alloys, development of new and improved nuclear shielding materials, production of isotopes for various industrial applications, and exploration of the uses of reactor radiation in the solution of many technical problems.

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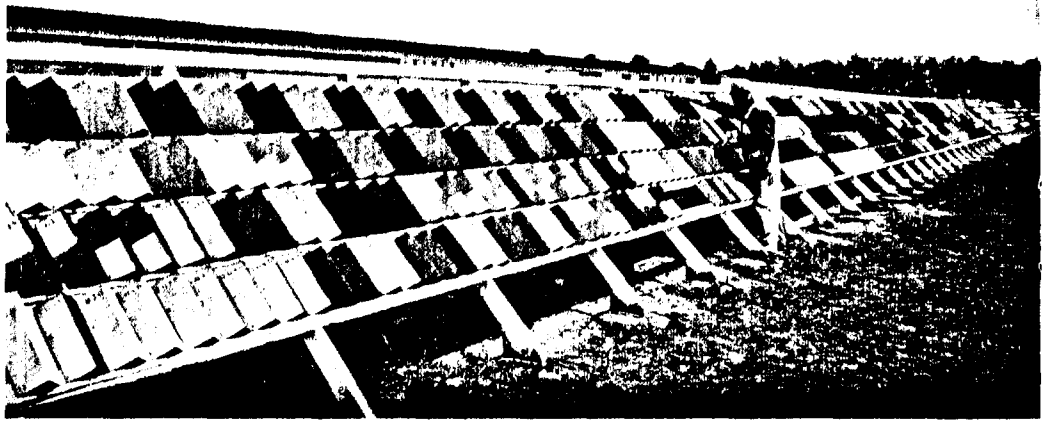
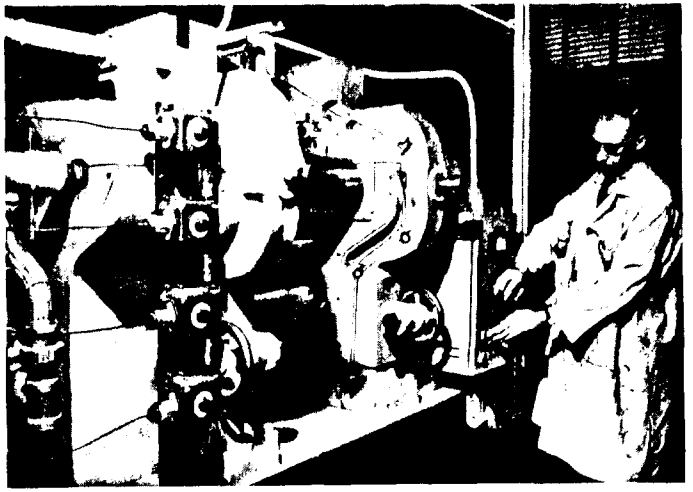


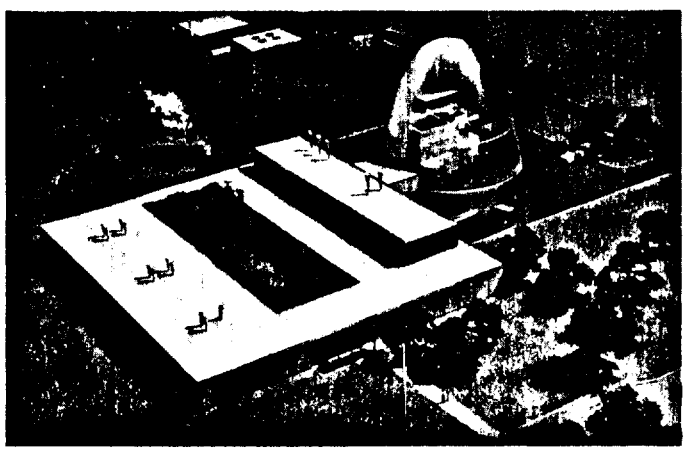
Nation's oldest and largest exterior paint testing station at Sayville, Long Island, New York, is forty years old this year.



This equipment in Brooklyn research laboratories is used to test various compounds used in vinyl plastic sheeting and film.

The Company's participation in the atomic energy field has been further extended by undertaking the operation of the Atomic Energy Commission's uranium processing mill at Monticello, Utah. The Company now performs an integrated role in the production of atomic energy materials, from ore to fabricated metal through the operation and management of four AEC installations, located at Winchester, Massachusetts; Grand Junction, Colorado; Monticello, Utah, and Fernald, Ohio. At the Winchester laboratories milling processes for uranium ore concentrates are developed. The Grand Junction operations then carry the processes through the pilot plant stage. Utilizing these methods, the uranium ore is concentrated on a plant scale at the Monticello mill and shipped to the Fernald plant for final conversion into uranium metal and fuel elements for nuclear reactors.

The Company has become an important supplier of products of various kinds to the atomic energy program. Increasing quantities of lead, zirconium, nickel and cobalt are finding their way into this newly developing industry.

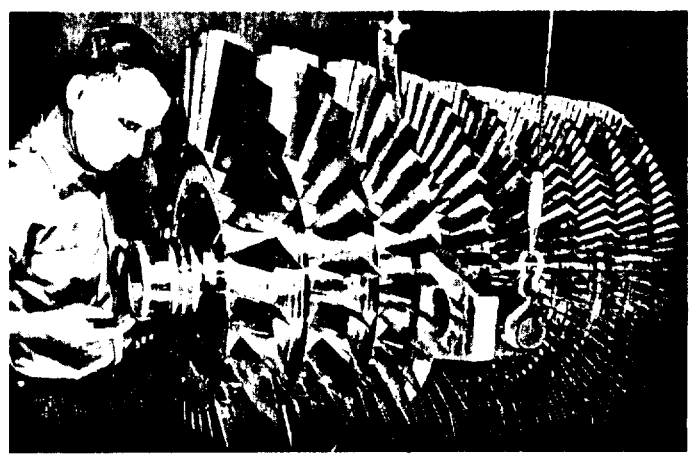


National Lead Company is one of ten corporations forming Industrial Reactor Laboratories, Inc., now building this nuclear reactor in Plainsboro, New Jersey, for industrial research by member companies.

TITANIUM METAL

Titanium Metals Corporation of America continued in the forefront of the titanium metal industry and enjoyed another successful year. This company, which is jointly-owned with Allegheny Ludlum Steel Corporation, reported dollar sales of $55,128,000 in 1956 compared with $38,310,000 for the preceding year. Net income after taxes reached $11,026,000, an increase of $3,865,000 over 1955 net income.

To keep the production curve within range of the strong market demand for titanium metal products, TMCA undertook further expansion of plant capacity at its Henderson, Nevada, plant. Sponge capacity which has now moved upward from 3,600 to 6,000 tons is being further increased to 9,000 tons and ingot capacity to 11,000 tons per year. The new capacity will be available by the fourth quarter of 1957.



All-titanium jet engine compressor now in production for advanced, highspeed jet aircraft. Titanium Metals Corporation of America supplies titanium metal for this engine component.

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To provide specialized fabricating facilities, a 49-inch Sendzimir mill for the continuous rolling of titanium metal sheets will be in operation by mid-year. Late in 1956 a plant was purchased at Toronto, Ohio, and is being reconstructed with special equipment designed exclusively for rolling and forging titanium metal—the first such facility in the industry.

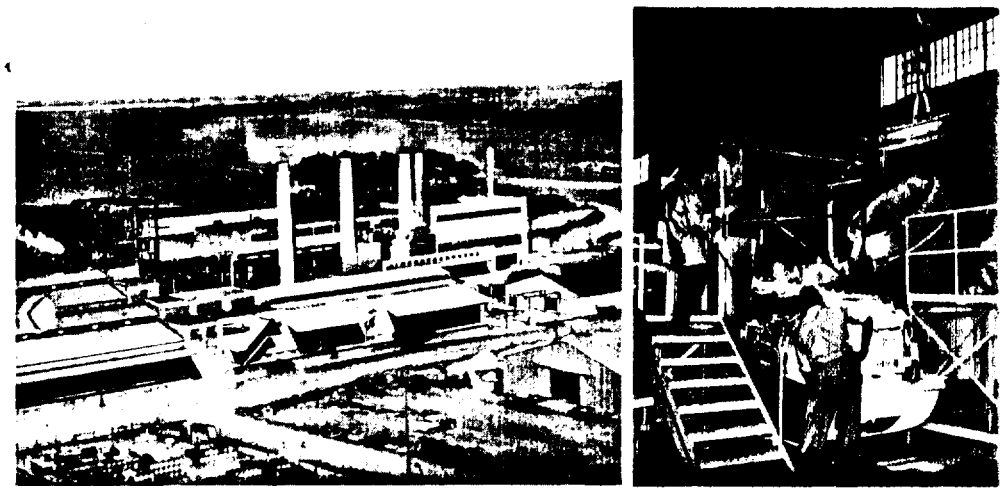
It is expected that the $25,000,000 cost of the new facilities will be financed by TMCA out of earnings. No part of TMCA's earnings to date have been reflected in the net income of National Lead Company.

OPERATIONS OUTSIDE THE UNITED STATES

Canada's first titanium pigment plant, under construction by Canadian Titanium Pigments, Ltd., a subsidiary, is now more than 50 per cent completed. The new facility, which is located about 15 miles northeast of Montreal at Varennes, Quebec, is being financed by loans from the parent company and will cost about $15,000,000. Approximately half of this amount was advanced in 1956, which accounts for the substantial increase shown in advances to unconsolidated subsidiaries. Production at the plant is scheduled to begin in the third quarter of this year. The plant's output of titanium dioxide will supply the Canadian market, which the Company has formerly served from United States units.

The expansion program at the United States Government-owned nickel processing facility at Nicaro, Cuba, is now complete and will bring its rated capacity to about 50,000,000 pounds of nickel per year. Total cost of the expansion, supervised by National Lead Company as prime contractor, was about $37,000,000. The plant is operated for the Government by Nickel Processing Corporation, a subsidiary of National Lead Company.

To meet the growing demand for oil well drilling materials in Latin America, the Company is developing raw material reserves in Brazil and has acquired a substantial interest in processing facilities now being built in Venezuela. Barytes deposits on the island of Camamu off the coast of Brazil have been developed with mining and processing equipment and are now producing raw materials for drilling muds. The barytes mined in Brazil will be processed and sold in Venezuela by Baritina de Venezuela, S.A., a distributor of oil well drilling muds and chemicals in the latter country since 1949. This company has under construction at the present time two plants for the production of weighting materials for the expanding



Left: Expansion of the U. S. Government nickel oxide plant in Nicaro, Cuba, operated by a Company subsidiary, is now completed. Right: Casting metallic nickel ingots at new Company plant in Crum Lynne, Pennsylvania.

Venezuelan petroleum industry. These facilities will be the first of their kind in Venezuela, all such drilling materials having previously been imported. National Lead Company acquired a substantial stock interest in Baritina de Venezuela, S.A. during 1956.

Sparked by increasing production of titanium metal, the Company has expanded its rutile mining and concentrating facilities in Australia in 1956 and a new unit is under

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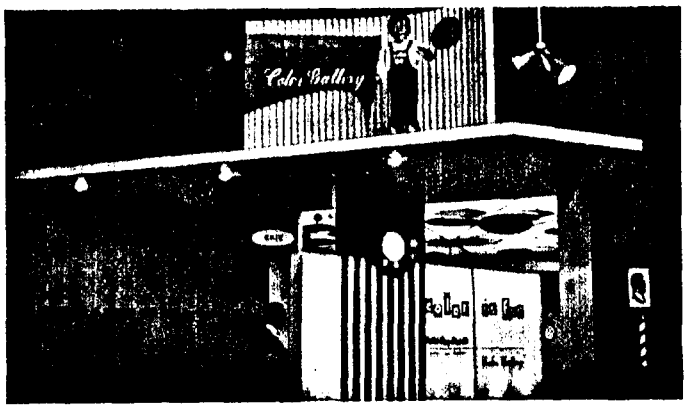

Entrance to DUTCH BOY paint exhibit in Disneyland, California.

construction near Port McQuarie in New South Wales by Mineral Deposits, Pty. Ltd., a subsidiary acquired in 1955. Further expansions are in the planning stage.

Other important developments in the Company's foreign activities are the substantially increased output of titanium dioxide by the Leverkusen, Germany, plant, the completion of the BENTONE manufacturing plant in England and a metals fabricating and lead oxide plant in Winnipeg, Canada.



Production of automatic frying pan die castings ran as high as 12,000 per day in 1956 at Doehler-Jarvis Division plants in Pottstown, Pennsylvania, and Batavia, New York.

IN CONCLUSION

National Lead Company's business carries over from 1956 at a vigorous pace and indications are that it will continue strong for the balance of 1957, with operating results comparing favorably with last year.

The Management gratefully acknowledges the loyalty and capable efforts of the Company's employees and the excellent support and cooperation of its stockholders, customers and suppliers which have made 1956 the best year in National Lead Company history.

By Order of the Board of Directors

President

March 18, 1957

The sixty-fifth Annual Meeting of the shareholders of National Lead Company will be held at the principal office of the Company in Sayreville, New Jersey, at the foot of Chevalier Avenue, on Thursday, April 18, 1957, at 11:00 o'clock A.M.

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NATIONAL LEAD COMPANY
and its Wholly Owned Domestic Subsidiaries

Consolidated Balance Sheets
DECEMBER 31, 1956 AND 1955

ASSETS

	1956	1955
Current assets:		
Cash	$ 47,172,875	$ 45,924,996
United States Government, state and municipal obligations, at cost (at market quotations: 1956, $8,028,740; 1955, $21,929,341) (Note 1)	8,407,836	22,134,872
Other marketable securities, at cost, less reserve of $109,181 (at market quotations: 1956, $3,676,564; 1955, $399,350)	957,971	148,837
Accounts and notes receivable, less reserves of: 1956, $2,150,799; 1955, $2,062,419	54,453,355	50,601,674
Notes receivable from employees	492,328	378,411
Inventories (Note 2)	86,928,910	77,569,948
Total current assets	198,413,275	196,758,738
Notes receivable under Stock Purchase Plan (Note 3)	451,678	582,824
Investments in, at cost or below, and advances to unconsolidated subsidiaries, less reserve of $3,801,088 (Note 4)	19,153,435	10,535,111
Miscellaneous investments and advances, at cost or below, less reserves of: 1956, $40,955; 1955, $41,455 (Note 5)	3,837,272	2,924,640
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: 1956, $111,224,536; 1955, $105,437,451	127,384,769	122,830,386
Prepaid expenses, deferred charges, etc.	3,935,585	2,779,933
	$353,176,014	$336,411,632

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

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NATIONAL LEAD COMPANY
and its Wholly Owned Domestic Subsidiaries

Consolidated Balance Sheets
DECEMBER 31, 1956 AND 1955

LIABILITIES

	1956	1955
Current liabilities:		
Accounts payable and accrued liabilities	$ 29,603,968	$ 29,311,634
Payable to unconsolidated subsidiaries	136,337	489,648
Provisions for taxes, including federal taxes on income	51,049,678	53,662,338
Dividends on Class B preferred stock	135,277	135,277
Total current liabilities	$ 80,925,260	$ 83,598,897
Note payable and accrued interest, United States Government (Note 6)	—	$ 8,302,337
Inventory reserves (Note 2)	$ 11,636,272	$ 11,551,918

CAPITAL

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 $5; shares authorized 20,000,000, issued: 1956, 11,653,562; 1955, 11,380,493	58,267,810	56,902,465
	92,963,110	91,597,765
Capital surplus	31,108,169	3,807,260
Earned surplus:		
Appropriated:		
Fire insurance reserve	4,797,284	4,797,284
Employer's liability reserve	426,664	426,664
Contingencies reserve	4,080,358	4,080,358
Unappropriated	129,871,500	130,881,752
	263,247,085	235,591,083
Less, Reacquired capital stock, at cost (Note 7)	2,632,603	2,632,603
	$260,614,482	$232,958,480
	$353,176,014	$336,411,632

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

NATIONAL LEAD COMPANY

and its Wholly Owned Domestic Subsidiaries

Consolidated Statements of Income and Earned Surplus Unappropriated

FOR THE YEARS ENDED DECEMBER 31, 1956 AND 1955

	1956	1955
Sales, less returns and allowances	$576,292,383	$533,728,730
Cost of sales (Note 2)	$377,261,169	$364,581,425
Depreciation, depletion and amortization	10,623,168	9,812,920
Administrative, selling and general expenses	77,836,318	67,003,819
Taxes, other than federal taxes on income	7,432,561	6,307,704
	$473,153,216	$447,705,868
	$103,139,167	$ 86,022,862
Other income (Note 8)	4,537,131	3,494,625
	107,676,298	89,517,487
Other charges	155,197	80,695
Income before provisions for federal taxes on income	107,521,101	89,436,792
Provisions for federal taxes on income (less, in 1956, $6,688,151 prior years' provisions no longer required) (Note 9)	44,369,014	41,546,851
Net income for the year	$ 63,152,087	$ 47,889,941
Earnings per share of common stock	$5.34	$4.02
Earned surplus unappropriated, January 1	$130,881,752	$117,590,280
Net income for the year	63,152,087	47,889,941
	$194,033,839	$165,480,221
Dividends:		
On Class A preferred stock, $7 per share	$ 1,640,051	$ 1,640,051
On Class B preferred stock, $6 per share	541,110	541,110
	2,181,161	2,181,161
On common stock:		
In cash, $3.25 per share in 1956; $2.85 per share in 1955	37,074,569	32,417,308
In stock, 2 per cent in 1956; paid by issuance of 228,501 shares of common stock capitalized at $109 per share, based upon quoted market price averages	24,906,609	—
	$ 64,162,339	$ 34,598,469
Earned surplus unappropriated, December 31	$129,871,500	$130,881,752

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

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NATIONAL LEAD COMPANY

and its Wholly Owned Domestic Subsidiaries

Consolidated Statements of Capital Surplus

FOR THE YEARS ENDED DECEMBER 31, 1956 AND 1955

	1956	1955
Capital surplus, January 1	$ 3,807,260	—
Amounts arising from acquisitions of capital stocks and properties of other companies in exchange for common stock of National Lead Company	3,536,805	$ 3,807,260
Excess of market value, based upon quoted market price averages, over par value of 228,501 shares of common stock issued as a 2 per cent stock dividend	23,764,104	—
Capital surplus, December 31	$31,108,169	$ 3,807,260

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. United States Government, state and municipal obligations comprise the following at the respective balance sheet dates:

	1956	1955
United States Government	$ 2,846,630	$ 5,635,111
State and municipal	5,561,206	16,499,761
	$ 8,407,836	$22,134,872

Included in the preceding totals are cost amounts of securities which were on deposit in connection with self-insurance of workmen's compensation risks and a bank loan of an unconsolidated subsidiary: 1956, $3,132,328; 1955, $3,025,409.

2. Inventories are priced at the lower of cost (on various "average," "first-in, first-out" or "last-in, first-out" bases) or market.

The inventory reserve has been maintained on the basis of the following quantities and prices of normal stocks:

	Normal Quantities (Short Tons)	Fixed Inventory Price per Pound
Lead	49,687½	$.03
Tin	1,124½	.21
Antimony	1,400	.05

3. Under the Company's Stock Purchase Plan for Officers and Other Key Employees, adopted in 1950, certain officers and employees contracted to purchase common stock of the Company. The purchase prices are evidenced by promissory notes bearing interest at 3 per cent, payable within 10 years from dates thereof, the shares serving as collateral. Shares held as collateral aggregated 36,261 at December 31, 1956 and 42,750 at December 31, 1955.

4. Unconsolidated subsidiaries comprise domestic subsidiaries more than 50, but less than 100 per cent owned, and foreign subsidiaries.

Based upon financial statements of the major unconsolidated subsidiaries (other than those in Continental Europe) as of the close of their respective fiscal years, the equity of the Company in the net tangible assets of those subsidiaries and amounts relating to such equity approximated the following:

	1956	1955
Equity in net tangible assets	$32,029,000	$23,841,000
Excess of equity over the Company's net investments and advances	14,662,000	14,205,000
Increase in excess equity during year	457,000	366,000

The equity in net tangible assets, shown in the preceding paragraph, includes $18,187,000 for 1956 and $10,941,000 for 1955, represented by foreign net tangible assets, translated into U. S. dollars at appropriate rates of exchange.

The Company's net investments in and advances to Continental European subsidiaries were $1,786,797 and $899,137 at December 31, 1956 and 1955, respectively. Unaudited financial statements as of September 30, 1956 and 1955 received from the Continental European subsidiaries indicate that the Company's equity in the net assets thereof approximated the following foreign currency amounts at the respective dates:

	1956	1955
Norwegian kroner	16,945,000	16,209,000
Belgian francs	29,312,000	24,265,000
Dutch florins	2,825,000	2,221,000
French francs	70,514,000	47,623,000
German deutsch marks	34,735,000	28,333,000

The realization of foreign assets and foreign earnings is subject to various exchange and other restrictions imposed by the respective foreign governments.

Dividends were received from unconsolidated subsidiaries and are included in consolidated net income as follows:

	1956	1955
Subsidiaries other than Continental European	$2,136,229	$1,239,907
Continental European subsidiaries	634,667	58,650
	$2,770,896	$1,298,557

5. National Lead Company and Allegheny Ludlum Steel Corporation each own 50 per cent of the capital stock of Titanium Metals Corporation of America. The cost of National Lead Company's investment in the latter corporation is included in miscellaneous investments. The equity of the Company in the net assets of Titanium Metals Corporation of America, as shown by audited financial statements, exceeded the cost of the Company's investment by approximately $9,440,000 at December 31, 1956 and $3,927,000 at December 31, 1955.

6. In prior years the Company received advances from the U. S. Government for the construction of new production facilities. The agreement under which such advances were made provided that, under certain circumstances, the Company could convey the facilities to the Government in complete satisfaction of the advances and interest accrued thereon. During 1956 the Company conveyed the facilities to the Government in accordance with such provision.

7. Reacquired capital stock, carried at first-in, first-out costs, comprises:

	No. of Shares	Costs
Preferred Class A	9,383	$1,147,727
Preferred Class B	13,092	1,435,354
Common, including 1956 stock dividend of 2 per cent	4,960	49,522
		$2,632,603

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8. Other income comprises:

	1956	1955
Dividends received (including dividends from unconsolidated subsidiaries, see Note 4)	$3,000,371	$1,388,612
Inventory reserves no longer required	——	1,266,513
Adjustments in connection with acquisitions of capital stocks of other companies, etc.	209,027	——
Interest and miscellaneous, net	1,327,733	839,500
	$4,537,131	$3,494,625

9. Numerous differences exist between taxable income and book income, including certain fluctuations in the inventory reserves, percentage depletion and depreciation charges. Reference is made to comments included in the President's message (page 9) with respect to prior years' provisions for federal income taxes.

General:

Under agreements with the Atomic Energy Commission, certain consolidated subsidiaries operate plants constructed with funds supplied by the Commission. The accompanying financial statements do not include the assets, liabilities or results of operations of such plants. Annual fixed fees received by such subsidiaries as contract-operators are included in other income in the accompanying financial statements.

Renegotiation refunds, if any, are not considered to be material and no provision has been made therefor.

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 and individual balance sheets of NATIONAL LEAD COMPANY and its wholly owned domestic subsidiaries as of December 31, 1956 and the related statements of income and surplus for the year then ended. We have also examined or have received reports of other public accountants upon their examinations of the balance sheets and related statements of income and surplus of the major domestic subsidiaries more than 50, but less than 100 per cent owned and the major foreign subsidiaries other than Continental European, for their respective 1956 fiscal years. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. Similar examinations were made for the 1955 fiscal years.

In our opinion, based upon the above-outlined examinations and the above-mentioned reports of other public accountants, the accompanying consolidated balance sheets and related consolidated statements of income and surplus present fairly the consolidated financial position of National Lead Company and its wholly owned domestic subsidiaries at December 31, 1956 and 1955 and the consolidated results of their operations for the respective years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

LYBRAND, ROSS BROS. & MONTGOMERY

New York, February 28, 1957.

TEN YEAR REVIEW OF OPERATIONS

	1956	1955	1954	1953	1952	1951	1950	1949	1948	1947
Net Sales	**$576,292,383**	$533,728,730	$419,333,961	$436,050,592	$358,048,435	$389,941,313	$342,727,911	$257,461,599	$320,457,301	$268,026,394
Net Income before Taxes	**107,521,101**	89,436,792	67,153,316	62,836,357	48,386,163	59,607,540	54,557,799	21,191,579	26,606,510	23,904,417
Federal Taxes on Income	**44,369,014**	41,546,851	30,534,665	31,987,429	25,326,109	36,613,823	28,067,155	6,442,568	13,302,155	11,724,285
Net Income	**63,152,087**	47,889,941	36,618,651	30,848,928	23,060,054	22,993,717	26,490,644	14,749,011	13,304,355	12,180,132
Preferred Dividends	**2,181,161**	2,181,161	2,181,161	2,181,161	2,181,161	2,157,806	2,134,451	2,134,451	2,085,512	2,059,323
Common Dividends	**37,074,568***	32,417,308	23,735,838	19,779,867	14,729,644	14,381,756	13,430,651	7,317,900	3,869,137*	6,181,328
Total Cash Dividends	**39,255,730**	34,598,469	25,916,999	21,961,028	16,910,805	16,539,562	15,565,102	9,452,351	5,954,649	8,240,651
Retained Earnings	**23,896,357**	13,291,472	10,701,6[illegible]	8,887,900	6,149,249	6,454,155	10,925,542	5,296,660	7,349,706	3,939,481
Earnings Per Common Share	**5.34**	4.02	3.05	2.58	2.06	2.05	2.41	1.29	1.21	1.09
Cash Dividends Per Common Share	**3.25***	2.85	2.10	1.75	1.45	1.41⅔	1.33⅓	0.75	0.41⅔*	0.66⅔
Total Current Assets	**198,413,275**	196,758,738	178,569,448	164,812,640	122,870,494	133,634,210	131,450,877	88,450,767	99,067,247	90,465,930
Total Current Liabilities	**80,925,260**	83,598,897	73,980,730	72,983,811	53,767,414	66,051,113	56,402,753	25,864,583	35,359,277	30,252,412
Net Working Capital	**117,488,015**	113,159,841	104,588,718	91,828,829	69,103,080	67,583,097	75,048,124	62,586,184	63,707,970	60,213,518
Gross Property Account	**238,609,305**	228,267,837	210,718,867	203,511,823	161,540,966	154,012,668	135,578,755	133,252,879	133,879,240	122,739,173
Reserves for Depreciation, Depletion and Amortization	**111,224,536**	105,437,451	97,553,116	91,281,692	75,944,349	71,215,202	67,390,015	64,080,311	59,856,625	57,407,848
Net Property Account	**127,384,769**	122,830,386	113,165,751	112,230,131	85,596,617	82,797,466	68,188,740	69,172,568	74,022,615	65,331,325
Total Assets	**353,176,014**	336,411,632	310,468,896	294,647,263	223,910,550	230,315,668	211,681,467	168,941,278	183,461,104	162,854,438

*Plus Stock Dividend: 1956, 2% and 1948, 5%

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BRANCHES AND DIVISIONS

AMERICAN BEARING DIVISION 429 SOUTH HARDING STREET, INDIANAPOLIS
FRANK LAMBERTUS, MANAGER...PRECISION BEARINGS

ATLANTA BRANCH 400 BISHOP STREET, N.W., ATLANTA
G. W. PENDERY, MANAGER...PAINTS, PIGMENTS AND METAL PRODUCTS

ATLANTIC BRANCH 111 BROADWAY, NEW YORK
GEORGE DIEHLMAN, GEORGE SATHRE, J. A. SOUTHWORTH, MANAGERS...PAINTS, PIGMENTS AND METAL PRODUCTS

BALTIMORE BRANCH 214 WEST HENRIETTA STREET, BALTIMORE
C. A. SCHNEIDER, MANAGER...METAL PRODUCTS

BAROID DIVISION 2404 DANVILLE STREET, HOUSTON
G. B. COALE, GENERAL MANAGER...OIL WELL DRILLING MATERIALS AND SERVICE

CHICAGO BRANCH 900 WEST EIGHTEENTH STREET, CHICAGO
P. J. PATER, MANAGER...PAINTS, PIGMENTS AND METAL PRODUCTS

CINCINNATI BRANCH 659 FREEMAN STREET, CINCINNATI
S. R. HOLLINGSWORTH, W. W. HOWARD, C. J. SURMAN, MANAGERS...PAINTS, PIGMENTS AND METAL PRODUCTS

CLEVELAND BRANCH 1776 COLUMBUS ROAD, CLEVELAND
R. M. BENNETT, H. A. GETZ, W. W. HOWARD, MANAGERS...PAINTS, PIGMENTS AND METAL PRODUCTS

DE LORE DIVISION CARONDELET STATION, ST. LOUIS
A. J. WETZEL, MANAGER...BARIUM AND CALCIUM PIGMENTS

DOEHLER-JARVIS DIVISION 1945 SMEAD AVENUE, TOLEDO
F. J. KOEGLER, GENERAL MANAGER...DIE CASTINGS

EVANS LEAD DIVISION CHARLESTON, W. VA.
R. M. EVANS, MANAGER...LEAD OXIDES

MAGNUS METAL DIVISION 111 BROADWAY, NEW YORK
J. P. BORDA, GENERAL MANAGER...RAILWAY CAR JOURNAL AND ENGINE BEARINGS

NATIONAL LEAD CO. OF MASS. 800 ALBANY STREET, BOSTON
KARL FISCHER, G. A. SAVAGE, MANAGERS...PAINTS, PIGMENTS AND METAL PRODUCTS

PACIFIC COAST BRANCH 2240 TWENTY-FOURTH STREET, SAN FRANCISCO
D. D. ROBERTS, MANAGER...PAINTS AND PIGMENTS

PHILADELPHIA BRANCH 2607 CUMBERLAND STREET, PHILADELPHIA
J. W. GARDINER, JR., GEORGE SATHRE, MANAGERS...PAINTS, PIGMENTS AND METAL PRODUCTS

ST. LOUIS BRANCH 722 CHESTNUT STREET, ST. LOUIS
H. E. BODINE, R. J. FERREE, R. R. STAMM, MANAGERS...PAINTS, PIGMENTS AND METAL PRODUCTS

ST. LOUIS SMELTING & REFINING DIVISION FREDERICKTOWN, MISSOURI
H. A. KRUEGER, MANAGER...LEAD AND ZINC CONCENTRATES

SOUTHWESTERN BRANCH 959 TERMINAL STREET, DALLAS
J. K. CAMPBELL, R. R. STAMM, MANAGERS...PAINTS, PIGMENTS AND METAL PRODUCTS

STEEL PACKAGE DIVISION 722 CHESTNUT STREET, ST. LOUIS
W. T. TRASK, MANAGER...SMALL STEEL CONTAINERS

TEXAS MINING & SMELTING DIVISION LAREDO, TEXAS
J. C. ARCHIBALD, JR., MANAGER...METALLIC ANTIMONY AND ANTIMONY OXIDE

TITANIUM ALLOY MANUFACTURING DIVISION 111 BROADWAY, NEW YORK
J. M. JOHNSTON, MANAGER...TITANIUM AND ZIRCONIUM PRODUCTS

TITANIUM DIVISION 111 BROADWAY, NEW YORK
J. H. REID, MANAGER...TITANIUM PIGMENTS; ILMENITE AND MAGNETITE IRON ORE

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CORPORATIONS

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

AMERICAN BEARING CORPORATION* INDIANAPOLIS
FRANK LAMBERTUS, PRESIDENT...PRECISION BEARINGS

BAKER CASTOR OIL COMPANY NEW YORK
E. G. ORLING, PRESIDENT...CASTOR OIL AND DERIVATIVES

BARBER DIE CASTING CO., LTD.* HAMILTON, CANADA
N. J. CLARK, MANAGER . . . DIE CASTINGS

BARITINA DE VENEZUELA, S.A. CARACAS
G. B. COALE, DIRECTOR...OIL WELL DRILLING MUD MATERIALS AND SERVICE

BAROID OF CANADA, LTD.* TORONTO
G. B. COALE, VICE-PRESIDENT...OIL WELL DRILLING MUD MATERIALS AND SERVICE

CANADIAN TITANIUM PIGMENTS LIMITED* MONTREAL
C. J. STOPFORD, VICE-PRESIDENT...TITANIUM PIGMENTS

DOEHLER-JARVIS CORPORATION* TOLEDO
F. J. KOEGLER, PRESIDENT...DIE CASTINGS

EVANS LEAD COPORATION* CHARLESTON, WEST VIRGINIA
R. M. EVANS, PRESIDENT...LEAD OXIDES

HOYT METAL COMPANY OF GREAT BRITAIN, LTD.* LONDON
J. C. HART, MANAGING DIRECTOR...ANTI-FRICTION METALS

ABBEY CHEMICALS, LTD. LONDON

MORRIS P. KIRK & SON, INC. LOS ANGELES
J. P. KIRK, PRESIDENT...LEAD OXIDES AND METAL PRODUCTS

PIONEER ALUMINUM, INC. LOS ANGELES

MAGNUS BRASS MFG. CO.* CINCINNATI
E. M. VAN WINKLE, PRESIDENT...LOCOMOTIVE SPECIALTIES

MAGNUS METAL CORPORATION* NEW YORK
E. M. VAN WINKLE, PRESIDENT...RAILWAY CAR JOURNAL AND ENGINE BEARINGS

MASTER METALS, INC.* CLEVELAND
L. H. HERTHNECK, VICE-PRESIDENT...SECONDARY METALS

MINNESOTA LINSEED OIL CO. MINNEAPOLIS
E. H. RUSSELL, PRESIDENT...LINSEED OIL

NATIONAL LEAD COMPANY, INC.* NEW YORK
ALEX STEWART, VICE-PRESIDENT...CONTRACT-OPERATOR, ATOMIC ENERGY COMMISSION

NATIONAL LEAD COMPANY (PHILIPPINES), INC. MANILA
D. D. ROBERTS, PRESIDENT...MIXED PAINTS

NATIONAL LEAD COMPANY OF OHIO* NEW YORK
ALEX STEWART, VICE-PRESIDENT...CONTRACT-OPERATOR, ATOMIC ENERGY COMMISSION

NATIONAL LEAD COMPANY, S. A. BUENOS AIRES
C. M. MERRELL, PRESIDENT...METALLIC LEAD AND LEAD PRODUCTS

CIA. MINERA CASTANO VIEJO, S.A. BUENOS AIRES

NICKEL PROCESSING CORPORATION NICARO, CUBA
H. C. WILDNER, PRESIDENT... NICKEL AND NICKEL OXIDES

SOUTHERN SCREW COMPANY* STATESVILLE, NORTH CAROLINA
FRITZ JENSEN, PRESIDENT...WOOD AND METAL SCREWS

ANCHOR SCREW PRODUCTS CO. LOS ANGELES

THE CANADA METAL COMPANY, LTD.* TORONTO
J. A. TAYLOR, PRESIDENT...LEAD OXIDES AND METAL PRODUCTS

THE CHAS. TAYLOR'S SONS COMPANY* CINCINNATI
R. W. KNAUFT, PRESIDENT...REFRACTORIES

TITAN CO. A/S *FREDRIKSTAD, NORWAY*
ERIK ANKER, MANAGING DIRECTOR...TITANIUM PIGMENTS AND ILMENITE

SOCIETE BELGE DU TITANE, S. A. BRUSSELS

TITANIA A/S HAUGE-DALANE, NORWAY

TITAN COMPANY, INC.* WILMINGTON, DELAWARE
C. J. STOPFORD, EXECUTIVE VICE-PRESIDENT; ERIK ANKER, VICE PRESIDENT... TITANIUM PIGMENTS

SOCIETE INDUSTRIELLE DU TITANE, PARIS

TITAAN N. V. ROTTERDAM, NETHERLANDS

TITANGESELLSCHAFT m.b.H., LEVERKUSEN, GERMANY

TITANIUM ALLOY MANUFACTURING CO. PTY. LTD.* TWEED HEADS, AUSTRALIA
GIDEON BOERICKE, MANAGER...RUTILE AND ZIRCON ORES

MINERAL DEPOSITS PTY. LTD. SYDNEY, AUSTRALIA

TITANIUM METALS CORPORATION OF AMERICA NEW YORK
E. R. ROWLEY, PRESIDENT...TITANIUM METAL PRODUCTS

TITANIUM PIGMENT CORPORATION* NEW YORK
J. H. REID, VICE-PRESIDENT...TITANIUM PIGMENTS

* Wholly Owned

MAJOR PRODUCTS OF NATIONAL LEAD COMPANY

FOR THE ATOMIC ENERGY INDUSTRY
Shielding Materials
  Barytes, Lead, Magnetite
Uranium Concentrates, Metal and Chemicals

FOR THE AUTOMOTIVE INDUSTRY
Bearing Metals
Die Casting Alloys
Die Castings
Forming Dies
Solders and Fluxes
Storage Battery Metals and Oxides
Titanium Pigments

FOR THE AVIATION INDUSTRY
Aluminum Bar, Rod, Plate and Aircraft Extrusions
Aluminum Tooling Plate
Bearing Metals
Die Casting Alloys
Die Castings
Solders
Storage Battery Metals and Oxides
Titanium Metal
Zinc Alloy Tooling Plate

FOR THE CERAMICS INDUSTRY
Lead and Antimony Oxides
Refractory Products
Titanium Dioxide (Technical Grade)
Zirconium Compounds

FOR THE CHEMICAL INDUSTRY
Acid Concentrating Plants
Acid Handling Equipment
Chemical Lead Pipe and Sheet Lead
Lead-lined Pipe, Valves and Fittings
Lead, Titanium and Zirconium Chemicals
Tin-lined Pipe, Valves and Fittings
Titanium and Zirconium Metals

FOR THE ELECTRONICS INDUSTRY
Die Castings
Solders and Fluxes
Titanates
Zirconium Metal

FOR THE MAINTENANCE AND CONSTRUCTION INDUSTRY
Bearings
DUTCH BOY Paints, Enamels and Varnishes
Expansion Bolts
Lead Pipe and Sheet Lead
Solders and Fluxes
Traps and Bends
Wood and Metal Screws

FOR THE PAINT INDUSTRY
Antimony, Barium, Calcium, Lead,
  and Titanium Pigments
Castor Oils and Derivatives
Gelling Agents
Linseed Oils
Small Steel Containers

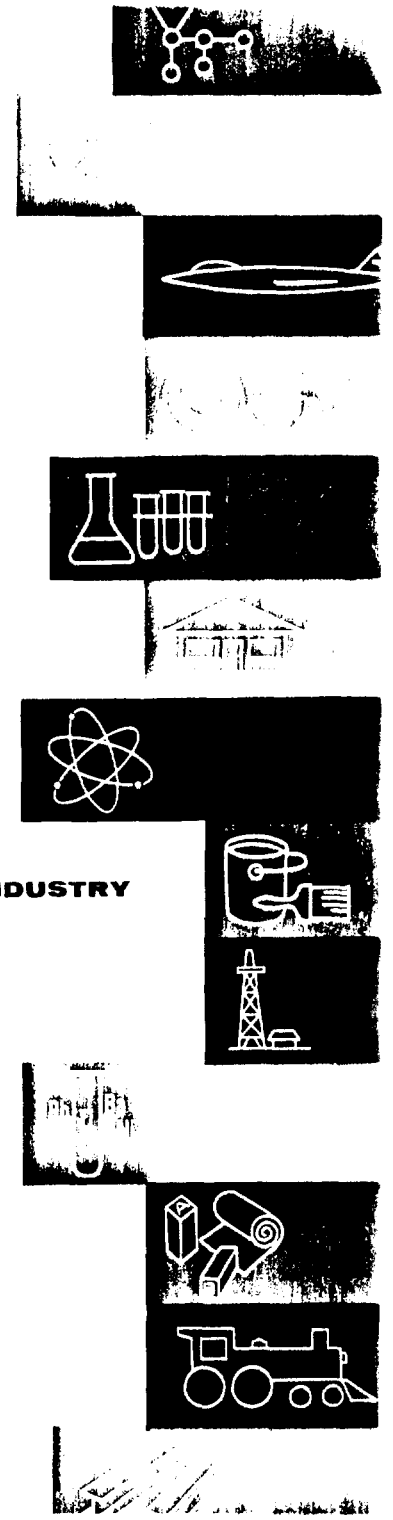
FOR THE PETROLEUM INDUSTRY
Gelling Agents for Greases
Oil Well Drilling Materials
Oil Well Logging Service
Small Steel Containers
Testing Equipment

FOR THE PLASTICS INDUSTRY
Castor Oils and Derivatives
Gelling Agents
Stabilizers
Titanium Pigments

FOR THE PRINTING AND PAPER INDUSTRY
Oils for Inks
Printing Base
Screen Plates for Paper Mill Filters
Titanium Pigments for Inks and Paper
Type Metals
Varnish Finishes for Paper Stock

FOR THE RAILROAD INDUSTRY
Bearing Metal
Diesel Engine Bearings
Journal Bearings
Journal Stops

FOR THE STEEL INDUSTRY
Cobalt and Nickel
Ferro Alloys
Iron Ore Concentrates
Lead Shot
Refractory Products



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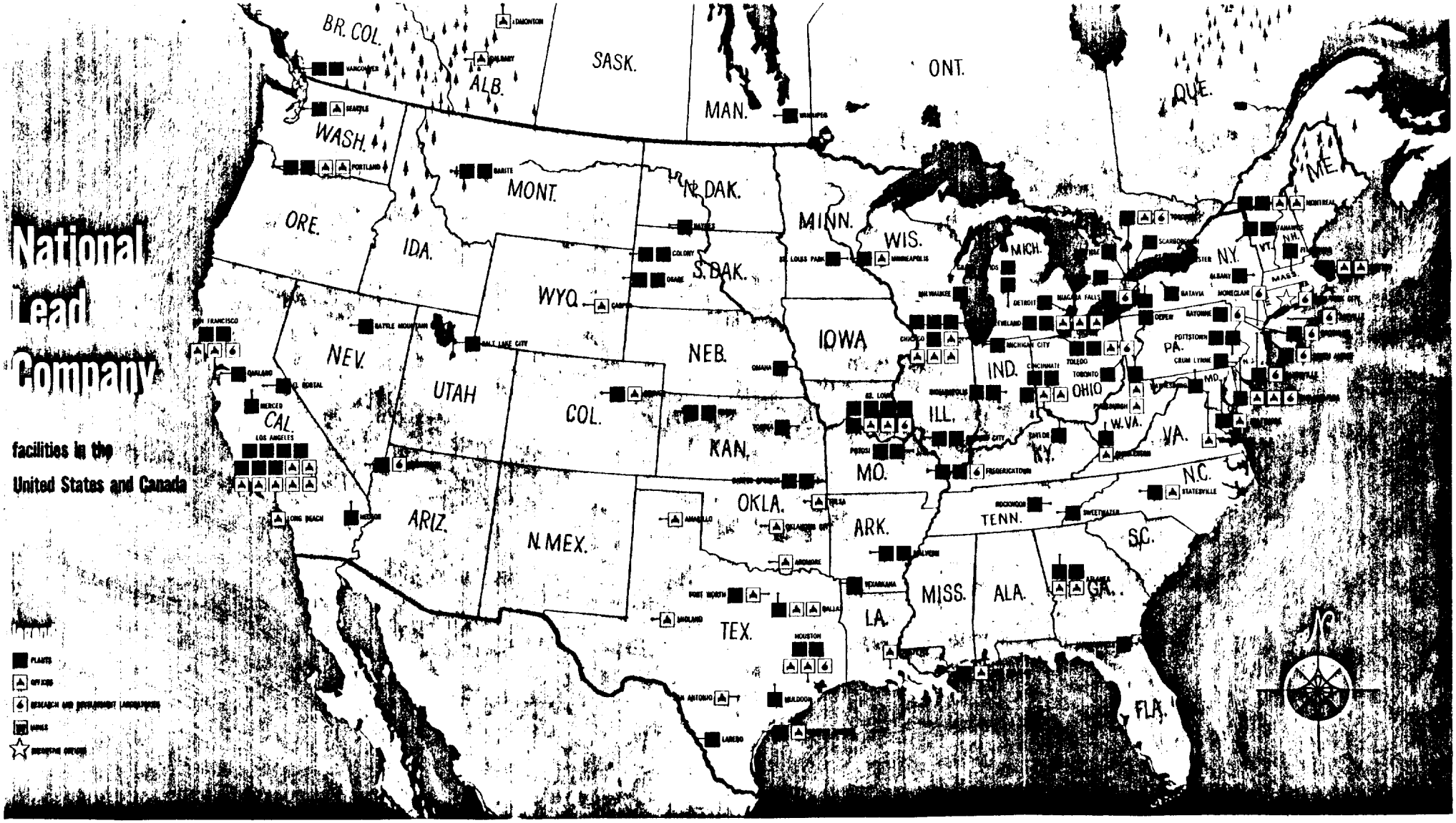

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